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JANUARY 1949 ECONOMIC REPORT OF THE PRESIDENT

HEARINGS

BEFORE THE

JOINT COMMITTEE ON THE ECONOMIC REPORT
CONGRESS OF THE UNITED STATES

EIGHTY-FIRST CONGRESS

FIRST SESSION

PURSUANT TO

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

FEBRUARY 8, 9, 10, 11, 14, 15, 16, 17, 18, 1949

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JANUARY 1949 ECONOMIC REPORT OF THE PRESIDENT

TUESDAY, FEBRUARY 8, 1949

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

The committee met, pursuant to notice, at 10:15 a. m., in the caucus room, Old House Office Building, Senator Joseph C. O'Mahoney (chairman) presiding.

Present: Senators O'Mahoney (chairman), Myers, Flanders, and Watkins; Representatives Patman, Huber, Buchanan, Wolcott, Herter, and Rich.

The CHAIRMAN. The committee will please come to order.

This is the first public session of the Joint Committee on the Economic Report in the Eighty-first Congress. Inasmuch as this joint committee meeting is being held in the House Office Building, Congressman Edward Hart of New Jersey was to have presided at the opening session today, but he has been detained by an executive session of the Maritime Committee, and has asked me to open this meeting in his place.

We are probably facing this year the first test of the Employment Act of 1946, the declared policy of which, as set forth in section 2 of the act, is [reading]—

> 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 considerations of national policy, with the assistance and cooperation 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.

It may be appropriate for the chairman to remark that this declaration of policy by the Seventy-ninth Congress is a typical development in this country's change of attitude toward government and its relation to the people. For years it has been recognized that there has been some clashing of the gears between our economic system and the Government, and various devices have had to be adopted from time to time to make an adjustment.

The same Congress which adopted the Employment Act also adopted the Congressional Reorganization Act. The idea of that statute was to streamline the Congress of the United States so as to make it a more efficient instrument to meet the problems of government and to serve the people. It was claimed that our system had become so complex that the Congress, organized according to old theories, was not competent to deal with the new problems of our times. The Congressional Reorganization Act, however, is only another example of the changing point of view toward government. As long ago as the administration of President Herbert Hoover an attempt was made on a grand scale to reorganize the executive branch of the Government. The same attempt was made in the succeeding administration of President Franklin D. Roosevelt. Congress in both cases granted broad authority to the President to reorganize the executive branch. The Eightieth Congress adopted the same policy. The reorganizations which had been made by Executive order in the previous administrations had apparently not completed the task even in 1948.

So yesterday there was laid upon the desk of every Member of Congress the first of the Hoover Commission reports. I think the title of that first report is very significant, "General Management of the Executive Branch." The use of the word "management" emphasizes the fact that we are living in a managerial age. A good part of the protests which come to Members of Congress arise from what are alleged to be ineffective or improper acts upon the part of business management. And so to counteract that we have the example now of the Hoover Commission, under the leadership of the only living ex-President of the United States, presenting to the Congress of the United States the most ambitious proposal that has yet been made to introduce scientific management into the Government. That means, of course, the improvement of the techniques of managerial government. It emphasizes again the declaration of policy of the act which created this committee and created the Council of Economic Advisers under the President. Because the policy therein enunciated, which I have just read, contains this phrase: that the policy and responsibility of the Government is to act, "in a manner calculated to foster and promote free competitive enterprise and the general welfare."

To what extent the managerial theory of industry and the Government can be coordinated with the fundamental principle of free competitive enterprise is, I think, the major question which this committee must eventually answer in some way. After all, the answers under our constitution can only come from Congress. We are here this morning, therefore, to listen to the testimony of the executive branch of the Government on the Economic Report of the President, and the economic review supporting that report which was prepared by the Council of Economic Advisers. On the basis of these hearings we are to determine what policies the Congress of the United States shall recommend under this act to maintain maximum employment, production, and purchasing power.

It must be evident that the maintenance of maximum purchasing power, maximum production, and maximum employment will be beneficial to all groups, all classes, and all individuals in the United States. This committee opens its hearing with the hope that they may be conducted within the spirit of the declaration of policy in the Employment Act and that we may have the assistance and cooperation of industry, agriculture, labor, and State and local governments, to use the language of the statute, in our efforts to coordinate and utilize all the resources and functions of government to maintain a high-level economy.

The opening statement on behalf of the executive branch of the Government will be made by the Secretary of Agriculture, Mr. Brannan.

Mr. Brannan, are you prepared to proceed?

STATEMENT BY HON. CHARLES F. BRANNAN, SECRETARY OF AGRICULTURE

Secretary BRANNAN. Mr. Chairman, the administration deeply appreciates the importance of this occasion and the opportunity to participate in it.

I have before me a short prepared statement which I would be very happy to file for the record and just summarize it to you, if that would be a desirable procedure.

We are extremely interested in the administrative branch of the Government, in attempting to make this hearing as effective and as useful to the committee and to the Congress and to the people as it is possible to do. There are some new experiences in this particular hearing. If I understand the background and history correctly, this is perhaps the first time that the committee has met to examine in its entirety, or in its broad aspects, the Economic Report which has been sent up by the President.

At the same time, this is the first occasion on which the administrative branch of the Government has organized a presentation to be made to the Congress on the Economic Report.

There are a number of witness, Mr. Chairman, and gentlemen of the committee, who are prepared to present particular portions of the over-all aspect of the economic situation as it now exists. We have made some effort to correlate their presentations and to organize the hearings in such a fashion that there will be the least amount of duplication, the least amount of overlapping in testimony, and the most orderly presentation that we could make.

I should like to thank you, Mr. Chairman, for cooperating with us in the presentation of this testimony, and I should like to say to you that while we have a suggested plan of procedure, it is not inflexible, as far as we are concerned, and certainly the wishes of this committee will prevail at all times.

I should like to outline the preparation for you in terms of the individuals who will appear and the areas of subject matter which each shall cover.

The first witness to follow me, Mr. Chairman, will be Mr. Leon Keyserling, the Vice Chairman of the Council of Economic Advisers. The area to be covered by Mr. Keyserling includes a general analysis of the economic conditions and the needs for a well-rounded program.

He will be followed by Mr. John D. Clark of the Council of Economic Advisers, who will give a more detailed analysis of certain parts of the President's program.

Following the members of the Council of Economic Advisers, Mr. John W. Snyder, Secretary of the Treasury, will discuss taxation, debt management and fiscal policy with the committee. Closely related to that will be the testimony of Mr. Thomas B. McCabe, Chairman of the Federal Reserve Board, who will discuss bank reserves and consumer credit.

Mr. Julius A. Krug, Secretary of the Interior, will discuss production, supply and conservation of fuel and power, phosphates, iron ore, aluminum, and other metals; and Mr. Charles Sawyer, the Secretary of Commerce, will discuss allocations and distribution, export and import of steel and machinery, building materials, and their components.

The Secretary of Labor, Mr. Maurice Tobin, will discuss wages, employment and costs of living.

If the committee is interested, we have also arranged to have Mr. Raymond M. Foley, Administrator of the Housing and Home Finance Agency, discuss housing needs, housing production, supplies and costs; and at the same time, Mr. Chairman, as you indicated, we will have Mr. Tighe E. Woods, the Housing Expediter, whose chief field is rental of buildings and homes.

Mr. Oscar R. Ewing, the Federal Security Administrator, will discuss social security and Federal welfare programs, and Mr. Willard L. Thorp, the Assistant Secretary of State for Economic Affairs, will discuss the interrelationship of our foreign economic policies and programs to the domestic economic stability.

At the appropriate time, gentlemen, I should like to return to discuss the production and supply of agricultural products, commodity prices, farm machinery, fertilizer, and other farm requirements, and perhaps regulation of the futures trading on the commodity markets.

Under this plan of presentation, there should be the least amount of overlapping. A general rule which we believe you will want us to follow is that we are testifying on the economic report rather than on any bill. And, therefore, you will want less information on the proposed program activities than will the various legislative committees.

If I may, Mr. Chairman, in closing I would like to say just a few words about the actions which are recommended in the economic report. For convenience I referred to them as the President's recommendations and the administration's program. We all recognize that many people are responsible for these ideas. They include legislation on which some and perhaps all of you have taken some leadership. They include new methods which some of you and your colleagues have suggested. The administration, the Congress, and the people all realize that, for the long pull, production is the answer to inflation and a prime requisite for continuing prosperity. We also know that while serious bottlenecks exist, and while production of essential items is lagging, the lack of balance is dangerous and protective substitutes for abundant production are needed.

The administration wants to use the least possible authority in achieving economic stability and growth, but delay in achieving stability is extremely costly, and we believe that we cannot afford to delay.

The administration is firmly committed to action. The people of the United States, increasingly burdened by rises in the cost of living, and harassed by fear of depression, have placed heavy responsibility upon this Administration and this Congress—heavy responsibility for the economic future of all of our people.

If democracy is to live in the world, we must maintain a living democracy in the United States. We can do this only if we have a government which is capable of bold and forward-looking, successful action on the problems that confront it. A timid, half-hearted, waiting policy is fraught with grave dangers.

The major test at present, in my opinion, is whether democracy can conquer the historic evil of boom and bust, or whether we will fulfill the Communist prediction that we shall inevitably fall prey to a paralyzing depression.

Mr. Chairman, that is my introductory statement. At the time you shall indicate, I shall be happy to return as Secretary of Agriculture to discuss the problems of agriculture which, I am sure, are a very important segment of the concern of this committee.

The CHAIRMAN. Are there any questions to be addressed to Secretary Brannan before Mr. Keyserling, Vice Chairman of the Council of Economic Advisers, is called to the stand?

Congressman Patman?

Mr. PATMAN. No questions.

The CHAIRMAN. Congressman Wolcott?

Mr. WOLCOTT. No.

The CHAIRMAN. There appears to be no questions, Mr. Secretary. Thank you.

(The statement of Secretary Brannan is as follows:)

STATEMENT BY HON. CHARLES F. BRANNAN, SECRETARY OF AGRICULTURE, REGARDING RECOMMENDATIONS IN THE PRESIDENT'S ECONOMIC REPORT TO THE CONGRESS, TUESDAY, FEBRUARY 8, 1949

Mr. Chairman, the Administration deeply appreciates the importance of this occasion and the opportunity to participate in it.

For the President and for the officials responsible to him, I want to thank you, Mr. Chairman, and the members of this committee, for your courtesy and cooperation in permitting us to make advance arrangements and definite plans for our participation in your hearings.

We hope this will expedite both your work and ours, enable us to be more helpful to you, and at the same time emphasize the coordination stressed by the President in recommending integrated measures that are necessary to carry out national economic policy. At any rate, we will do our best to make the results justify your confidence.

In this introduction, I have not planned to deal with particular recommendations but rather to give in brief the administration's view of the job at hand and the need for action. It goes without saying, I think, that our plans are fluid and subject to your convenience; however, they need to be stated.

We have in mind that the joint committee is directly concerned with economic policy and is dealing with the entire economic report rather than with particular pieces of proposed legislation. On the other hand, we, of necessity, place primary importance on discussion of those matters which are directly connected to specific proposals on economic stabilization to be offered a little later. We think it is important for us, for the Congress, and for the people to study the broad outlines of policy and to consider major objectives as preparation for sound legislation. We plan to emphasize immediate objectives within the broad framework as we go along in these hearings that you conduct, and we will continue to cooperate in an organized way with the committees that consider specific legislation to carry out the immediate program.

These hearings can contribute to effective working relationships between the legislative and the executive branches of our Government. Such a relationship is not something suddenly dreamed up, and it need not depend either upon personalities or partisanship. It is provided for by the law which established this joint committee—the Employment Act of 1946.

It is now our stated national policy that the Government will do its utmost to maintain maximum employment, production, and purchasing power. It is under this policy that the President presents to the Congress an economic program designed to carry out the policy objectives. The creation of your joint committee to receive this report was an important step toward keeping our two coordinate branches of Government in step without changing the constitutional pattern of powers. It is a tremendously important step toward making legislation cohesive, toward making it possible for democratic government to set and follow policy consistently, toward avoiding fragmentation, splintering, and conflicts which tend to weaken people's faith in democratic processes.

This is still a new procedure. Although the joint committee has held hearings on economic problems, this is the first time, if I am correctly informed, that hearings have been held for the specific purpose of considering the President's economic report. Therefore, this is also the first time the administration has come before you with a rounded and coordinated presentation of its program. I want to stress again our desire to carry out our full part in the new working relationship.

Our feeling of urgency about economic stabilization was expressed by President Truman in his message on the state of the Union. "Our first great opportunity," he said, "is to protect our economy against the evils of 'boom and bust.' "

Urgency is again expressed in the economic report itself. In presenting his recommendations through this medium, the President said: "We must not wait to act only in the eleventh hour of crisis. Moderate measures, taken in time, can save us from drastic action later on."

You are familiar with the report and undoubtedly want to get on with your study and your search for additional information on particular points. However, I do want to underline one key passage that needs to be kept in mind in evaluating the recommendations. It appears on page nine of the printed report as the concluding statement on "guides to economic policy." It is as follows:

"The vigorous commitment by the Government to an anti-inflation policy should not obscure the fact that the Government is equally committed to an antidepression policy. In fact, curbing inflation is the first step toward preventing depression. And in times like the present, when the economic situation has mixed elements, the Government needs both anti-inflationary weapons and anti-deflationary weapons so that it will be ready for either contingency. It may even be necessary to employ both types of measures concurrently in some combination, for some prices or incomes could rise too rapidly while others could be falling dangerously. The same dictates of prudent policy which call for higher taxes in a period of inflation would call for tax adjustments designed to counteract any serious recessionary movement."

There are always those among us who prefer to debate what is going to happen as a substitute for taking action against the dangers. And when their counsel predominates, the Nation is too late with too little—always in need of a cure when an ounce of prevention would have sufficed.

In matters affecting the welfare of all our citizens, Government can claim to be good only if it prepares as well as possible for the unpredictable while it acts to meet the problems that are known.

In preparing for these hearings, the Administration's team of witnesses has been concerning itself mainly with the actions recommended by the President.

I would like to outline this preparation for you in order that you may have the testimony of each witness in proper perspective.

Mr. Leon Keyserling, Vice Chairman of the Council of Economic Advisers: General analysis of economic conditions and the need for a well-rounded program.

Mr. John D. Clark, of the Council of Economic Advisers: A more detailed analysis of certain parts of the President's program.

Mr. John W. Snyder, Secretary of the Treasury: Taxation, debt management, and fiscal policy.

Mr. Thomas B. McCabe, Chairman of the Federal Reserve Board: Bank reserves and consumer credit.

Mr. Julius A. Krug, Secretary of the Interior: Production, supply, and conservation of fuel, power, phosphates, iron ore, aluminum, and other metals.

Mr. Charles Sawyer, Secretary of Commerce: Allocation, distribution, export and import of steel, machinery, building materials, and their components.

Mr. Maurice Tobin, Secretary of Labor: Wages, employment, and cost of living.

Mr. Raymond M. Foley, Administrator of the Housing and Home Finance Agency: Housing needs, production, supply, and cost.

Mr. Tighe E. Woods, Housing Expediter: Housing and building rentals.

Mr. Oscar R. Ewing, Federal Security Administrator: Social security and welfare programs.

Mr. Willard L. Thorp, Assistant Secretary of State for Economic Affairs: The interrelation of our foreign economic policies and programs to domestic economic stability.

At the appropriate point I should like to return to discuss the production and supply of agricultural products, commodity prices, farm machinery, fertilizer, and other farm requirements; and regulation of futures trading on commodity exchanges.

Under this plan of presentation, there should be a minimum of overlapping. A general rule which we believe you will want us to follow is that we are testifying on the economic report rather than on any bills and, therefore, that you will want less information on the proposed program activities than will be various legislative committees.

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The Administration, the Congress and the people all realize that, for the long pull, production is the answer to inflation and a prime requisite for continuing prosperity. We also know that while serious bottlenecks exist and while production of essential items is lagging, the lack of balance is dangerous and protective substitutes for abundant production are needed. The Administration wants to use the least possible authority in achieving economic stability and growth, but delay in achieving stability is extremely costly.

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The major test at present is whether democracy can conquer the historic evil of boom-and-bust or whether we will fulfill the Communist prediction that we shall inevitably fall prey to paralyzing depression.

The CHAIRMAN. If Mr. Keyersling will come forward, we will hear his presentation.

Let me say that this committee is meeting under the pressure of sessions of both the Senate and the House. Both of these bodies will be in session this afternoon, so that it would be impossible for us to hold a session here this afternoon.

In the interest of expeditious procedure, therefore, it has been suggested by the committee that witnesses present their full statements for the record and then engage in a summary discussion of the high-lighted facts. Is that convenient for you, Mr. Keyserling?

Mr. KEYSERLING. I shall present the high spots as you suggest, Mr. Chairman, and later amplify them for the record, with your permission.

The CHAIRMAN. You may proceed, sir.

STATEMENT OF LEON H. KEYSERLING, VICE CHAIRMAN, COUNCIL OF ECONOMIC ADVISERS

Mr. KEYSERLING. Mr. Chairman and members of the committee, I come here at the invitation of the chairman on behalf of the committee to discuss the Annual Economic Review of the Council of Economic Advisers, a report to the President sent to the Congress along with the President's Economic Report on January 7 of this year.

However, in this oral presentation—and I am not going to reread to you a report which you have already read—I think it would be more convenient for the committee if, without departing in substance, I abbreviated the materials and rearranged them in a manner somewhat more suitable to a hearing of this kind. This will have several advantages. In the first place, it will enable me to make a little more use of some graphic presentations which I hope will prove useful to the committee. In the second place, it will enable me, in the course of my statement, to take full account of the important and significant economic developments which have taken place in the 5 weeks since the reports were submitted on January 7. And it will also enable me, I hope, to address some remarks to points which have been raised in the Congress and elsewhere about these reports.

As we approach a task as difficult and as important as that which the Chairman has indicated, I think it very important for every group within the economic community, and particularly every segment of the business community, to recognize the spirit in which we face this task.

It has always seemed inconceivable to me, and I know to all of you, that any sector of the business community should have any feeling that any responsible person anywhere within the Government would have anything except the most sympathetic attitude toward our business system and toward its problems. But we do know that at times this feeling does crop up in some places. I want to say that the Employment Act of 1946 is in itself a repudiation of this idea, as I believe the Chairman has already indicated.

That act was drawn, and I know that it is being administered, by people who recognize fully that we cannot have general prosperity without business prosperity, and that we cannot have business prosperity without business confidence. I think far-sighted business leaders realize that they have a large and growing part to play in solving reasonably well the vast problems of our economy. I think they recognize at the same time, as the Chairman has said, that government also has a role to play in helping to develop a favorable economic environment and that this role is immensely important, even if not decisive.

Therefore, I think nothing could do more to promote business confidence than for the obligations under the Employment Act to be carried forward, as the Chairman has suggested, with all the foresight and all the wisdom and all the fair objectivity of which our form of government above all others is capable.

Now, there are two main tasks under the Employment Act, each of which is equally important. The first is the task of economic stability; to do everything that the human mind can devise under our free institutions to try to level out as best we can the ravages of the business cycle with its booms and busts. And anyone, whether he agrees with all the details or not, who agrees even in broad outline with the depiction of our role and importance in world affairs as revealed in the inaugural address of the President will realize that the challenge to maintain economic stability is far more insistent than it ever was before.

But there is a second task under the Employment Act, which has been underscored by the President and by others, and that is the task of growth, the task of seeing to it that our dynamic American economy grows as rapidly as our resources and our skills and our labor force and our ability permit. If there is one thing that is signally true of the dynamic American economy, it is that we cannot achieve stability by standing still. And, even if we could, stability would not be worth while at that price.

If we take those two objectives together, the objective of stability plus the objective of growth, we then no longer will take easy assurance in statements we hear at times in some places that the inflationary boom may "level off of its own accord." Instead we will immediately want to ask two further questions. First, we will want to ask ourselves whether the inflationary boom is going to level off in a manner which will discard its dangerous ingredients and therefore enable us to move forward to a growth in employment as rapidly as our labor force grows and a constant growth in production, so that we can have maximum production from year to year. And, second, we will want to ask ourselves in the alternative whether the boom is going to level off, even as in the past, in such a manner that a fixed instead of a growing rate of employment and a fixed rather than a growing rate of production are really only the first connecting links in a winding road leading us back toward serious unemployment and serious business decline.

These are the questions on which we have to concentrate our attention in the current economic situation, and for which we need to find—for which you need to find—workable answers before it is too late.

In saying "you need to find," let me emphasize one other point which I meant to make earlier in my statement, that I am profoundly conscious of the fact that the role of the economist appearing before you is merely to analyze the economic situation and perhaps to suggest the relationship of that situation to policy. It is not my function, but rather yours, to decide policies, because the tools for that purpose are not within the possession of the economist, and, even if they were, the people have not entrusted the economist as such with that responsibility. So, if at any stage I transgress by stepping across that dividing line, it will not be by design, and I ask your tolerance in advance.

In the present economic situation, I think we have an excellent opportunity to find workable answers for the questions before us ere it is too late. The present economic situation, as I see it, is good; I should say it is very good. Employment at the present time—and I shall deal in detail with the employment situation a little later on—is higher than in any of the first 3 months during last year, and last year was a boom year. Unemployment was somewhat higher in January of this year than in January of last year, but approximately the same as in February of last year. National purchasing power, whether we look at consumer income or business income or personal income or total national output, is approximately at all-time high levels when measured by the most recent quarterly or monthly figures, as the case may be.

The total of savings is very high. The outlook for business investment is good. Government expenditures, which create a demand for goods and services throughout the economy, are, because of national necessity, likely to increase over the course of the year.

I would like to say at this point that I hope that sensational magnification of some of the slight changes in the economic situation within the last month or so, some increase of unemployment in some places, will not be allowed to produce a fear psychology. I repeat that the economic outlook for 1949 is still bright, and I think that it can be kept bright by confidence combined with affirmative action.

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But if our confidence is so unquestioning that we think there is no need for dealing affirmatively and promptly with the current economic situation, or, even worse, if our pessimism should become so great as to think that it is too late to do anything, then the bright outlook could become a gloomy one within the course of the year.

So, when I say that we should have justifiable confidence, I by no means think that this should be confused with soothing sirup. The economic situation is good, but the growing concern about whether our prosperity is going to last is also good, and it is also immensely important that this growing concern be transferred into constructive channels.

While the economy is still strong, it is not as strong as it would have been if a year ago, or a year and a half ago, we had taken more effective measures to deal with inflationary forces. Fortunately, despite what has happened, the inflationary situation has not yet proceeded to the point where it has produced serious unemployment or serious business softening. But it has begun to operate visibly in that direction, and there are some elements of increasing danger in the current economic situation. I think, under these circumstances, that it would be palpably inconsistent to have said a year ago that we had a great theoretical concern about the danger of large unemployment and large reductions in production which we felt ultimately would flow from the inflationary danger as we saw it a year ago, but now to abandon that concern about inflation at the very point when it is beginning to appear that these dangerous forces within the economy are beginning—although as yet not on a substantial basis—to show concretely and tangibly that they do operate and are operating in that undesirable direction.

Therefore, I submit that there is an even greater need now than there was 6 months or a year ago for an effective and comprehensive stabilization and growth program, a program composed of many elements, as I hope my analysis will reveal, and this program must take account of the fact that in some sectors of the economy—some very important ones, as I shall demonstrate—inflationary forces are still at work and still doing their damage.

I don't think that anyone who said that "inflation will take care of itself in time" is in a position—and when I say "anyone" I hope there will be nothing personal in anything I say; I am limited by my own use of the English language—I do not think that anyone who said this is now in a position to say, "I told you so," because the very inflationary dangers which were feared are just beginning, just slightly beginning, to produce in some spots the kind of unemployment and the kind of softening which was feared. Inflation has indeed begun to "take care of itself," but, if we allow it to proceed to the point where it "takes care of itself" fully, then we shall have large-scale unemployment, large-scale reductions in production, and we shall be faced with an infinitely more difficult situation to deal with than the one that we have to deal with now.

When I say that there are elements of increasing danger in the economic situation, the question may legitimately be raised: "If it was said some months ago that there was great danger in the economic situation when practically all prices and practically all incomes were rising in a general inflationary situation, why is it said that the danger is even greater today when we have some softening and some leveling off of some prices at some places in the economy?"

I think that the answer to this question is clear. In the first place, as the facts will show more in detail, there are many important and highly strategic parts of the economy where prices are not leveling off. They are rising; they have risen through the second half of 1948 and on into 1949. As a matter of fact, if we exclude farm and food products, we find that wholesale prices for the industrials as a whole reached an all-time peak by the latter part of January 1949, and I hope to go a little more into the details later on.

These persistent price increases, at a time when certain other parts of the economy are softening, produce in my judgment distortions in the economy which may be as serious, or even more serious in bringing us a little nearer to the imminence of danger, than when almost all prices were rising generally. In the second place, while some prices have been softening, I think the softening has been greatly magnified and misconstrued. With respect to the cost of living, which now stands about 74 percent higher than in June 1939, the last prewar year, it is even now only about 2 percent lower than at its all-time postwar peak. It has leveled off in the last few months, but leveled off very slowly and very moderately, and the economic outlook does not make it at all clear whether or not the cost of living will rise somewhat again later this year. And finally, with respect to this price situation, as I have already said, where certain prices are leveling off, not primarily because of an increase in supply but at least partly because of a decrease in demand, we may well ask ourselves whether it is entirely a healthy situation or whether it is merely the first warning signal of which we should take note before the general business situation deteriorates, and deal with this threat by prompt preventive action.

Of course, it is perfectly true that if we should allow this process to continue until we had what is known commonly as general deflation, with large unemployment and large declines in production, then we would need a general antideflation program instead of a selective anti-inflation program. But may I suggest that the people who are now saying that we no longer need worry about inflation and should concentrate all our attention upon worrying about deflation, are somewhat like the doctor who sends for the undertaker instead of realizing that there is still an excellent chance to restore the patient to good health.

In other words, we are not now in a situation such as France was in up to quite recently, faced with a rampant and extreme inflation, and calling for an all-out anti-inflationary program. Nor are we in a situation such as we, unfortunately, were in around 1932, a period of extreme and devastating deflation, calling for an all-out antideflation program. In a period of high prosperity, such as the present, we are in a mixed situation. Many important prices are rising too fast and have gone too high and, some activities are expanding at too hectic a rate, and this gives an inflationary cast to the economy.

At the same time, some prices and incomes may be beginning to reach levels that are on the low side, and some activities, certainly some productive activities, are certainly not moving ahead at a rapid enough rate. This gives a deflationary cast to the economy. Our problem now is to prevent either the inflationary cast or the deflationary cast—and this is the very essence of the Employment Act, as stated so admirably by the chairman at the beginning—from gaining clear ascendancy and to force us into an extreme situation where serious or even irreparable damage might be done to the economy.

We need now a selective and discriminating program which is adjusted not to a devastating deflation or to a galloping inflation, but rather to the task of acting in time to prevent us from reaching either extreme.

In formulating such a program for the current situation, we need to base our action—and I would like to underscore this particularly—we need to base our action primarily upon trends that have occurred and upon facts that we know and can see. While forecasting has its value, and while we shall need to resort to some of it, even in the course of this inquiry, I think that a good deal of damage has been done to sound policy by failing to draw a line between where economic analysis ends and clairvoyance begins.

If we can address ourselves to trends that have already appeared and to facts that are already known, and act courageously and clearly on the basis of these, then we shall have established a foundation on the basis of which we can reasonably expect to deal equally well and equally clearly and equally courageously with facts and events which may transpire later on. So, while we shall have to take some glances into the future, I hope we shall not confuse what we can see and what we can observe with what we predict.

This, in fact, is the very essence of the Employment Act, and the act goes even further: It is based upon the confidence that by forging concrete policies and applying them effectively to the situation as it now exists, we can, under our free institutions, help to mold our own future instead of being left the victims of uncontrolled fate. What will happen in the future depends, in part, in large part, upon what we do now.

Above all, it is perilous to delay action on the ground that no one can foretell with exactitude just when we might be faced with a serious deflation or depression, as that term is commonly understood. We do know one thing that an economy as tense and as integrated as ours does not automatically and perpetually stabilize itself. Therefore, if we have more time in which to act before the danger is overwhelmingly close—and I don't think the danger is imminent in terms of months—then we should make good use of that time, and thank Providence that we have time in which to act effectively. It is certainly easier to retain the prosperity that we now have than to try to regain prosperity after it is lost. This, above all else, we have learned from experience.

The CHAIRMAN. Well, any disposition to wait until prosperity has been lost before attempting to stabilize would invite depression, would it not, and throw upon us the burden of attempting to correct a depression in the most expensive and inefficient way possible?

Mr. KEYSERLING. I think, Mr. Chairman, Senator O'Mahoney, without any criticism of the handling of the depression situation last time, that great difficulties were encountered because we were trying to deal with fire prevention after the fire had already started. In trying to put out that conflagration, it was difficult to take the consistent and orderly methods which would have been possible if the job had been tackled sooner. I think this is the most important lesson that we can learn from an examination of the last and greatest depression.

Now, with this background, the factual materials that I want to present fall into these parts:

First, I would like to put very briefly, and I hope graphically, before the committee a rough estimate of how big this problem is, how much our prosperity is worth, and how much another great depression might cost us.

Second, I want to discuss briefly what seem to me to be some of the current fallacies in some economic analysis or popular discussion, which make it more difficult for us to come closer to the correct remedies in the existing situation.

Third, I would like to show factually just what the maladjustments and distortions and difficulties in the current economic situation are. These relate to the relationship between the cost of living and people's incomes. They relate to the relationships between the industrial income-price situation and the farm income-price situation. And they relate also to certain broader questions of the composition of national income and the relationship between investment income and consumer income.

Fourth, I would like to touch upon the question of capacity, and to point out why it seems to me that we are not, in certain vital areas, developing enough capacity for a growing and expanding maximum-production economy.

Fifth, I would like to summarize briefly the current economic situation and outlook as I see it.

Sixth, I shall endeavor to apply economic analysis toward a general evaluation of some of the main specific proposals directed toward economic growth and stability which this committee and the Congress now have or will shortly have before them for consideration. Then my colleague, Dr. Clark, will discuss the President's economic program in more detail.

At this point, while the chairman has graciously said that he would let me finish my statement before getting to questions, I would certainly be very glad at any time in the course of my testimony, and particularly in connection with the factual presentation, if any questions are raised. If a question anticipates something that is coming on the next chart, I may be permitted to say, "I am coming to that in just a minute." But I feel a little embarrassed, frankly, in moving ahead with this kind of necessarily rather extended presentation in view of the comprehensiveness of the subject, with questions even tacitly postponed.

Most of the rest of my presentation will be in the form of commentary upon the graphic charts which I have.

There are also copies of the charts with numbered tabs in your books, although it might be easier for you in some ways to follow them from the large charts which will be placed on the easel.

Senator MYERS. Would you mind referring, as you go along, to the page?

Mr. KEYSERLING. Yes. The first chart, of course, is chart 1, and that chart is under tab 1 in the black books that you have. You have a complete set of the charts, and of the tables that go with them. In view of the many demands upon the committee and the Congress, I will try to run through these as rapidly as I feasibly can.

SIGNIFICANCE OF PROBLEM OF ECONOMIC GROWTH AND STABILITY

Mr. KEYSERLING. The first area which I identified for discussion was to try to measure very briefly and very quickly on a quantitative basis how important the problem of economic stability and growth is.

The American economy has in some respects excelled even our fondest expectations with regard to production and output, and of course it has forged very far ahead of the rest of the world. This has been accomplished by the utilization of a growing labor force with ever-increasing skills, an ever-improved managerial force and business system becoming evermore discriminating and farsighted in its judgments, and great natural resources.

Chart 1 attempts to show rather graphically and briefly how the utilization of our labor force has grown over a long span of time. I will handle the details of recent employment and unemployment later.

Chart 1 very briefly shows that we actually had an employment of 47,000,000 people—I am rounding out the figures—in 1929, which was a peak prosperity year in the prewar period; 45,000,000 in 1939; and 59,000,000 in 1948. In other words, we are now actually employing in civilian work just about 12,000,000 more people than we did in 1929, and this, of course, is a great factor in our economic progress.

Labor force, 1929–48

[Thousands of persons, 14 years of age and over]

Period	Total labor force, including armed forces [1]	Civilian employment			Armed forces [1]	Unemployment
		Total	Nonagricultural	Agricultural		
Monthly average:						
1929	49,440	47,630	37,180	10,450	260	1,550
1930	50,080	45,480	35,140	10,340	260	4,340
1931	50,680	42,400	32,110	10,290	260	8,020
1932	51,250	38,940	28,770	10,170	250	12,060
1933	51,840	38,760	28,670	10,090	250	12,830
1934	52,490	40,890	30,990	9,900	260	11,340
1935	53,140	42,260	32,150	10,110	270	10,610
1936	53,740	44,410	34,410	10,000	300	9,030
1937	54,320	46,300	36,480	9,820	320	7,700
1938	54,950	44,220	34,530	9,690	340	10,390
1939	55,600	45,750	36,140	9,610	370	9,480
1940	56,030	47,520	37,980	9,540	390	8,120
1941	57,380	50,350	41,250	9,100	1,470	5,560
1942	60,230	53,750	44,500	9,250	3,820	2,660
1943	64,410	54,470	45,390	9,080	8,870	1,070
1944	65,890	53,960	45,010	8,950	11,260	670
1945	65,140	52,820	44,240	8,580	11,280	1,040
1946	60,820	55,250	46,930	8,320	3,300	2,270
1947	61,610	58,030	49,770	8,260	1,440	2,140
1948	62,748	59,378	51,405	7,973	1,307	2,064

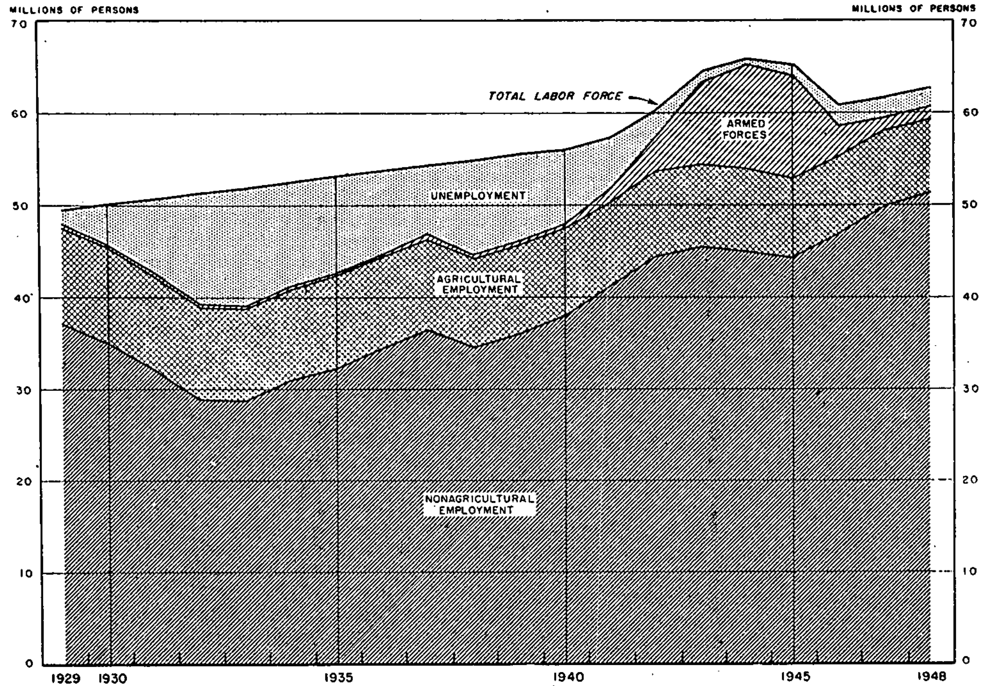
[1] Data for 1940–48 exclude about 150,000 members of the armed forces who were outside the continental United States in 1940 and who were therefore not enumerated in the 1940 census. This figure is deducted by the Census Bureau from its current estimates for comparability with 1940 data.

NOTE.—Detail will not necessarily add to totals because of rounding.

Sources: Department of Labor (1929–39) and Department of Commerce (1940–48).

CHART 1

LABOR FORCE, 1929-1948

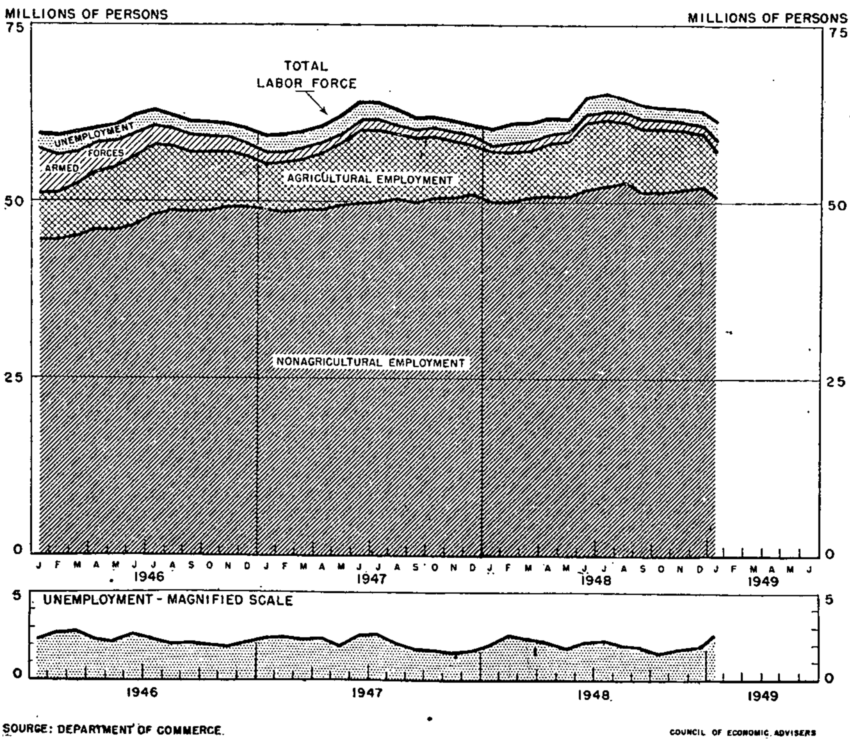


SOURCE: DEPARTMENT OF LABOR AND DEPARTMENT OF COMMERCE.

Turning next to chart 2, it shows the labor force and employment and unemployment during the years between 1946 and 1949. It shows that for some months in 1948, the most recent full year, we actually had more than 61,000,000 people employed in the civilian labor force. The average for the year, as I have said, was about 59,000,000. As I have said, a little later I shall get into the question of the detailed trends of employment and unemployment in January of this year.

CHART 2

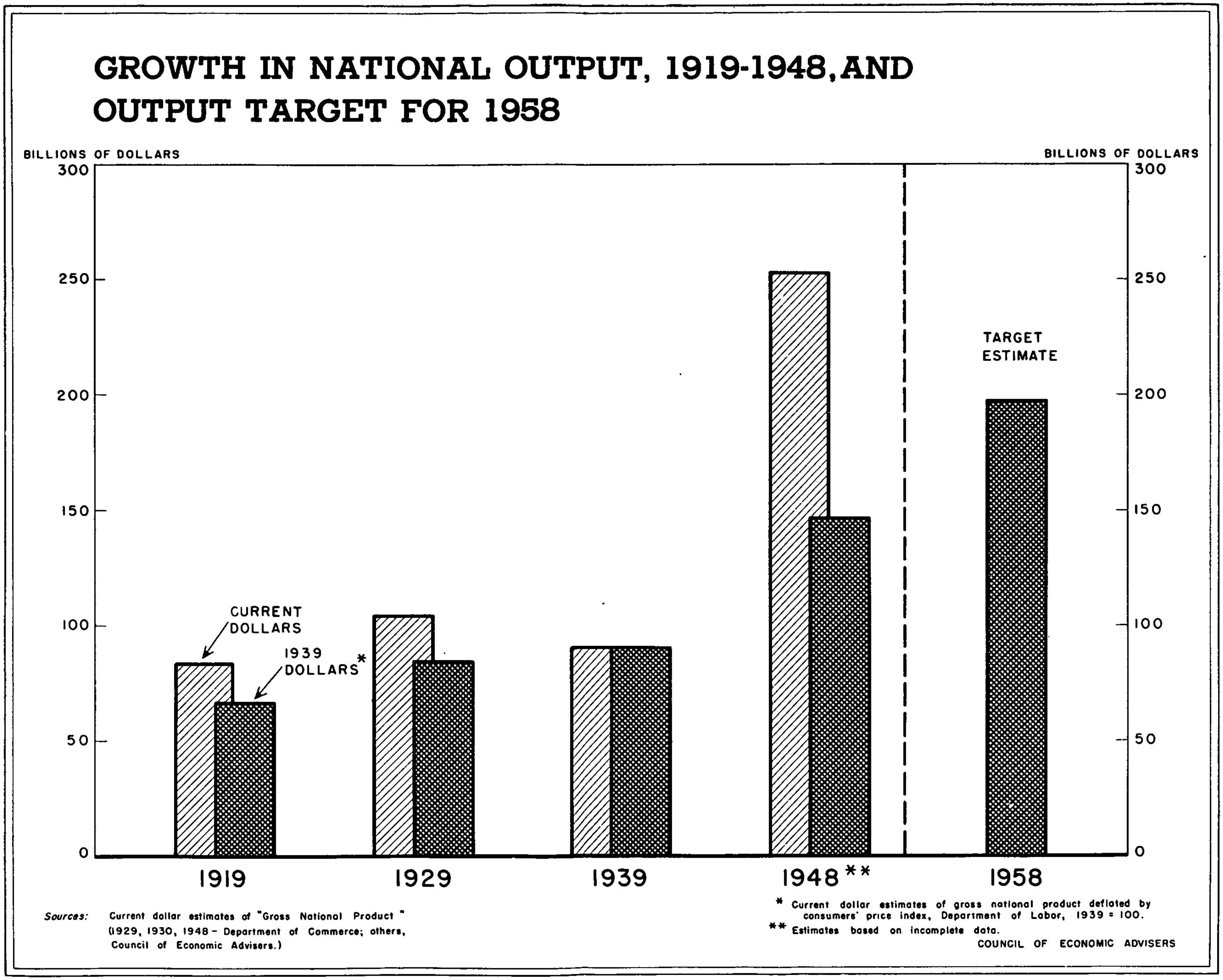
LABOR FORCE, 1946-1949



Coming to chart 3 we see how our national output has increased over a long period of time, as a larger and more skilled working force has been employed under better conditions of technology and plant and business management. In addition to the current dollar figures, there are figures adjusted to a constant price level. Our national output, at a constant price level—1939—which was $67,000,000,000 in 1919, rose to $84,000,000,000 in 1929, to $90,000,000,000 in 1939, and to $146,000,000,000 in 1948.

Those darker shaded bars on the chart, which adjust the current dollar figures to a dollar of uniform value, show how the American economic system has grown and show why we can with justification, with supreme justification, say that we have confidence in that system above all others and no intent or even thought of altering it fundamentally in any respect.

CHART No. 3


GROWTH IN NATIONAL OUTPUT, 1919-1948, AND OUTPUT TARGET FOR 1958
BILLIONS OF DOLLARS
BILLIONS OF DOLLARS
300
250
200
150
100
50
0
CURRENT DOLLARS
1939 DOLLARS*
TARGET ESTIMATE
1919
1929
1939
1948**
1958
Sources: Current dollar estimates of "Gross National Product" (1929, 1930, 1948 – Department of Commerce; others, Council of Economic Advisers.)
* Current dollar estimates of gross national product deflated by consumers' price index, Department of Labor, 1939 = 100.
** Estimates based on incomplete data.
COUNCIL OF ECONOMIC ADVISERS

Labor force, 1946–49

[Thousands of persons, 14 years of age and over]

Month	Total labor force, including armed forces [1]	Civilian employment [1]			Armed forces [1]	Unemployment
		Total	Nonagricultural	Agricultural		
1946—January	59,490	51,020	44,300	6,720	6,170	2,300
February	59,130	51,240	44,300	6,940	5,240	2,650
March	59,630	52,460	44,930	7,530	4,470	2,700
April	60,300	54,120	45,950	8,170	3,850	2,330
May	60,570	54,850	45,970	8,880	3,410	2,310
June	62,000	56,360	46,350	10,010	3,070	2,570
July	62,820	57,840	47,870	9,970	2,710	2,270
August	62,200	57,690	48,550	9,140	2,450	2,060
September	61,340	57,050	48,300	8,750	2,220	2,070
October	61,160	57,030	48,410	8,620	2,170	1,960
November	60,980	57,040	49,140	7,900	2,010	1,930
December	60,320	56,310	49,100	7,210	1,890	2,120
1947—January	59,510	55,390	48,890	6,500	1,720	2,400
February	59,630	55,520	48,600	6,920	1,620	2,490
March	59,960	56,060	48,820	7,240	1,570	2,330
April	60,650	56,700	48,840	7,860	1,530	2,420
May	61,760	58,330	49,370	8,960	1,470	1,960
June	64,007	60,055	49,678	10,377	1,398	2,555
July	64,035	60,079	50,013	10,066	1,371	2,584
August	63,017	59,569	50,594	8,975	1,352	2,096
September	62,130	58,872	50,145	8,727	1,346	1,912
October	62,219	59,204	50,583	8,622	1,327	1,687
November	61,510	58,595	50,609	7,985	1,294	1,621
December	60,870	57,947	50,985	6,962	1,280	1,643
1948—January	60,455	57,149	50,089	7,060	1,241	2,065
February	61,004	57,139	50,368	6,771	1,226	2,639
March	61,005	57,329	50,482	6,847	1,236	2,440
April	61,760	58,330	50,883	7,448	1,236	2,193
May	61,660	58,660	50,800	7,861	1,238	1,761
June	64,740	61,296	51,899	9,396	1,261	2,184
July	65,135	61,615	52,452	9,163	1,293	2,227
August	64,511	61,245	52,801	8,444	1,325	1,941
September	63,578	60,312	51,590	8,723	1,366	1,899
October	63,166	60,134	51,506	8,627	1,391	1,642
November	63,138	59,893	51,932	7,961	1,414	1,831
December	62,828	59,434	52,059	7,375	1,453	1,941
1949—January	61,546	57,414	50,651	6,763	1,468	2,664

[1] Excludes about 150,000 members of the armed forces. See table on labor force, 1929–48, footnote 1.

NOTE.—Detail will not necessarily add to totals because of rounding.
Source: Department of Commerce.

Growth in national output, 1919–48, and output target for 1958

[Billions of dollars]

Period	Gross national product	
	Current dollars	1939 dollars [1]
1919 [2]	83.7	67.2
1929	103.8	84.3
1939	90.4	90.4
1948 [3]	252.7	146.7
1958 (target estimate) [2]	----------	200.0

[1] Current dollar estimates deflated by consumers' price index, 1939=100.
[2] Estimates by Council of Economic Advisers. Target estimate for 1958 based on annual increase of output of about 3 percent (the Annual Economic Review, January 1949, a report to the President by the Council of Economic Advisers, p. 52).
[3] Estimates based on incomplete data.

Sources: Council of Economic Advisers, Department of Commerce, and Department of Labor.

The CHAIRMAN. Do you have a chart or table showing population and a ratio between employment and population?

Mr. KEYSERLING. I do not happen to have that here. I can supply it. As a matter of fact, if we look at 1939 and 1949, if we take that 10-year span, I believe that production on a per capita basis is something like 50 percent higher than it was in the last year before the war; and that, of course, is the measurement of improvement in our standards of living.

Let me say this: That production over the span of years has increased much more rapidly than population, and that is why we enjoy higher living standards.

The CHAIRMAN. That raises the question of what the ratio is between the employed labor force in civilian production and the population.

Mr. KEYSERLING. I would be glad to supply you with a figure on that. I do not happen to have that here just now. I know the general outlines, but I will get you specific information on that.

(The following table was later submitted for the record:)

The following table gives the ratio of civilian employment to total population, 1929–48. The ratio of civilian employment to noninstitutional population 14 years of age and over is also given since civilian employment includes only persons 14 years of age and over.

The figures on civilian employment represent the total number of civilians employed. No data are available for showing the number of civilians employed in civilian production.

Relation of civilian employment to population, 1929–48

Year	Population [1]		Civilian employment [3]	Civilian employment as percent of—	
	Total	Noninstitutional, 14 years of age and over [2]		Total population	Noninstitutional population 14 years of age and over
1929	121, 770, 000	87, 032, 000	47, 630, 000	39. 1	54. 1
1930	123, 077, 000	88, 563, 000	45, 480, 000	37. 0	51. 4
1931	124, 040, 000	89, 719, 000	42, 400, 000	34. 2	47. 3
1932	124, 840, 000	90, 788, 000	38, 940, 000	31. 2	42. 9
1933	125, 579, 000	91, 953, 000	38, 760, 000	30. 9	42. 2
1934	126, 374, 000	93, 192, 000	40, 890, 000	32. 4	43. 9
1935	127, 250, 000	94, 460, 000	42, 260, 000	33. 2	44. 7
1936	128, 053, 000	95, 682, 000	44, 410, 000	34. 7	46. 4
1937	128, 825, 000	96, 838, 000	46, 300, 000	35. 9	47. 8
1938	129, 825, 000	98, 082, 000	44, 220, 000	34. 1	45. 1
1939	130, 880, 000	99, 307, 000	45, 750, 000	35. 0	46. 1
1940	131, 970, 000	100, 256, 000	47, 250, 000	36. 0	47. 4
1941	133, 203, 000	101, 370, 000	50, 350, 000	37. 8	49. 7
1942	134, 665, 000	102, 460, 000	53, 750, 000	39. 9	52. 5
1943	134, 497, 000	103, 510, 000	54, 470, 000	40. 5	52. 6
1944	138, 083, 000	104, 480, 000	53, 960, 000	39. 1	51. 6
1945	139, 586, 000	105, 370, 000	52, 820, 000	37. 8	50. 1
1946	141, 235, 000	106, 370, 000	55, 250, 000	39. 1	51. 9
1947	144, 034, 000	107, 458, 000	58, 030, 000	40. 3	54. 0
1948	146, 571, 000	108, 482, 000	59, 378, 000	40. 5	54. 7

[1] Estimated population of continental United States, including armed forces overseas.
[2] Estimates for 1929–39 by Council of Economic Advisers; based on Department of Commerce data.
[3] Estimates for 1929–39 by Department of Labor.

Source: Department of Commerce (except as noted).

Mr. KEYSERLING. Chart 3 attempts to do one other thing, which some of you may regard as too daring but which I think is justifiable as a reasonable projection.

It is just an attempt to paint a broad picture. It attempts to indicate what our national output could be by 1958 if we maintain maximum employment and maximum production—if we achieve the purposes of the Employment Act over the next decade.

This computation has been made on a very conservative basis. It has made allowance for some reduction in hours of work. It has not taken into account any extreme technological changes. It has assumed a rate of growth of only about 3 percent per year in output, which is not too high for a well-functioning economy.

On that basis, it is indicated that by 1958, 10 years from 1948, at the same uniform dollar level, our national output could rise from $146,000,000,000 in 1948 to about $200,000,000,000 in 1958, an increase of about 35 percent.

That is a simple measurement of what we can do if the economy continues to grow.

Mr. PATMAN. You are measuring that in 1939 dollars?

Mr. KEYSERLING. I think that is indicated on the chart.

Mr. PATMAN. Suppose you project the lighter one for 1958, the current dollars?

Mr. KEYSERLING. It would just be proportionately higher. I am not necessarily assuming the current price level from now until 1958; but the projection would be higher by the same percentage. In other words, it would be, just as a mathematical matter, about 35 percent above the gross national output; which, if I recall correctly, at the end of 1948 in current dollars was running at a rate of somewhere around $250,000,000,000 on an annual basis.

Mr. PATMAN. It would be over $300,000,000,000, would it not?

Mr. KEYSERLING. Yes; it would be around $340,000,000,000, very roughly.

The CHAIRMAN. This assumes, of course, that we shall act together to preserve the continued growth of the economy and that we shall not permit ourselves to drift into anything resembling disaster?

Mr. KEYSERLING. It certainly does assume that. It does not assume that we shall do a perfect job in stabilizing the economy. I do not think that we can do a perfect job, and I do not think, even if we could, we would want to. This may sound like a strange thing to say. What I mean is that the amount of intervention in the economy required to do a perfect job might sacrifice certain freedoms and flexibilities which we prefer to any mechanical perfection. But I think we have got to do a good job, a much better job than we ever have done before. That is indicated by the next chart, which is in a sense a pay-off chart.

Mr. PATMAN. Just one moment on this chart. Does that contemplate that wages will remain high, as they are now?

Mr. KEYSERLING. The chart relates to the total national output in real terms of goods and services. As to what wages should do to be conducive to a full employment economy, Congressman Patman, I will come to more fully in discussing the current maladjustment in the economy and what kind of economic arrangements we probably will have to try to work out in order to help the economy toward stability and growth. But the chart is simply a measurement of the actual goods and services that we can turn out if we keep our labor force fully employed. Your question is even more important because it relates to policy; and when I get to the question of examining the situation of the present economy, I shall have something that bears very directly upon that.

Senator MYERS. Mr. Keyserling, I believe you said earlier that our economy is not as strong as it might have been if we had taken some firm steps to deal with inflation. Did you say something to that effect?

Mr. KEYSERLING. I did a little earlier, Senator Myers.

Senator MYERS. Is this chart predicated on the fact that we should take some steps now or in the near future to deal with the inflation which is upon us?

Mr. KEYSERLING. My whole testimony is predicated upon the assumption that we should, very definitely. As a matter of fact, Senator Myers, I shall attempt to substantiate my statement that we are not in as good a position now as we would have been if some corrective steps had been taken earlier when I come to a detailed analysis of the maladjustments within the current economy.

Senator MYERS. But this prediction for 1958 is definitely based upon the fact that we must take some steps?

Mr. KEYSERLING. Very definitely, and I think that will be illustrated more clearly by the next chart; very definitely.

The CHAIRMAN. May I interrupt you, Mr. Keyserling, to say that I note in the audience several of the gentlemen whom the committee has invited to be present to listen to the testimony in preparation for their appearance later at a round table where they will discuss with the committee the facts and views presented here.

I see Mr. Goss of the National Grange and representatives of the CIO, the railroad brotherhoods, the United States Chamber of Commerce and others. I wonder if all the representatives who have come in response to the committee's invitation are favorably seated so that they can hear the testimony and see the charts? If not, I should like to invite them to move up.

Thank you very much, gentlemen.

You may proceed, Mr. Keyserling.

Mr. RICH. That statement you just made that we should now do something as a government in order to make good the target estimate of $200,000,000,000 as a national output for 1958, should we now make the start for 1958?

Mr. KEYSERLING. The chart was not presented for the purpose, Congressman Rich, of relating policy specifically to a 1958 goal of national output. The chart was presented merely for the purpose of showing in a general way, and it must be general, an estimate of the kind of progress that we can make in this country if we maintain maximum employment and production. It could be shown equally well, if you are concerned about the year 1958, on a chart which showed the situation between now and 1955; or between now and 1954. It is just a general effort, through a rather commonly used device, to show what the potential of our economy is, based upon past trends and current analysis, if we maintain high-level employment and production.

The CHAIRMAN. To be realistic, we might consider it in relation to 1952.

Mr. KEYSERLING. We could do that. As a matter of fact, some of the later charts will consider it in relation to 1950, 1951, and 1952.

Mr. RICH. How about 1949?

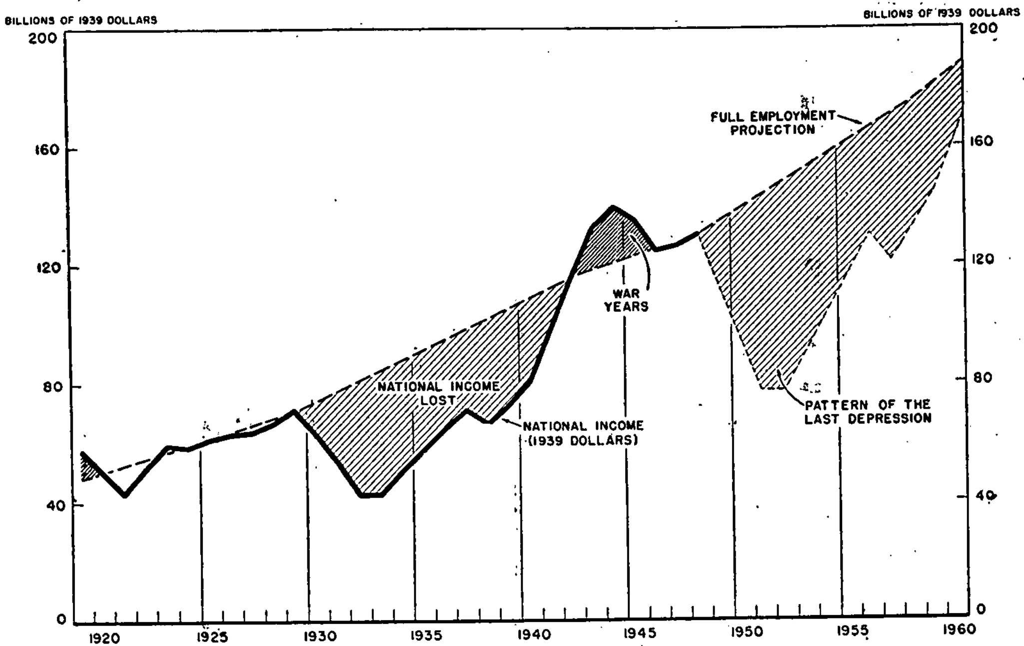
Mr. KEYSERLING. I shall have a good deal to say about 1949. In fact, most of what I have to say will be about 1949, Congressman Rich.

I am just trying briefly here to portray the magnitude and importance of the problem. That, I think, is done a little more clearly, although of course subject to an even wider range of interpretation in chart 4.

(Additional discussion of chart 3 will be found in an exchange of correspondence between Senator Flanders and Mr. Keyserling. See pp. 565–567.)

Chart 4

WHAT DEPRESSIONS COST IN NATIONAL INCOME



SOURCES: COUNCIL OF ECONOMIC ADVISERS, DEPARTMENT OF COMMERCE, AND DEPARTMENT OF LABOR

COUNCIL OF ECONOMIC ADVISERS

This chart 4 is entitled "What Depressions Cost in National Income," and it is not a technical chart. It is a rather simple chart. It shows, first of all, the loss in national income, not taking account of the human suffering or of the permanent dislocations—the loss in national income which we suffered within this country because of the large depression which started in 1929 and ran for a good many succeeding years.

The top, fairly straight line or curve which you see is a rather level projection of a growing labor force and of growing production. The heavy black line which you see running from 1919 to 1949 is what we actually accomplished. The shaded area where the black line falls below the light line shows the loss of national income resulting from the last great depression and its consequences. In broad outline, that loss sums up to about 300 billion dollars; and that $300,000,000,000 approximately is about the dollar cost to us, although not the other costs, of World War II.

Before making some qualifications about this chart, let me finish with the second half of it. In the second half of the chart, two efforts have been made. One effort is to show what we can accomplish in national income and output over the next decade or so, if we go ahead on a basis of maximum employment and production. That correlates with a previous chart about which I just talked with Congressman Rich. The other part of that latter segment of the chart superimposes over the next 10 years or so a pattern of production and employment which we actually achieved—I hate to use the word "achieved" but which we experienced—which we experienced in the 10 years between 1929 and 1939.

When that pattern is superimposed, the difference in national income and output between 10 years of maximum employment and production and 10 years of boom and bust in a larger, a bigger, economy than the one we had before World War II, comes to about $800,000,000,000.

Now, of course, these figures are not statistics in the sense that some of the figures that I am going to present to you about the cost of living in 1948 and 1949 are statistics. These figures are imaginative, in a sense. But one of the great Justices of the Supreme Court—Cardozo—said, "Imagination is the springboard from which facts leap to truth."

We do, in a sense, have to be imaginative about what is going to happen in our economy if we are going to deal with its problems; and it does not make much difference whether some other economist comes up with an estimate that another large depression might cost us $600 billion instead of $800 billion, or $900 billion instead of $800 billion. The important point is to grasp the magnitude and importance of the problem. That $800,000,000,000 figure, which I call the $800,-000,000,000 question, I would like to comment on for just a minute.

The CHAIRMAN. Before you do that, may I make this comment. As I understand from your description of the chart, the heavy black line is a factual line. That represents the actual national income in 1939 dollars?

Mr. KEYSERLING. Yes, sir; all the way from 1919 to 1949.

The CHAIRMAN. 1949?

Mr. KEYSERLING. Yes, sir.

The CHAIRMAN. But the dotted line which represents the projection of full employment is an imaginary line indicating the number of persons who would have been employed in each year had we maintained maximum employment as conceived by the act under which we are operating?

Mr. KEYSERLING. That is it exactly.

The CHAIRMAN. Then, the significant thing about it, as it appears to me, and I would like your comment on it, is this, that the great gain of national income which came as a result of the Second World War is only a fraction of the national income which was lost because we did not, during 1930 to 1941, maintain what is the objective of this act, namely, maximum employment?

Mr. KEYSERLING. That is certainly correct, Senator O'Mahoney. In other words, even in a few years of very bountiful prosperity, we have not been able to recapture as much as we lost in a decade or more of underutilization or our resources.

Just one more thing about this chart. I think that this chart, if anything, is an understatement of the difference between a healthy and a boom-and-bust economy, for this reason: When the war started, we did not have the development of plant and equipment and the development of resources that we would have had if we had maintained stable growth in the years between 1930 and 1940.

In other words, if we had started in 1940 from the point where we would have been, if we had had a healthy economy between 1930 and 1940, we would have been starting from a higher point than we actually started from.

So I would not say that this chart is in any sense an overstatement as to the quantitative importance of maintaining——

The CHAIRMAN. In drawing the graph representing the growth of employment, what yearly percentage did you use?

Mr. KEYSERLING. I will get that figure for you, as to the details of the computation.

(The following statement was later submitted for the record:)

Assuming a 3.5 percent level of unemployment, total employment is derived from labor force estimates, and is estimated at 9.2 percent greater in 1958 than in 1948. We arrived at the 1958 figures by estimating the labor force for each year from 1948 to 1958. These estimates were made in cooperation with BLS, using as basic data the population projections of the Census Bureau.

The 9.2 percent increase in employment from 1948 to 1958 gives an average increase of somewhat less than 1 percent per year. But it should be noted that there is a somewhat greater increase in the early years of the decade (because of abnormal increments to the labor force arising from the displaced persons law and the return of veterans from school to employment) than in the later years of the decade.

Mr. KEYSERLING. $800,000,000,000 is more than three times our total national debt; $800,000,000,000 is about two and a half times the money cost to us of World War II. I mention that only to stress and emphasize the importance of this problem to our domestic economy.

When we look at world affairs and when we consider our position in them, and then think what another depression with serious unemployment and discontent would do in terms of raising abroad the voices of those who say falsely that the American system does not work, and in terms of swelling by millions the voices of discontent within our own country, then we see what I call this $800,000,000,000 question in a perspective which certainly rises above detailed differences of opinion, above partisanship, and above sectionalism. I feel a deep conviction that the problem with which the Employment Act deals, and with which your committee is wrestling, is our domestic problem No. 1 and I really think that it is our world problem No. 1 because I think the prospects for permanent world peace depend considerably upon how well we solve this problem.

The next thing I would like to turn to, with your permission, Mr. Chairman and members of the committee, is a brief examination of a few of the current fallacies, at least fallacies in my judgment, which seem to stand across the road of developing effective analysis and working out effective remedies for the current situation which I have defined as a mixture of inflationary and some softening trends. This will lead me immediately into a discussion of what really is the heart of the matter, namely, the maladjustments, the distortions, the dangers and difficulties in the current economic situation, which I think are a cause for grave and increasing concern; although, as I have said, the situation is still bright if we work to keep it bright.

BASIC PRINCIPLES AND CURRENT FALLACIES

The period since the war, generally speaking, has been characterized by rising prices, wages and other incomes, accompanied by rising costs. This is popularly called "inflation." With this as a starting point, a frequently heard argument runs somewhat as follows: "Inflation is dangerous because whatever goes up rapidly must eventually come down rapidly, and when prices come down rapidly there will be sharp drops in employment and production, in other words a recession or a depression. Therefore, the way to prevent a serious recession or depression is to stop the rising prices and costs which are called inflation. And since this inflation reflects a demand for goods in excess of the supply of goods, which in turn reflects a money supply unusually high in relation to the volume of available goods, the cure for inflation and its real or supposed dangers is to contract the money supply and thus reduce the price level."

It is true that the total money supply, as shown in chart 5, which was 54.6 billion dollars in 1929 rose to 63.3 billion in 1939, to 170 billion in 1947, and stood at 168 billion December 1948. Manifestly, the money supply has increased much more than the volume of available goods, and the proposition that the relation between the money supply and the available supply of goods has a basic influence upon the level of prices and incomes of all kinds is obviously correct as a statement of fact.

Money supply, selected years, 1929–48

[Billions of dollars]

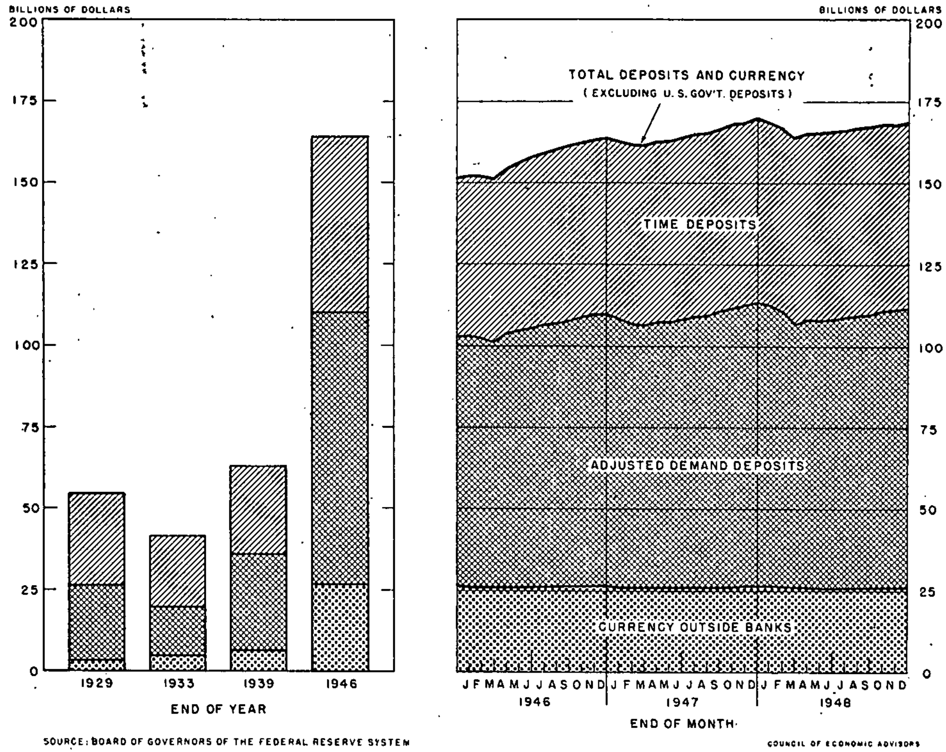
End of period	Total money supply [1]	Time deposits [2]	Demand deposits adjusted [3]	Currency outside banks
1929	54.6	28.2	22.8	3.6
1933	41.5	21.7	15.0	4.8
1939	63.3	27.1	29.8	6.4
1946	164.0	54.0	83.3	26.7
1946—January	151.9	49.0	76.8	26.1
June	157.8	51.8	79.5	26.5
December	164.0	54.0	83.3	26.7
1947—June	164.1	55.7	82.1	26.3
December	170.0	56.4	87.1	26.5
1948—June	165.7	57.4	82.7	25.6
December	168.0	57.4	84.7	25.9

[1] Excludes U. S. Government deposits.
[2] Includes deposits in commercial banks, mutual savings banks, and Postal Savings System.
[3] Includes demand deposits, other than interbank and U. S. Government, less cash items in process of collection.

NOTE.—Detail will not necessarily add to totals because of rounding.
Source. Board of Governors of the Federal Reserve System.

Chart 5

MONEY SUPPLY



Mr. KEYSERLING. But is is a fallacy to derive from this the conclusion that a main approach to economic stability should be through the drastic contraction of the money supply. For it is not demonstrable that a generally rising price level interacting with a generally rising money supply is bad per se. We had a falling price level after 1929, and the country was certainly not on the way to prosperity. We had a rising price level after 1932, and yet the country was on the way to increasing employment and production. We had a fairly stable price level in the later 1920's, and yet obviously something must have been wrong with the economy in view of what resulted although everyone will not agree as to just what was wrong. In short, there is no arbitrarily sound or even preferable price level or course of price movements—such as those of 1926 or 1939 or 1948—as distinguished from some other price level or course of price movements and, therefore, there is no arbitrarily sound or ideal relationship between the size of the money supply and the available supply of goods.

To be sure, a drastic contraction of the money supply would bring prices and incomes downward, but it would also drive employment and production downward and probably injure most those who already have been hurt most by inflation. Those who propose this remedy admit its results. However, they seem to assume that we are suffering from an excess of employment and production as well as certain excesses in the price structure, and they would try to cure both at the same time. But there is no salvation to be found in curing inflation by generating a depression, even a small one. The central problem is to maintain maximum employment and production, and the central reason for being concerned about the price structure is that it threatens this objective. The only kind of price and income adjustments that we want are these which will further this objective and not defeat it.

Mr. PATMAN. May I ask a question, Mr. Chairman?

The CHAIRMAN. Congressman Patman.

Mr. PATMAN. What do you think about regulation W as a drastic credit restriction?

Mr. KEYSERLING. Congressman Patman, would you permit me to make my general analysis, mainly for the reason that under the arrangement of testimony which we have here, my colleague, Dr. Clark, is going to deal with the details of various policy proposals. I wanted to establish the foundation of the economic analysis.

Let me say this, though, because I hate to evade a question, although I hope you will tolerate my deferring it.

Mr. PATMAN. Will you cover this point later?

Mr. KEYSERLING. It will be covered later. Let me say this now with respect to the question you raised: Without making any comment at this time as to the administration or as to the policies that should be followed with respect to regulation W, what I have said does indicate why a program to deal with inflation must embrace a variety of measures and cannot rely exclusively upon the credit attack or general fiscal measures which at earlier times were thought to be quite sufficient and adequate to deal with the problem of inflation.

My answer to your question will become much clearer as I move shortly into a more particularistic analysis of what seems to me to be wrong with the current economic situation.

To resume the point I am trying to make now——

Mr. RICH. May I ask this question, then, if you are not going to answer Mr. Patman's question now? Right in line with the statement you make that if we reduce the money supply or hold it down, we then hold down prices of all commodities and prices for labor, and that is what you said we do not want to do. What do you mean, that you want to keep on feeding in gradually the money supply so that you are always going to increase those commodity prices and labor prices and all prices? If you do, when are you going to stop?

Mr. KEYSERLING. In the first place, I have pointed out that the money supply has not been increasing in recent months. As a matter of fact, the money supply now is somewhat lower than it was at the end of 1947.

More specifically, in answer to your question, I have not taken the position here that there should not be any measures adopted to contract or restrict the money supply at any points.

Mr. RICH. You said that is what we do not want to do.

Mr. KEYSERLING. I said that that was not a total remedy, and that it could not be done in too drastic a fashion. I want to make that very clear.

The CHAIRMAN. Let the chairman interrupt. I think that the witness and the Congressman are not dealing with the same subject.

As I understood, Mr. Keyserling, you said that drastic curtailment of the money supply would reduce production and employment and business as well as prices.

Mr. KEYSERLING. Yes, sir.

The CHAIRMAN. And that reduction of employment and production and business should be avoided. The Congressman has addressed his question solely to the price phase.

Mr. KEYSERLING. That is correct; and I will make that very sharp distinction right now as I move on into my analysis.

In other words, I have not taken the position that the money supply should be constantly increased. I have taken the position that dealing with the money supply is not a sole or a single avenue of approach, because as a sole or single avenue of approach it would have to be applied so drastically that—and I think there is rather common agreement on this—it would result in a much lower level of employment and production as well as a lower level of prices and incomes in dollar terms.

I have tried to draw this distinction in order to point out that those who want to reduce employment and production, as well as prices and incomes, are not grappling with the real problem and not moving in accord with the spirit of the Employment Act; because the main reason why we want to stabilize the price-wage spiral is so that we may have a maximum employment and production. In other words, we do not want to throw out the baby with the bath.

Mr. RICH. Right there may I ask you this: Do you know of anybody who wants to reduce employment and wants to reduce production?

Mr. KEYSERLING. Certainly not. I would not even by insinuation or indirection imply that anybody would want to do that. Certainly not. We all want to avoid doing that. I certainly did not intend to imply that anybody wanted to do that.

What I have said turns our primary attention away from any arbitrary or absolute levels or trends of prices and wages and other incomes, and focuses our interest instead upon the relationships among various types of incomes as these are affected by prices and wages and by national policy. For it is the relationships rather than the absolutes which determine mainly whether our economy can continue along a path of stable growth. If business receives too large a share of national income and consumers too small a share, the eventual result is either frozen savings which are not invested, or a rate of investment so high in relation to consumer-buying power that so-called overproduction finally results. Conversely, if the share of national income going to business is too small and the share going to consumers is too large, then we are eating away our sustenance too fast and impoverishing the productive plant and equipment upon which the basic growth and progress of our economy rests. Likewise, unsound relationships between industrial and agricultural income, or excessive maldistribution of personal income, jeopardize the full functioning of the whole economy. These are fairly accepted propositions, although different people call them by different names. The more technical people refer to the problem of keeping savings and investment in equilibrium. Less technical people call it keeping supply and demand in balance or keeping production and consumption in balance—but it all comes to the same thing.

Turning then to this central problem of relationships, chart 6 shows the enormous changes that have taken place since the last prewar year. To select a few items, employment from 1939 to the end of 1948 increased about 30 percent; consumer prices about 72 percent; wholesale prices about 114 percent; weekly earnings in manufacturing about 123 percent; gross national products in current dollars about 180 percent; prices received by farmers about 202 percent; and corporate profits after taxes about 316 percent. The base year that I have chosen, 1939, is used only to illustrate the point generally that relationships have changed greatly. The use of this base year should not be taken as an assertion that it is the best base year for all purposes of comparison or analysis.

Some economic changes, 1939–48

Economic series	Reported data			1948 as percent of 1939
	Unit or base	1939	1948 [1]	
Corporate profits after taxes	Billions of dollars	5.0	20.8	416
Business expenditures for plant and equipment	Millions of dollars	5,200	18,840	362
Manufacturing sales [2]	do	5,112	17,603	344
National income	Billions of dollars	72.5	224.0	309
Prices received by farmers (index) [3]	August 1909–July 1914=100	95	287	302
Personal income	Billions of dollars	72.6	213.6	294
Gross national product	do	90.4	252.7	280
New construction	Millions of dollars	6,307	17,666	280
Manufacturing inventories [4]	do	11,516	31,700	275
Per capita disposable income	Dollars	536	1,299	242
Weekly earnings in manufacturing [3]	do	23.86	53.13	223
Wholesale price index [3]	1926=100	77.1	164.9	214
Prices paid by farmers (index) [3]	1910–14=100	124	249	201
Industrial production (index) [3]	1935–39=100	109	192	176
Consumers' price index [3]	do	99.4	171.4	172
Employment (civilian) [3]	Thousands	45,750	59,378	130
Labor force, including armed forces [3]	do	55,600	62,748	113
Unemployment [3]	do	9,480	2,064	22

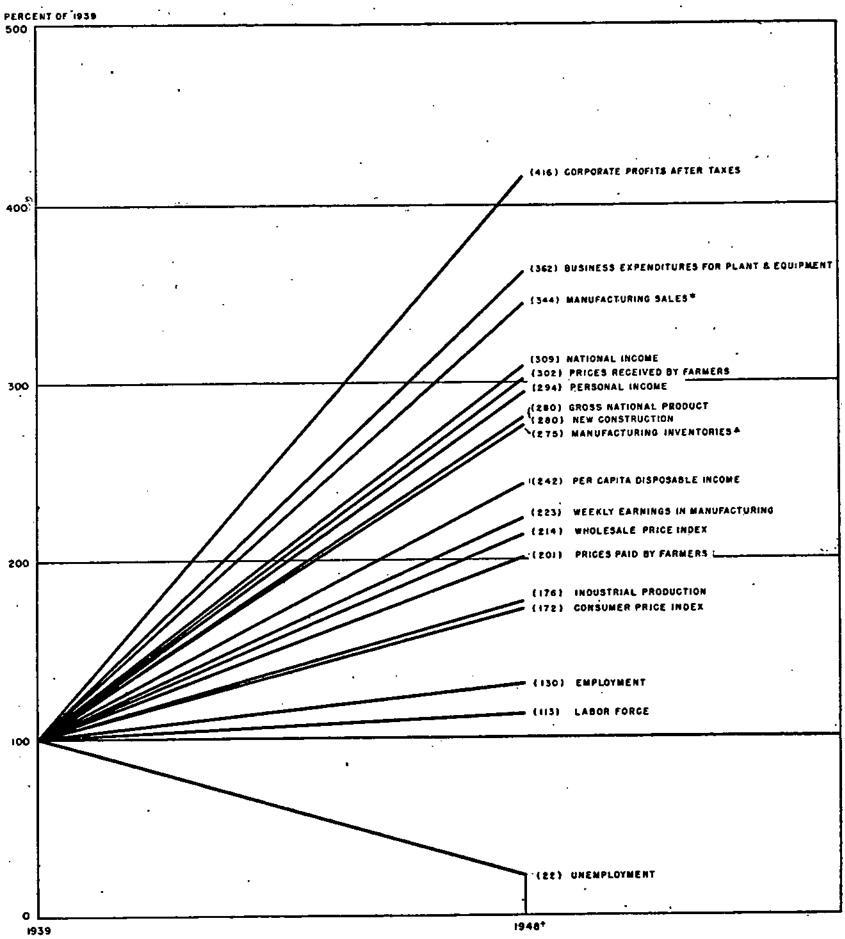
[1] Estimates based on incomplete data.
[2] Monthly average. Average for 1948 based on 11 months' data.
[3] Average of monthly data.
[4] Data are for end of period. The 1948 estimate is for the end of November.

NOTE.—The actual data are the total for the period unless otherwise noted. The data are listed in descending order of percentage change from 1939 to 1948.
Source: Various Government agencies.

From looking at these figures, we should guard against certain fallacies which often appear in discussion of the current situation. I would like to identify three of these fallacies, so that we may move closer to the real elements of the problem as I see it.

CHART 6

SOME ECONOMIC CHANGES
1939 to 1948



* 11 MONTHS
▲ END OF NOVEMBER
† PRELIMINARY

SOURCE: VARIOUS GOVERNMENT AGENCIES

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In the first place, it is a fallacy to say that we are in a bad situation because some things have moved up. Certainly we are glad that the employment index has moved up. Certainly we are glad that the profit index has moved up since 1939, because profits ought to be higher in a full 1949 economy than in an underproducing 1939 economy. So the mere fact that the indexes have moved up is not in itself a bad thing, and a solution cannot lie simply in moving them down.

Second, I want to emphasize the fallacy of saying that the fact that some of the indexes have moved up more rapidly than others proves that those which have moved up more rapidly are out of adjustment with those that have moved up less rapidly. For example, profits should have moved up more rapidly than employment in an expanding period, because they sink most rapidly in a period of decline. Real wages, the wages received by workers, should move up more rapidly than prices because if the output of the total economy is increasing you have got to have increased real wages as well as increased money wages to take that real output. Farm income, I think, quite legitimately has moved up more rapidly than various types of income because in 1939 the farmer found himself in a very disadvantageously placed position in the economy. It has been one of the main and signal purposes of national policy to change that earlier agricultural relationship in the interests of the whole economy.

Now, it follows also from this, and I hope this is not getting into too much detail, that when certain prices start moving downward, when you have a softening, it is a fallacy to assume automatically that this is necessarily a healthy development. For example, you have a softening when you are moving toward a depression. Whether or not the softening is healthy depends upon an examination of the relationships among the different parts of the economy, to see by objective tests whether we are moving into a better balance.

The CHAIRMAN. May I interrupt?

Mr. KEYSERLING. Yes, sir.

The CHAIRMAN. This chart shows the 1948 figures for industries on the basis of 11 months in 1948. I suppose it is necessarily so because it takes time to accumulate the statistics upon which each index is figured.

Can you at some appropriate time indicate to us what, if any, changes have taken place in each of these categories during December 1948, and, if possible, January 1949?

Mr. KEYSERLING. Mr. Chairman and members of the committee, in practically all of my subsequent charts, which deal with the details of current maladjustments, the figures are carried all the way through 1948, and in many cases through January 1949. We should be glad to do that also on this chart; but for the purposes of this chart, which deals with a broad range all the way from 1939 to 1948, you would not get a much different picture if you added on the additional month of January 1949.

The CHAIRMAN. That answers the question, namely, whether there have been any significant changes in these figures in the recent month.

Mr. KEYSERLING. There have been some significant changes as between 1948 and January 1949 that are significant in looking at the current situation, but not very significant in the 1939–49 picture.

This brings me to the point in essence which I have been developing in connection with this section, that it is an oversimplification to talk in general terms of rising or falling or leveling off prices without looking at the operation of the economy and the relationships among prices, incomes, production and demand.

Prices are merely the fluid or the oil or the belt through which goods and services are exchanged and through which production is distributed. Therefore, the important thing is whether they are so related to each other that the gears mesh instead of falling apart.

Coming to the next section, which gets into the questions: What are the central problems of our current economy as we see it now? What are the maladjustments within it that need correction? What are the things in it——

Senator MYERS. You have finished the section on current fallacies, then?

Mr. KEYSERLING. Yes, sir.

What are the conditions within the current economy which make us feel strongly that there are problems that need to be attended to?

In the current situation, a discriminating approach to basic economic analysis should warn us against relying upon over-all averages which conceal differentiated trends. It should equally warn us against the oversimplification of calling the situation or outlook inflationary and relying solely upon a uniform set of retarding or contracting measures, or calling it deflationary and relying solely upon a uniform set of accelerating or expanding measures. Instead, we need not only some general over-all measures but also some highly selective measures to move some items upward and others downward at the same time, and to cause contraction at some spots and expansion at others, in order to correct maladjustments which have not yet interfered with our very high prosperity but nonetheless constitute a threat to it.

I believe that some of these maladjustments are now discernible; that they are now inflicting hardship upon millions of individuals; that they are now interfering with essential national objectives, and that, through their distorting effect upon price-income relationships, they are affecting the pattern of production, consumption, and national income in ways which threaten a general economic decline if they are not corrected.

But I believe with equal conviction that these maladjustments can be corrected in time, and toward that end it is urgent to examine just what they are.

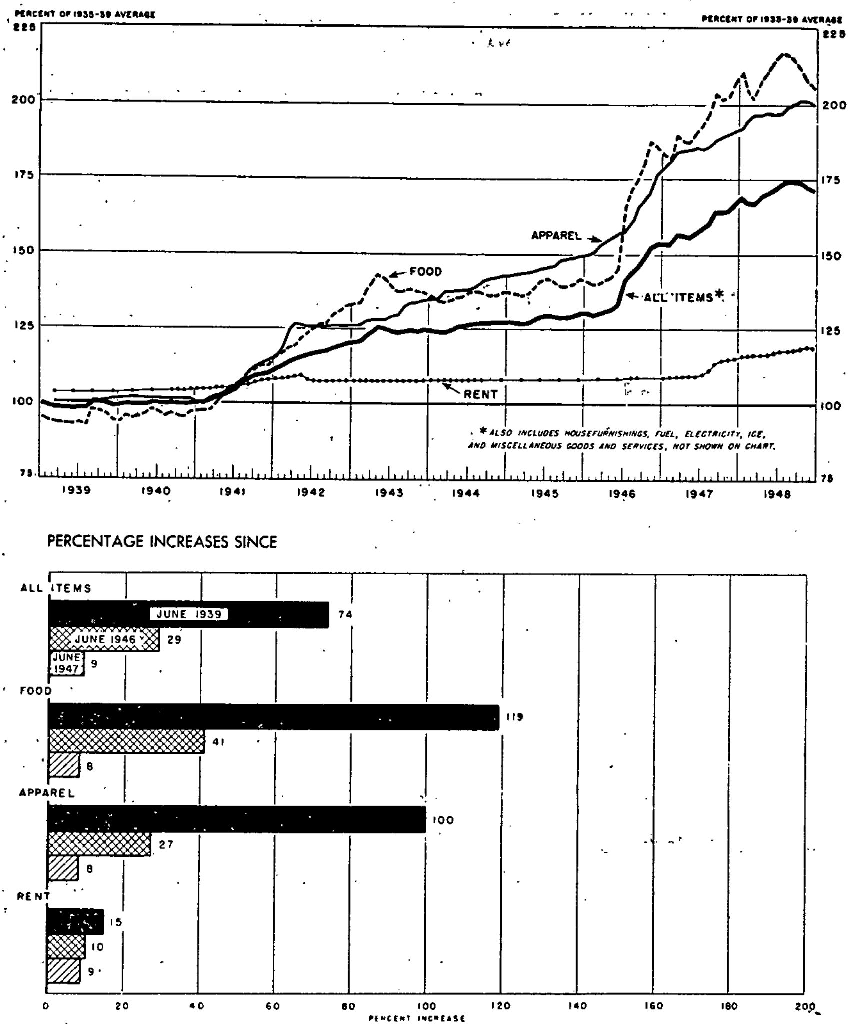
AREAS OF CURRENT OR EMERGING MALADJUSTMENTS

The first serious maladjustment to which attention should be directed arises out of connected developments in the cost of living and family standards of living.

Chart 7 shows consumers' prices from 1939 through the end of 1948. I would like, first of all, to direct your attention, if I may, to the heavy black line on the chart which covers all items. The consumer price index is a place where averages are valid, because the family has to buy all the items that go into making up the cost of living. This is a case where it is more important to look at the averages than at the separate parts.

CHART 7

CONSUMERS' PRICES



SOURCE: DEPARTMENT OF LABOR

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Consumers' prices, 1939–48, for moderate-income families in large cities

Period	All items [1]	Food	Apparel	Rent
	1935-39=100			
Monthly average:				
1939	99.4	95.2	100.5	104.3
1940	100.2	96.6	101.7	104.6
1941	105.2	105.5	106.3	106.2
1942	116.5	123.9	124.2	108.5
1943	123.6	138.0	129.7	108.0
1944	125.5	136.1	138.8	108.2
1945	128.4	139.1	145.9	108.3
1946	139.3	159.6	160.2	108.6
1947	159.2	193.8	185.8	111.2
1948	171.2	210.2	198.0	117.4
1939—June	98.6	93.6	100.3	104.3
1946—June	133.3	145.6	157.2	108.5
1947—June	157.1	190.5	185.7	109.2
1948—January	168.8	209.7	192.1	115.9
February	167.5	204.7	195.1	116.0
March	166.9	202.3	196.3	116.3
April	169.3	207.9	196.4	116.3
May	170.5	210.9	197.5	116.7
June	171.7	214.1	196.9	117.0
July	173.7	216.8	197.1	117.3
August	174.5	216.6	199.7	117.7
September	174.5	215.2	201.0	118.5
October	173.6	211.5	201.6	118.7
November	172.2	207.5	201.4	118.8
December	171.4	205.0	200.4	119.5
	Percentage increases			
Since June 1939 [2]	74	119	100	15
Since June 1946 [2]	29	41	27	10
Since June 1947 [2]	9	8	8	9

[1] Also includes housefurnishings, fuel, electricity, and refrigeration, and miscellaneous goods and services.
[2] To December 1948, latest data available.

Source: Department of Labor.

If we look at the heavy black line, which covers the cost of living for all items running back from 1939 through 1948—and I will come to 1949 in a minute—the cost of living for all items since June 1939 has gone up 74 percent. The bars down on the bottom half of the chart show the changes for different select periods since June 1939, but I will not go into that degree of detail now.

In recent months, there has been some leveling off or softening in the cost of living, which, as is shown on that heavy black line, has brought it down about 2 percent below the all-time peak of August–September 1948.

So, I think it is a fair statement, looking at the situation up to the present time—and I shall talk in a minute about the outlook—that there has not been a change in the cost of living substantial enough in magnitude to change the essence of the consequences arising from the fact that the cost of living is still 74 percent above June 1939. I shall come to what those consequences have been in just a minute.

Mr. Rich. May I ask a question right here? The changes that are being made, that have been made, and are being made right now on a reduction of prices of commodities, they are all practically being reduced, except a few items like steel. All prices in clothing and all prices in foods are coming down.

If you want to bring those prices down so that the people can buy, is that not a healthy situation? As I view it, any manufacturer who asks more for his commodities today than he did a year ago is not selling. Therefore, the only fellow who is going to do business is the fellow who goes out and tries to sell merchandise at a price as low as or lower than he had it last year if he is going to do a volume of business. So, is that not a healthy situation?

Mr. KEYSERLING. Congressman Rich, I hope to be able to show very conclusively from the facts embodied in some of these following charts that all prices are not now coming down. Some of the most significant prices, about which we have grave cause for concern, are not coming down, but, instead, are rising.

Mr. RICH. You mean today that prices are rising?

Mr. KEYSERLING. Many very, very important prices are rising.

Mr. RICH. Then that fellow is not doing any business today.

Mr. KEYSERLING. Many in these rising-price areas are doing a tremendous business.

Mr. RICH. In what line in clothing? In what line in foods?

Mr. KEYSERLING. I hope to review before the committee in detail in just which lines this is happening.

Mr. RICH. You are going to give us that?

Mr. KEYSERLING. Yes, sir; very definitely. The essence of the problem is that, broadly speaking, in the general heavy-industry areas in the key strategic points in the economy, you have a rising price level at the very time when, in the wholesale-food and farm-products areas, you have an accelerating decline.

The point I am endeavoring to make is that this is now reaching the point where it is dangerous to the economy. As to interpretation, we may have a wide variety of interpretations. But I do hope to put the facts before the committee.

Mr. RICH. I can take you out today and buy clothing at a price way less than anything you bought before Christmas. I can buy you anything you want. I can take you out and buy groceries or commodities at way less today than you could in December.

That is a fact because I have experienced it.

Senator MYERS. And yet, I know that all of the utilities in my State are asking for increased rates at this very moment, and are before the public-utilities commission asking for such increased rates.

Mr. KEYSERLING. Let me suggest this, Senator Myers. I tried very carefully at the beginning of my statement to say that, in matters of interpretation, all I can do is make a submission. It will be your function to evaluate it, to weigh it, to agree with it or to disagree with it. I can, however, be particularly helpful in bringing before you the facts, the facts on a sufficiently wide and broad and Nation-wide basis for you to evaluate them.

I happen to be dealing now with the subject of the cost of living. I would like to say a little bit more about that, and I want to assure Congressman Rich and the rest of you that I shall then get very fully, on a factual basis, into the question of what is happening in the price area and the earnings area and the supply-and-demand area with respect to other sectors of the economy, including the industrial sector.

The CHAIRMAN. Do I understand you to mean that, as you proceed with your statement, you will give the committee the names of precisely those commodities in which the facts show there are price declines and those in which the facts show there are price increases?

Mr. KEYSERLING. Yes, sir. And let me inject this thought right here. With respect to employment and unemployment, and with respect to prices, the newspapers and my newspaper friends perform an immense and invaluable service in bringing before the public the most current developments.

I think one of the most heartening conditions throughout the American economy is that there is now, as there never was before, a tremendous interest in what is happening to the economy. I hope it will become even greater.

At the same time, it is true in the very nature of the situation that, when some one new fact comes out in some community, and when that is made into a story without the interpretation that goes with it and without the whole range of facts that surround it, you get a distorted picture of what is actually happening throughout the economy.

One very good recent example of this is the unemployment situation. The facts are there. But it is one thing to say that unemployment in January of 1949 was 700,000 higher than in December of 1948, which leads to the inference that, if you multiply that by 12, you would have an increase in unemployment of about 8½ million in a year. But it is quite a different thing, using the same facts, to say that, in all probability, a good part of this unemployment increase was a seasonal variation due to cold weather and other factors; that in January of 1948, for example, you had an increase in unemployment of 400,000 above the level in December of 1947, and that actual employment in January 1949 was higher than any of the first 3 months of 1948, although 1948 was considered a boom year.

In other words, I am trying to set this matter of cost of living in perspective by giving a wide enough range of facts covering the whole economy to possess validity. The spot stories that this is happening here, and that is happening there, and this was my experience here, are very helpful in determining the general psychological atmosphere; but they are not a substitute for Nation-wide aggregates of what the facts as a whole are.

Whatever may be happening, for example, to the consumer price level at some spot, at some time, the fact remains that, looking at it over-all, the cost of living is down only about 2 percent from its all-time peak and is now 74 percent above June 1939. That is the over-all fact.

Let me say, incidentally, that this over-all reduction of 2 percent in the over-all cost of living has been due practically entirely to what is happening to retail food prices. (I will have something to say, a little later on, about the food and agricultural price situation and how we have had a sustained and substantial drop in wholesale prices of food and of farm products which has continued into January of this year but which thus far has not had nearly enough effect upon retail food prices.)

Now, aside from the food element in the cost of living——

Senator MYERS. You say, at the same time, however, that the wholesale prices for industrials reached an all-time high in January of 1949?

Mr. KEYSERLING. That is correct, in the latter part of January 1949.

Aside from food, while there was an increase, I think, of about 5 percent in the apparel item in the cost-of-living index during the first three-quarters of 1948, coming on top of the previous increases, there was only a decline of about one-half percent in the fourth quarter of the year.

Mr. RICH. If I look at your charts, I would say that that is correct. But, when I read the papers and I see the commodity prices in the stores and I see what is happening on the streets, then I do not agree with your chart. That is the point I am trying to make.

Mr. KEYSERLING. I have no way of equating post-Christmas sales and mark-downs of certain commodities with the general Nation-wide indexes that we get every month.

Coming to chart 8, which shows consumer prices more specifically for 1948 and for the first month of 1949, I want to say one word of warning about this chart: It is drawn on such a big scale that it makes the variations look very great, but they are not.

Consumers' prices, 1948

[January 1948=100 [1]]

Period	All items [2]	Food	Apparel	Rent	Period	All items [2]	Food	Apparel	Rent
1948					*1948*				
January	100.0	100.0	100.0	100.0	July	102.9	103.4	102.4	101.2
February	99.2	97.6	101.6	100.1	August	103.4	103.3	104.0	101.6
March	98.9	96.5	102.2	100.3	September	103 4	102.6	104.6	102.2
April	100.3	99.1	102.2	100.3	October	102.8	100.9	104.9	102.4
May	101.0	100.6	102.8	100.7	November	102.0	99.0	104.8	102.5
June	101.7	102.1	102.5	100.9	December	101.5	97.8	104.3	103.1

[1] Converted from the reported base, 1935-39=100.
[2] Also includes housefurnishings, fuel, electricity, and refrigeration, and miscellaneous goods and services.

Source: Department of Labor.

Senator MYERS. Mr. Keyserling, let me ask you, since the Congressman has raised a question regarding the charts, do you have complete confidence in the accuracy of the information that is contained in these charts?

Mr. KEYSERLING. Accurate, but not perfect.

Senator MYERS. Of course.

Mr. KEYSERLING. There is no area of statistical accumulation which is yet perfected. But I have the utmost confidence in the satisfactory character of these data for the purposes for which we are using them. In other words, even if there are some errors, and even if there are some delays, the results are substantially accurate.

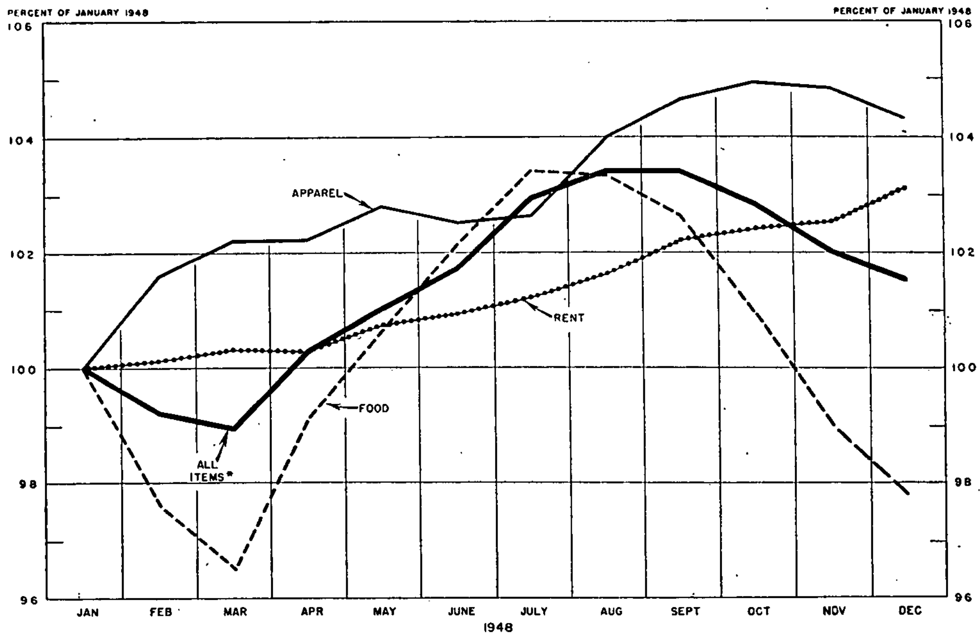
After all, we are most concerned with trends. If a chart that shows a 2-percent decline in the cost of living has some defect in it, that same defect appeared at the time that it was showing an increase of 74 percent; so the fact still remains that you have 74 against 2; and whether it is 74 against 2 or 73 against 1.876 really does not matter for our purposes.

Senator MYERS. I asked that question, Mr. Keyserling, because unless you and the committee have confidence in the factual statistics—the charts themselves—then, of course, this is all meaningless. We get no place.

Mr. KEYSERLING. I have absolute confidence, Senator Myers.

Chart 8

CONSUMERS' PRICES, 1948



*ALSO INCLUDES HOUSEFURNISHINGS, FUEL, ELECTRICITY, ICE, AND MISCELLANEOUS GOODS AND SERVICES, NOT SHOWN ON CHART

SOURCE: DEPARTMENT OF LABOR

COUNCIL OF ECONOMIC ADVISERS

Senator MYERS. So have I. Unless the committee has such confidence, then I fear that such testimony and such a study would not be of any help whatsoever. It is all based upon this factual information which has been collected by experts, that has been collected by those in whom we should have confidence—confidence in their ability to put this factual information together.

The CHAIRMAN. Let the record also show that the cost-of-living study by the staff of this committee harmonizes with the figures presented by the witness, Mr. Keyserling, on these charts. The committee inaugurated the system, under the chairmanship of Senator Taft in the Eightieth Congress, of publishing monthly the Economic Indicators.

This pamphlet, the latest issue of which is now on the press, has been prepared in exactly the same fashion as each issue during the past year, and the statistical information contained in the indicators, the statistical information correlated by the staff of this committee from all available sources, agrees with the general trend of the information produced by the witness.

Mr. KEYSERLING. Mr. Chairman, may I proceed?

The CHAIRMAN. You may proceed.

Mr. KEYSERLING. With respect to the consumers' price chart for 1948 and 1949, I have said that this chart is drawn on such a big scale that the fluctuations look very great, but they are not really very great. Just to focus attention on this chart for a minute, what we see is this: As I have said, the total for all cost-of-living items, while it has gone down about 2 percent since the peak reached in the late summer of 1948, is still about 1.5 percent higher than it was at the beginning of 1948, and about 74 percent higher than it was in June of the last prewar year, 1939.

When you look at the different elements in the cost of living you find that the reduction is accounted for entirely, in fact, "over-accounted for," by the reduction in the price of food, which is now a little below 98 percent of what it was at the beginning of 1948. The other items in the cost of living rose during 1948. If you look at the rent index you see, despite rent control, a steady upward pulse from 100 at the beginning of the year 1948 to about 103 at the present time. If you look at the apparel index which was referred to, you see that since the beginning of the year 1948 it has climbed a net of something more than 4 percent, having risen, as I said, about 5 percent in the first three quarters of the year and then declined about one-half percent in the last few months.

At this point, I would like to begin to analyze what effect this change in the cost of living since 1939 has had and is having upon the people and upon the economy as the facts now stand.

Senator WATKINS. Mr. Chairman.

The CHAIRMAN. Senator Watkins.

Senator WATKINS. May I ask a question at this point? I notice you indicate an increase in rent. Are you prepared later on to show that increase has taken place?

Mr. KEYSERLING. The details on how the rent increase has taken place, in other words the detailed figures on what has been happening in the various rent areas, are matters upon which somebody speaking for the housing agencies would be in a much better position to speak than I. I have the broad figures which show what has happened, and I relate these to the general condition of the economy.

Senator WATKINS. Then somebody will be in a position to show what has taken place?

Mr. KEYSERLING. Yes, sir.

Senator WATKINS. Whether it is in old buildings under direct control or whether it comes in new buildings that are not under control?

Mr. KEYSERLING. Very definitely, but I would not be prepared to do that.

Senator WATKINS. This is the over-all picture as you understand it?

Mr. KEYSERLING. This is the over-all picture as I understand it.

The CHAIRMAN. Let me say that the agenda for the committee contains the name of Mr. Raymond Foley, Administrator of the Housing and Home Finance Agency, who is expected to appear before the committee and enter into all of the details of that phase of the inquiry.

Senator WATKINS. I would like to get that information sometime and if other witnesses are going to present it I do not care to pursue it further here. But I would like to have that information.

The CHAIRMAN. It will be presented.

Mr. PATMAN. The Housing Expediter, Mr. Tighe E. Woods, I believe, would be the one.

The CHAIRMAN. Yes. Mr. Foley and Mr. Woods will both appear on Friday, February 11.

I was about to say, Mr. Keyserling, that the table supporting chart 8, with respect to apparel, would indicate that with January 1948 as the base at 100, the index for December 1948 had risen 4.3 points, namely, to 104.3. But the high point was in October when the index was 104.9. So this table would indicate that the fall during the last 3 months of 1948 in apparel costs was only six-tenths of 1 percent, from 104.9 to 104.3.

Do you, or any of your staff, have the corresponding index for January 1949?

Mr. KEYSERLING. Not yet. Unfortunately, there is a considerable lag in the accumulation of figures on the cost of living. Those figures would not be available for another 2 or 3 weeks.

The CHAIRMAN. But it would not be at all surprising if for January we should find that the index had gone down further?

Mr. KEYSERLING. That's right, Senator O'Mahoney, it might go down slightly.

I would like to say at this point that what I call the undulations in the cost of living over a very short span of time do not seem to be terribly significant in the analysis of the whole economic situation unless from other factors we can arrive at some objective basis for feeling that a small dip up or down is likely to continue.

For example, if we look back at the cost-of-living index that I showed in chart 7, we see undulations all along the line. If you look at the line for all items, I can count six undulations, of almost the size of the current one, since the middle of 1946. This is simply another way of saying that the line does not move in a perfectly straight line. I can well recall that on each of those six previous occasions, when we had each of those six slight undulations, there was a wide hurrah that finally we had licked the cost-of-living problem—that the cost of living was going down and inflation was over.

Now, I do not want to send out another hurrah too soon just now. There has been some slight softening of the cost of living in the past few months—it may continue. The best appraisal I am able to gather as to what the trend will be over the whole course of this year—and this is a very hazardous thing to guess; that is why I said at the beginning of my testimony that I would like to act on the basis of the facts that we know, rather than what we may predict—the best appraisal of the cost-of-living outlook over the course of this year, assuming that we have good general business conditions, is that with the food supply per capita not changing much and with the meat supply varying, there will probably be some further undulations in the cost of living both upward or downward but no very substantial change.

There may be some slight changes but nothing substantial enough to affect the basic economic problem arising from the fact that we are now 74 percent above where we were in mid-1939. My subsequent charts relate to this problem and its effects when viewed in connection with the family-income situation.

The CHAIRMAN. It is important to note, I think, that under chart 8 you have used January 1948 as your base, whereas, under chart 7, the monthly average for 1935 to 1939 is used as the base.

Mr. KEYSERLING. Yes. The reason for that was to simplify a chart showing developments only during 1948. It was simpler to take January 1948 as 100, just to show more graphically the changes during that one year.

Mr. RICH. Mr. Keyserling, may I just comment on the chart on your consumers' prices. In your consumers' price chart it is evidently about 105 in 1939; and the highest point reached in 1948 would be about 120, I presume, from reading this chart.

Mr. KEYSERLING. 119.5 in December for rent. It reached its all-time peak in December 1948.

Mr. RICH. So that it was kept quite in line, with only very moderate increases, wasn't it?

Mr. KEYSERLING. Under rent control.

Mr. RICH. In comparison with "all other commodity" increases in prices?

Mr. KEYSERLING. Yes.

Mr. RICH. Then, when I look at the consumers' price in 1948, as to rent, it is still under, way under, the apparel price increases, but with all items it is probably what—1 percent above the general average?

Mr. KEYSERLING. I don't quite get the very last part of the question.

Mr. RICH. I am looking at this consumers' price chart. I was just following rents from January of 1948 to December 1948. The base was 100 there and it increased to about 103 and a fraction, a very small increase.

Mr. KEYSERLING. Well, I don't know whether a 3 percent increase in rent, pyramided on top of prior increases in the cost of living within a 1-year period, is really a very small item. I would not like to see rent continue to increase, even under rent control, at the rate of approximately 3 percent per annum.

Mr. RICH. The reason I say 3 percent is that I take it from this consumers' price chart for 1948 that it gave January a start of 100;

that is, your base was 100, and it has increased up to about 103, according to this chart.

Mr. KEYSERLING. That is correct.

Mr. PATMAN. Will this chart reflect the illegal rents or just the legal rents?

Mr. KEYSERLING. Well, as to the details of that, Congressman Patman, you would have to consult with the Housing Administrator. I am not a technician in the field of how rent statistics are collected and what they apply to.

The CHAIRMAN. It is the understanding of the Chair that these statistics take cognizance only of the legal rents.

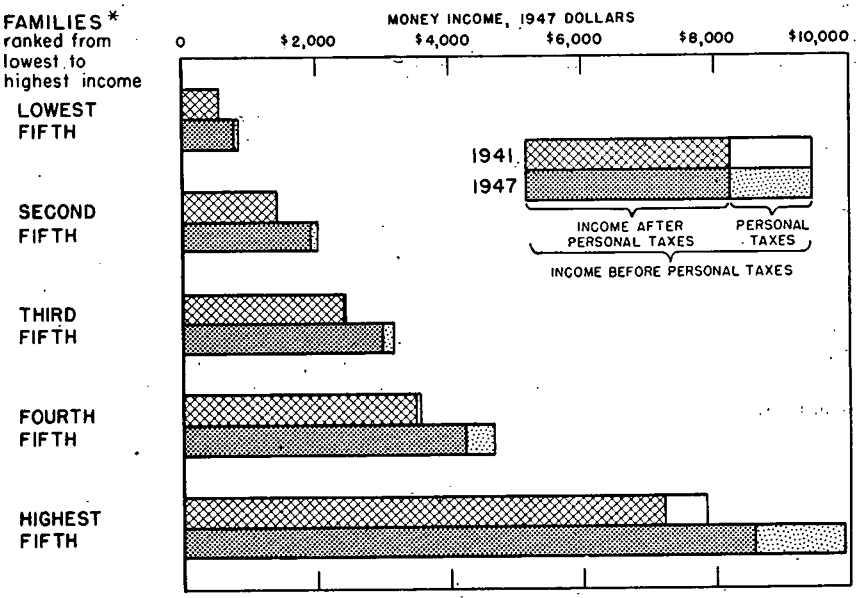
Mr. PATMAN. The testimony before our committee yesterday was that rents had been increased a substantial percentage and the tenants had been submitting to it because they were afraid of being evicted.

The CHAIRMAN. You may proceed, Mr. Keyserling.

Mr. KEYSERLING. The cost of living outlook for 1949 makes it extremely pertinent now to evaluate the effect of the vast increases in living costs since 1939, and particularly since mid-1946, in terms of facts relating to income distribution. As chart 9 shows, there was undoubtedly an improvement in income distribution between 1941 and 1947, the latest year for which full details are available.

CHART 9

CHANGES IN AVERAGE FAMILY INCOME



* INCLUDES SINGLE INDIVIDUALS.

SOURCE: THE ECONOMIC REPORT OF THE PRESIDENT, JANUARY 1949, APPENDIX B. COUNCIL OF ECONOMIC ADVISERS

Changes in average family income, 1941 to 1947

Family units ranked from lowest to highest income [1]	Money income after tax, 1947 dollars [2]		Percentage change, 1941 to 1947
	1941	1947	
Lowest fifth	$562	$796	42
Second fifth	1,444	1,933	34
Third fifth	2,421	2,992	24
Fourth fifth	3,523	4,226	20
Highest fifth	7,245	8,574	18

[1] Includes single-person families.
[2] Liability for Federal personal income tax.

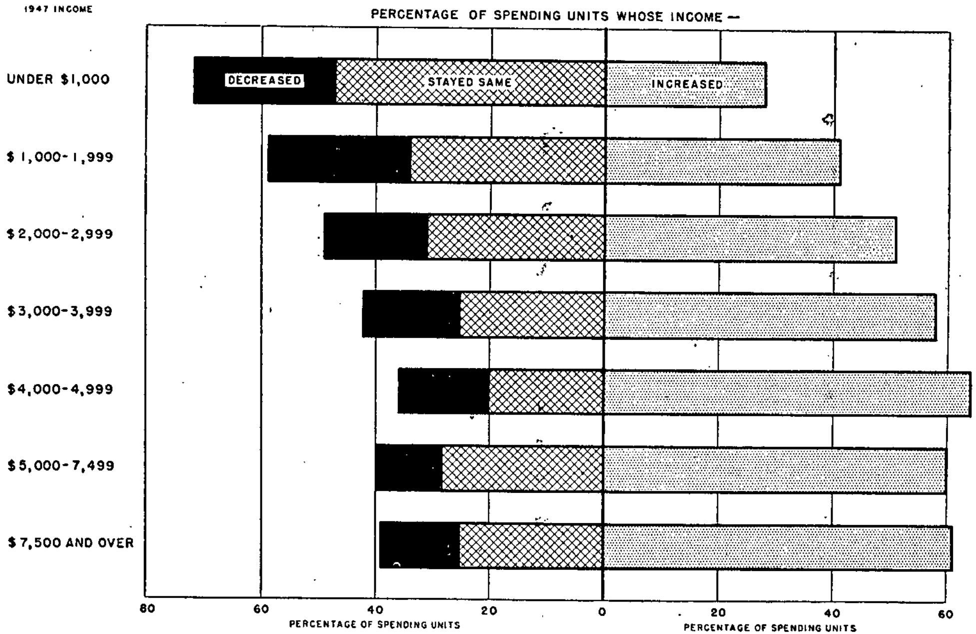
Source: Economic Report of the President, January 1949, appendix B.

Looking at the situation after taxes, which is most significant, the average income of families in the lowest income fifth increased 42 percent from 1941 to 1947, while the average increase in the second income fifth was 34 percent and in the highest income fifth 18 percent. Part of this gain in the lower brackets, no doubt, was due to higher levels of employment and output and to a larger number of workers per family. Unfortunately, these figures, while allowing for Federal taxes, do not include the effects of other taxes. Not since the TNEC studies have all types of taxes been included in examination of the income distribution picture.

Since 1946, however, when the cost of living began to increase more rapidly while total output has increased more slowly, it appears that improvement in income distribution has been arrested and that a contrary trend has commenced to appear. Chart 10 shows that between 1946 and 1947, while a majority of the families in the middle income and upper income brackets have received dollar increases in income as the cost of living has advanced, a majority of those in the lowest income brackets have either received no increases in dollar income or have actually suffered decreases in dollar income. Among all families with incomes under $2,000, about a quarter suffered actual decreases of dollar income during this period, and an additional 45 percent of these families received no increases in dollar income. Thus, the families who have been the worst victims of the advancing cost of living because their incomes are low are also the families who have been least able to hold their ground during the process of inflation. Further, the trend since 1946 is more significant than the trend since 1939, because our total national output now is rather close to what it was in 1946 but very much higher than it was before the war.

CHART 10

CHANGES IN INCOME, 1946 TO 1947



SOURCE: BOARD OF GOVERNORS OF THE FEDERAL RESERVE SYSTEM

COUNCIL OF ECONOMIC ADVISERS

Changes in income, 1946 to 1947, as reported by spending units in various income groups

1947 annual money income before taxes	Percentage of all spending units [1]				
	All units	Change in annual money income before taxes, 1946 to 1947			
		Decreased	Stayed same	Increased	Not ascertained
Under $1,000	100	24	45	27	4
$1,000 to $1,999	100	24	33	40	3
$2,000 to $2,999	100	18	30	50	2
$3,000 to $3,999	100	17	24	57	2
$4,000 to $4,999	100	16	19	63	2
$5,000 to $7,499	100	12	28	60	(2)
$7,500 and over	100	14	24	60	2
All units	100	19	30	49	2

1 A spending unit consists of related persons living in 1 dwelling who pool their income for major items of expense.
2 Less than one-half of 1 percent.

Source: Board of Governors of the Federal Reserve System (1948 Survey of Consumer Finances).

Chart 11 is highly significant because it relates the cost of living to family income distribution. In this area of income distribution, available statistics are deficient in coverage and quantity, although they deal with one of the most fundamental problems in economics. I would hope that more funds and more personnel could be made available to enable procurement of better and more current statistics on income distribution. This is not just a social problem; it is basic to sound economic analysis.

Family-income distribution in 1947, compared with adequate budget of city family

1947 income before taxes	Percentage of— All families and single individuals	Percentage of— Urban families of 2 or more	1947 income before taxes	Percentage of— All families and single individuals	Percentage of— Urban families of 2 or more
Under $500	4	2.2	Under $4,000	63	63.2
Under $1,000	12	6.4	Under $4,500		71.3
Under $1,500		12.6	Under $5,000	75	77.2
Under $2,000	29	19.7	Under $6,000		86.2
Under $2,500		30.3	Under $7,500	90	
Under $3,000	46	41.8	Under $10,000	95	97.0
Under $3,500		53.7			

Cost of adequate budget for city worker's family of 4 [1]=$3,000–$3,450

1 Allowance for taxes.

Sources: Council of Economic Advisers, Department of Commerce, and Department of Labor.

I have almost suspected at times that one of the reasons for the tardiness—and I am not speaking of congressional tardiness, I am speaking of general tardiness—in moving up on these figures is not because they are irrelevant, but rather because they reveal so much. I hope that, with the good offices of this committee, we may be able to do something about closing some of these statistical gaps.

Mr. BERQUIST. Mr. Keyserling, for the committee, would you mind explaining the source of these statistics, who does them, and how much coverage there is, in terms of what you have just said?

Mr. KEYSERLING. Well, I would like to submit that in the form of a technical memorandum for the record. I would be very glad to do that.

(The following statement was later submitted for the record:)

ALL FAMILIES AND SINGLE INDIVIDUALS

The distribution of money income for all families and single individuals in 1947 is based on the 1948 Survey of Consumer Finances conducted by the Survey Research Center of the University of Michigan for the Board of Governors of the Federal Reserve System. The number of interviews in the sample survey is about 3,500. The sample data have been adjusted to agree with the Department of Commerce estimate of total civilian cash income in 1947, and with revised estimates of the number of families and single individuals at the end of the year. Sample surveys characteristically fall short of the total amount of income reported for all families in the economy; the effect of the adjustments is therefore to push the families up to a somewhat higher position on the income scale than the unadjusted data would indicate. The adjusted distribution was published in the Annual Economic Review of the Council of Economic Advisers, January 1949, page 93. The unadjusted survey data showing the distribution of money income before taxes are published in table 6, page 655, Federal Reserve Bulletin, June 1948. The methods of the Survey of Consumer Finances are described in an appendix to the survey, page 643 of the Federal Reserve bulletin.

Since the publication of the President's report, the Census Bureau has released size-distributions of income for the year 1947 for urban and rural families and single individuals based on much larger numbers of cases. The census does not present any estimates on a before and after tax basis, however, while the Michigan Survey Research estimated the distribution of liability for the Federal income tax in 1947. (See p. 15 of the Council's Review and Appendix B.) This was of considerable assistance in the economic analysis of the year 1947.

URBAN FAMILIES OF TWO OR MORE

The distribution of urban families of two or more is taken from the Census Current Population Report (series P–60, No. 5, table 3). The number of cases included in the sample was 22,479. No adjustments of the type described above have been made in this data.

COST OF LIVING

The cost of living is based on the City Workers' Family Budget, BLS publication Serial No. R. 1909. The hatched area on the chart indicates the range between the cost in the highest-cost city of the 34 cities and the lowest-cost city. The estimates relate to June 1947, and include an allowance for personal taxes.

The city-workers' family for which the budget was estimated is a family of four including an employed father, a housewife not gainfully employed, and two children under 15. According to the BLS, "The budget was designed to represent the estimated dollar cost required to maintain this family at a level of adequate living—to satisfy prevailing standards of what is necessary for health, efficiency, the nurture of children, and for participation in community activities.

"This is not a 'subsistence' budget, nor is it a 'luxury' budget, it is an attempt to describe and measure a modest but adequate standard of living."

Appropriate scientific standards were used for measuring adequacy of budget components where such standards were available and applicable, for example, in the case of food and housing. In other cases, such as clothing, considerable reliance had to be placed on actual consumer choice as shown by purchase records. The concept of "standard" is complex and there was necessarily a very considerable area of judgment in developing a standard budget; however the determination was carefully made with the help of a technical advisory committee. The study was made at the suggestion of the Labor and Federal Security Subcommittee of the House Appropriations Committee in the spring of 1945.

Mr. PATMAN. The chart does not cover rural families, I notice.

Mr. KEYSERLING. It does to a degree, Congressman Patman. I want to talk about this chart 11.

We have had to use the family-income distribution for 1947, because we simply haven't got a family-income distribution for 1948. However, the 1947 figures are certainly pertinent because, with cost-income developments since 1947 being what they have been, there has probably not been an improvement since then, certainly not an appreciable improvement. The facts indicate that there may have been some loss of ground since then.

What chart 11 shows is this: The upright bar on the chart with the cross-hatching in it represents the study made, I believe, by the Department of Labor under a specific congressional mandate. This study defined the cost of an adequate budget for a city worker's family of four, which was placed at $3,000 to $3,450. I am told that if we took a family of two, instead of a family of four, these figures would reduce to somewhere between $2,000 and $2,500, or $2,200 and $2,700—somewhere within that area.

Unfortunately, there has not been a comparable study made of the cost of living in rural areas. The cost of living in rural areas is lower, but it is not as much lower as a lot of people think. It is really the standard of living that is lower. I think some day a real study ought to be generated by this committee on this subject, as to whether it is really so much cheaper to live in a town or rural community than it is to live in the city if one seeks to maintain comparable standards of living. Certainly there are many things, such as educating a family where the country boy or girl is sent away to school, which do not cost less than sending a city boy or girl to a free city college. I use this just as one illustration.

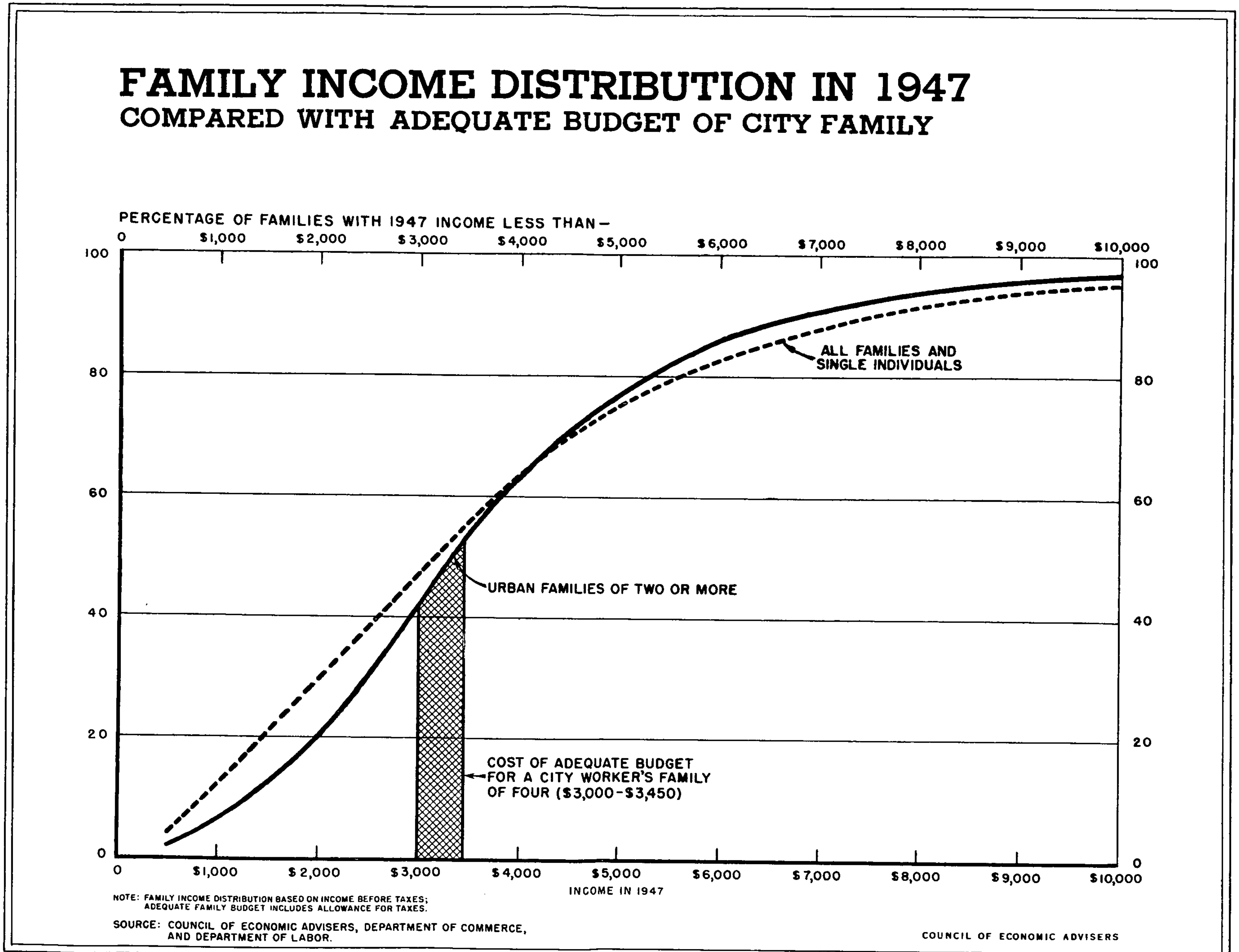
The growth of the idea that the farm family is always well off, because it is eating off the land and has such a low cost of living, is a tremendous misconception. In many cases, the truth is simply that the rural standard of living has been lower, and I think a great deal of work needs to be done on this subject. Enough work has not yet been done. The funds have not been available and the personnel have not been available.

The CHAIRMAN. I am very glad that you made that statement, Mr. Keyserling. Throughout my membership in the Senate the fact has been constantly brought to my attention that the position of the farmer has been generally much lower than that of any other group in our society.

Mr. KEYSERLING. I will have a good deal to say about that problem, Mr. Chairman, in connection with the next few charts, because it reflects one of the main distortions in our economy. Since prewar, we have corrected some of this distortion. But since 1947, with the divergent price and income trends which have appeared, with farm prices and farm incomes moving downward while other prices and incomes have been moving upward, we are moving toward a revival or restoration of the more traditional "agricultural problem" which we wrestled with between World War I and World War II.

That is why it would be one of the most superficial things we could do at this stage if we said that we should not worry about rising prices in large and important areas of the economy, just because when we average steel and hogs there seems to be a leveling off. The

Chart No. 11



FAMILY INCOME DISTRIBUTION IN 1947
COMPARED WITH ADEQUATE BUDGET OF CITY FAMILY
PERCENTAGE OF FAMILIES WITH 1947 INCOME LESS THAN—
0
$1,000
$2,000
$3,000
$4,000
$5,000
$6,000
$7,000
$8,000
$9,000
$10,000
100
80
60
40
20
0
ALL FAMILIES AND SINGLE INDIVIDUALS
URBAN FAMILIES OF TWO OR MORE
COST OF ADEQUATE BUDGET FOR A CITY WORKER'S FAMILY OF FOUR ($3,000-$3,450)
INCOME IN 1947
NOTE: FAMILY INCOME DISTRIBUTION BASED ON INCOME BEFORE TAXES; ADEQUATE FAMILY BUDGET INCLUDES ALLOWANCE FOR TAXES.
SOURCE: COUNCIL OF ECONOMIC ADVISERS, DEPARTMENT OF COMMERCE, AND DEPARTMENT OF LABOR.
COUNCIL OF ECONOMIC ADVISERS

leveling off is accomplished by a type of averaging which conceals rather than reveals the problem.

The CHAIRMAN. In other words, we cannot hope to build a prosperous economy for the whole country upon the assumption that one segment of our population, namely, the rural population, must live at a lower standard than the rest of us.

Mr. KEYSERLING. That is certainly true. I am not prepared to deny that, maybe, during the peak in 1947, some farm prices were too high. But the situation has changed markedly since then. The Secretary of Agriculture will talk on this subject later and much more expertly and completely than I possibly could. All I wanted to do was to identify in broad outline that one of the main maladjustments we now have developing in the economy is this problem of the relationship between the industrial and the agricultural structure.

Getting back to Chart 11 on family income distribution, Mr. Chairman and members of the committee, I have pointed out that it does not fully reflect the agricultural situation. But it does reflect it to a degree because, as I have said, it is not so much the cost of living that differs as it is the standard of living. If people in towns and country areas are to have just as good a standard of living as urban folks, they cannot be left with too much less income. At least, that is the way I look at it.

Now, as against this upstanding bar in Chart 11, the chart shows by the two curbed lines how incomes correlate with the cost of a decent standard of living, as worked out by the Department of Labor under a specific mandate from the Congress. The heavy line represents urban families of two or more; the dotted line represents all families including single individuals—urban and rural.

Looking at the dotted line, we see for all families—let me get the exact figures, it is hard to read them from the line—that for all families, about 46 percent had incomes below $3,000; about 29 percent had incomes below $2,000. In other words, there are 29 percent of the families, taking all families, with incomes below $2,000 at a time when the range of what might be called an American or adequate budget standard of living in urban areas runs—it would run somewhat lower in rural areas—from about $3,000 to $3,500 for a family of four, and perhaps from $2,000 to $2,700 for a family of two. Moreover, the heavy curve shows that more than 53 percent of all urban families of 2 or more had incomes below $3,500, and almost 20 percent had incomes below $2,000.

But just looking at the chart generally rather than in detail, the parts of these two curved lines which fall to the left of the up-standing bar show where the essence of the problem is, that is, the number of families who fall below the surface of the defined adequate, or American, or decent, standard of living at the current relationship between family incomes and living costs.

Senator MYERS. Might I ask this question, Mr. Chairman——

The CHAIRMAN. Mr. Myers.

Senator MYERS. You say, Mr. Keyserling, that 29 percent of all families and single individuals have an income of less than $2,000.

Mr. KEYSERLING. I indicated a little while ago that, according to the method used, a single individual is classified as a family.

Senator MYERS. And does that mean that in some of these families there may be two or three members, each making under $2,000?

Mr. KEYSERLING. No, Senator Myers. So far as the number of families is concerned, "one person families" are counted in. But with respect to the number of families falling below the different income levels, the figures take account of all wage earners in each family. The figures would be a complete delusion if they said that a certain percentage of the families fell below $2,000 when, as a matter of fact, that percentage included families earning more than $2,000 just because no one wage earner in the family earned more than $2,000. The figures take into account the total number of families, and then show what number of families, including all wage earners, full-time and part-time, fall within these various income categories.

Senator MYERS. I see. Thank you.

Mr. KEYSERLING. The people who have been hardest hit by the rising cost of living as we all know, are those living on fixed or relatively fixed incomes which have not followed the price level upward. Chart 12 shows that, while wage earners in manufacturing have about kept pace with the rising cost of living since mid-1946, clerical and professional workers have lost substantial ground. This disparity becomes even more pronounced when the whole history since 1939 is considered. Wage earners in manufacturing have lifted their real incomes about 30 percent since 1939, and those in mining have lifted their real incomes more than 51 percent. These developments are in no way extraordinary because our total national output now is about 62 percent higher than in 1939. But the real earnings of clerical and professional workers are almost 3 percent lower than in 1939. Not only have they failed to share in the increasing prosperity; more than that, their absolute standards of living have gone downward.

Real earnings index, 1946–48 [1]

[1939 = 100]

Period	All groups	Wage earners						Clerical and professional
		Total wage earners	Manufacturing	Mining	Public utilities	Construction	Trade and service	
Monthly average:								
1946	114.6	119.3	127.7	137.5	109.2	128.3	110.7	103.6
1947	112.5	119.4	128.6	143.1	105.6	129.7	110.2	97.6
1948 [2]	112.4	119.5	128.9	144.6	106.2	132.3	109.9	96.4
1946—January	114.2	118.7	127.3	137.8	106.3	131.8	110.2	104.0
April	117.7	122.3	132.9	114.0	112.2	133.1	114.0	107.3
July	114.3	118.9	127.8	134.3	113.2	125.5	108.7	103.1
October	111.7	116.5	124.3	140.0	108.0	124.8	107.3	101.2
1947—January	111.6	117.4	126.5	144.8	104.5	129.9	108.0	98.8
April	111.5	117.2	126.7	130.9	101.7	128.5	110.2	98.7
July	113.6	120.5	131.1	136.1	105.4	128.6	110.0	97.9
October	112.2	119.5	128.6	148.6	108.0	128.6	109.8	96.4
1948—January	110.7	118.4	128.4	147.8	107.2	131.9	106.6	94.2
February	112.2	119.9	128.1	141.8	109.2	134.1	109.2	94.9
March	113.2	120.3	129.2	149.5	107.2	135.2	109.5	95.9
April	111.6	118.0	127.4	122.7	106.3	131.5	110.4	96.3
May	111.9	118.9	126.5	150.4	105.5	128.8	111.4	96.2
June	112.3	119.3	127.9	143.0	105.9	132.0	110.0	96.7
July	112.2	119.0	129.3	141.3	105.9	132.8	109.3	96.7
August	113.4	120.2	129.9	152.1	105.4	132.7	110.5	98.0
September	113.4	120.2	129.9	146.4	106.0	132.7	110.5	98.0
October	113.4	120.8	130.0	151.2	107.1	131.7	111.7	97.3
November			131.6					

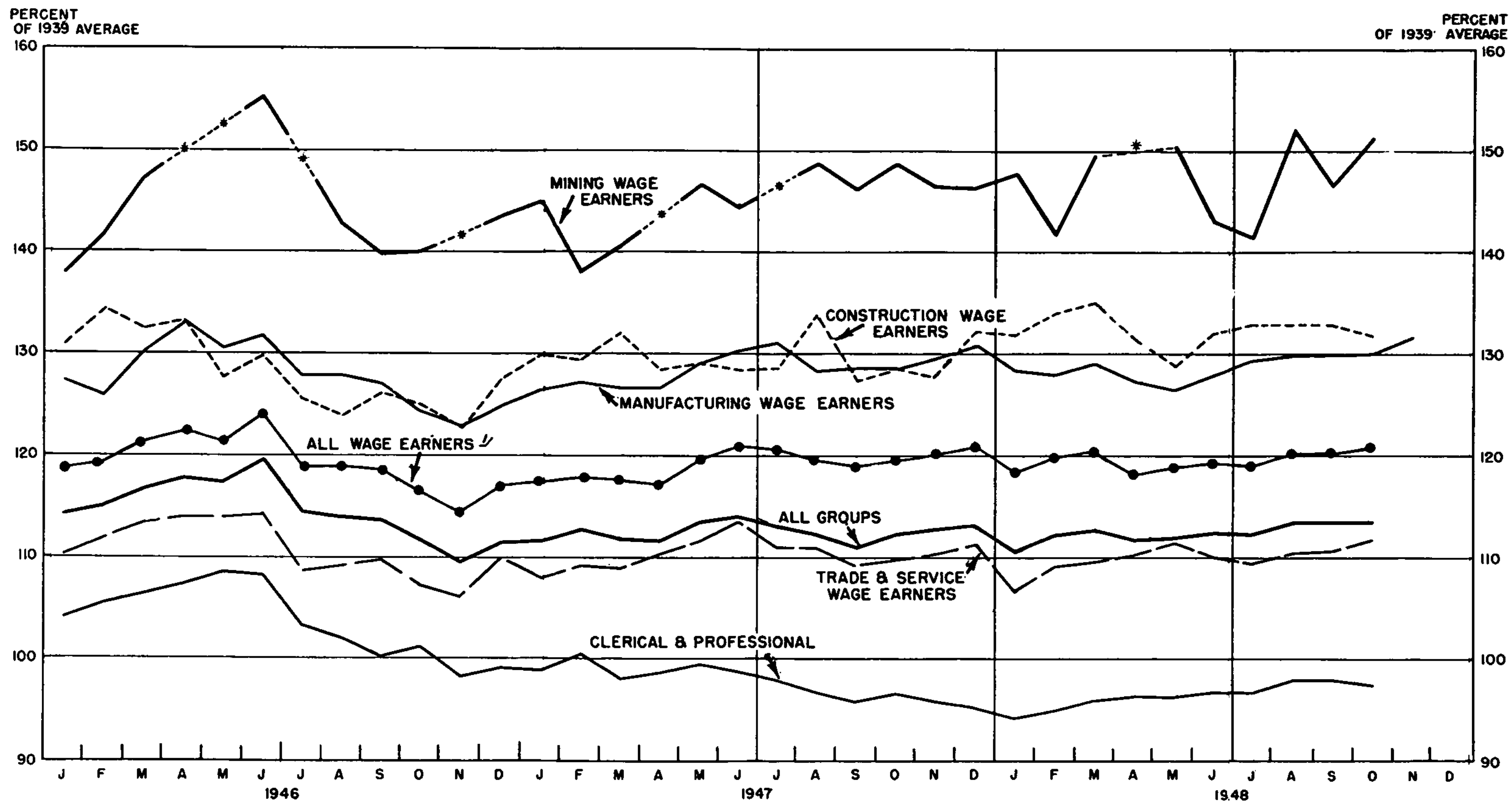
[1] Average weekly earnings deflated by the consumers' price index adjusted for understatement, December 1941–February 1947.

[2] Average of 11 months for manufacturing wage earners, 8 months for public utilities wage earners, and 10 months for all other groups.

Source: Federal Reserve Bank of New York and Department of Labor.

Chart No. 12

REAL EARNINGS INDEX**



1/ ALSO INCLUDES WAGE EARNERS IN PUBLIC UTILITIES, NOT SHOWN IN CHART.

* EARNINGS DATA DISTORTED DURING THESE MONTHS BECAUSE OF WORK STOPPAGES OR VACATIONS

** INDEX OF AVERAGE WEEKLY EARNINGS DEFLATED BY CONSUMERS' PRICE INDEX, 1939 = 100 ADJUSTED FOR UNDERSTATEMENT FROM DEC. 1941 – FEB. 1947.

SOURCES: FEDERAL RESERVE BANK OF NEW YORK AND DEPARTMENT OF LABOR

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It is perfectly clear, even allowing liberally for errors in statistics and other measurements, that millions of families throughout the country are literally unable to make ends meet with the cost of living what it is. This is demonstrated by chart 13, which indicates (although the statistics are imperfect) that about 56 percent of the families with incomes below $1,000 and 41 percent of the families with incomes between $1,000 and $2,000 either spent more than they earned or barely broke even. And by early 1948, as chart 14 shows, about 27 percent of all spending units had no liquid assets, while another 15 percent had liquid assets of less than $200 and still another 13 percent had liquid assets between $200 and $500. Cumulatively about 55 percent of all spending units had liquid assets of less than $500.

Saving and dissaving in 1947

1947 annual money income before taxes	Percentage distribution of spending units within income groups [1]			
	All spending units	Spent more than earned	Broke even	Saved
Under $1,000	100	26	30	44
$1,000 to $1,999	100	31	10	59
$2,000 to $2,999	100	30	4	66
$3,000 to $3,999	100	30	1	69
$4,000 to $4,999	100	30	2	68
$5,000 to $7,499	100	21	(2)	79
$7,500 and over	100	16	1	83
All spending units	100	64	8	28

[1] A spending unit consists of related persons living in 1 dwelling who pool their income for major items of expense.
[2] Less than one-half of 1 percent.

Source: Board of Governors of the Federal Reserve System (1948 Survey of Consumer Finances).

Liquid asset holdings, 1948

[Distribution of spending units by size of liquid asset holdings]

Amount of liquid assets held	Percentage of spending units [1]
None	27
$1 to $199	15
$200 to $499	13
$500 to $999	12
$1,000 to $1,999	12
$2,000 to $2,999	6
$3,000 to $4,999	6
$5,000 to $9,999	5
$10,000 and over	4
All spending units	100
Median holdings of all units	$350
Median holdings of those with assets	$820

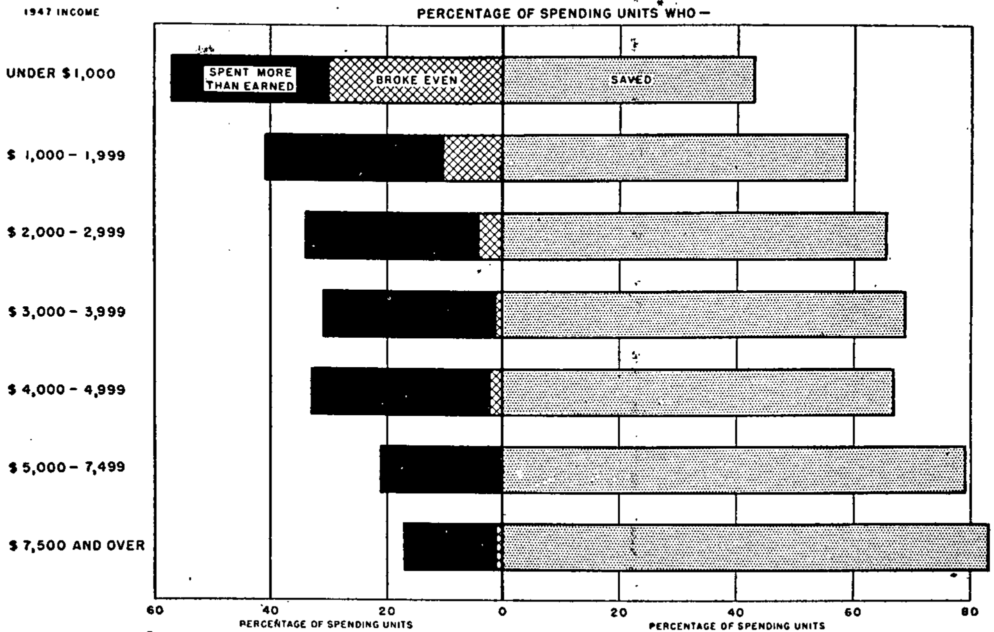
[1] A spending unit consists of related persons living in 1 dwelling who pool their income for major items of expense.

Source: Board of Governors of the Federal Reserve System (1948 Survey of Consumer Finances).

It is true that rather tentative and incomplete figures for 1948 show an increase in the rate of saving by consumers as a whole, compared with 1947. But when an analysis is made of the nature of these

CHART 13

SAVING AND DISSAVING IN 1947



*A SPENDING UNIT CONSISTS OF RELATED PERSONS LIVING IN ONE DWELLING WHO POOL THEIR INCOME FOR MAJOR ITEMS OF EXPENSE.

SOURCE: BOARD OF GOVERNORS OF THE FEDERAL RESERVE SYSTEM

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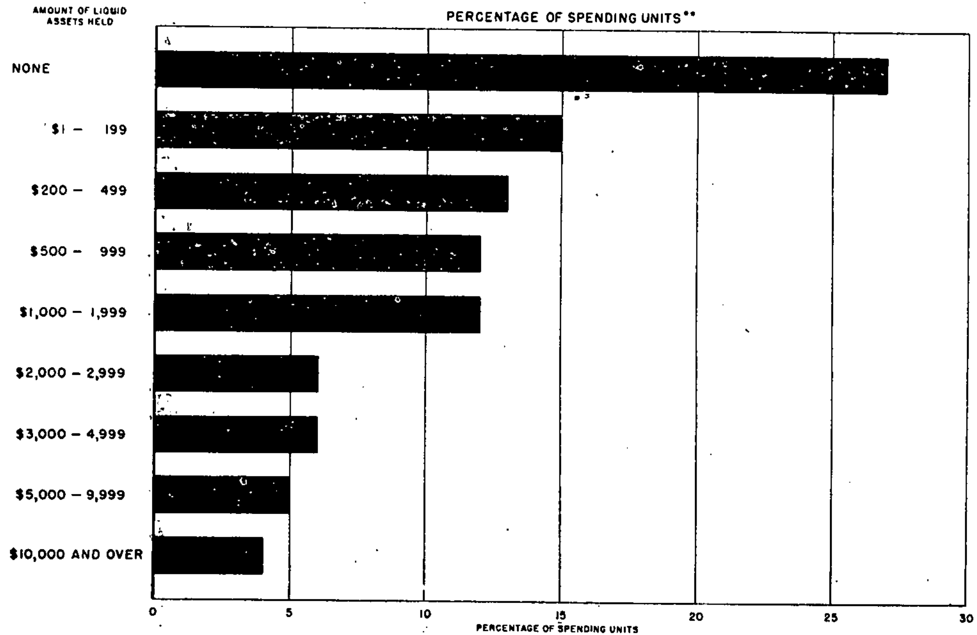
CHART 14

LIQUID ASSET HOLDINGS,* 1948



* CHECKING ACCOUNTS, SAVINGS ACCOUNTS IN BANKS AND SAVINGS AND LOAN ASSOCIATIONS, POSTAL SAVINGS, SHARES IN CREDIT UNIONS, AND HOLDINGS OF U.S. GOVERNMENT BONDS

** A SPENDING UNIT CONSISTS OF RELATED PERSONS LIVING IN ONE DWELLING WHO POOL THEIR INCOME FOR MAJOR ITEMS OF EXPENSE.

SOURCE: BOARD OF GOVERNORS OF THE FEDERAL RESERVE SYSTEM

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savings, it seems that they are converging more largely in upper-income and middle-income groups while the loss of ground by lower-income groups is continuing.

These relationships between family incomes and the cost of living may be called by some a social rather than an economic problem. But even as a social problem, they demand the attention of those concerned with national economic policies. Further, I am convinced that these conditions portend also serious economic maladjustment because they may contribute ultimately to an inadequacy of consumer demand which might throw our whole economic machinery out of gear. The full implications of this will be treated more fully when I come to discuss more general problems raised by the composition of national income and expenditures.

Senator FLANDERS. Mr. Chairman, might I ask just one general question in connection with these charts.

Where you have price indexes on food, apparel, all commodities, and so on, when you get to the "all commodities" figure, is that a weighted index, and if so, is it based on the cost of living, or what is the arbitrary method by which the "all commodities" figure is reached?

Mr. KEYSERLING. For cost of living?

Senator FLANDERS. For cost of living or for wholesale prices or retail prices. Not on the cost of living, but on the wholesale prices and retail prices.

Mr. KEYSERLING. I will read you the exact figure.

Senator FLANDERS. Is the weighting the same as the cost-of-living figure?

Mr. KEYSERLING. I am sorry; it is dfficult to carry in one's head all the exact figures, but I think we have them right here.

On the cost of living, it is a weighted index, and there is a table here showing the weighting given to the different items which I would be glad to show you or have inserted in the record.

Mr. HERTER. Well, food is still roughly 40 percent of the total?

Mr. KEYSERLING. Yes, sir. Food, according to this, is 42.78.

Mr. HERTER. What is rent in there, about 20 or 25?

Mr. KEYSERLING. No; rent is weighted at 12.7 at the present time.

Mr. HERTER. And what is apparel?

Mr. KEYSERLING. Apparel is weighted at 12.2

Mr. HERTER. Then later on in these charts, when you come to the place where you use wholesale prices, you use food prices, farm products, and so on; then you have "all other commodities." How do you weight those?

Mr. KEYSERLING. I cannot keep all these detailed indexes in my head. Let's see, food is weighted 22.09 in the wholesale weighted index.

Mr. HERTER. How is that figure arrived at? Why do you have such a sharp variation in your weighted figure between your cost-of-living index and your general figure?

Mr. KEYSERLING. Well, I would have to ask the technical people in the agencies who provide those basic statistics to give me the rationale of that, which I would be glad to discuss with you and would be glad to put in the record.

Mr. HERTER. Thank you very much.

Mr. KEYSERLING. I shall be very glad to do that.

(The following statement was later submitted for the record:)

The drop in consumers prices has been due to a drop in retail food prices. The drop in the general average of wholesale prices has been due to a drop in wholesale farm and food prices, which have dropped much more (percentagewise) than retail food prices. The basic factor explaining the difference in the movements between retail food prices and wholesale farm and food prices is the greater sensitivity of the wholesale markets to changes in demand and supply which normally cause greater fluctuations in wholesale prices than retail prices.

It is this difference in market structure rather than differences in the relative importance of these items in the two indexes which accounts for the difference in behavior.

Actually food has about the same relative importance in the consumers' price index that farm and food have in the wholesale price index. The relative importance of the major items in each index is given below.

The relative importance of the major groups in the monthly wholesale price index during 1947 was as follows:

	Percent
Farm products	21. 37
Foods	22. 09
Hides and leather products	3. 36
Textile products	8. 39
Fuel and lighting	12. 56
Metals and metal products	13. 31
Building materials	6. 49
Chemicals and allied products	1. 68
Housefurnishings	2. 24
Miscellaneous	8. 51
All commodities	100. 00

The relative importance of the major groups in the consumers' price index in December 1947 was:

	Percent
Food	42. 0
Apparel	12. 0
Rent	12. 5
Fuel, etc	4. 9
Housefurnishings	4. 8
Miscellaneous	23. 8
All items	100. 0

The CHAIRMAN. Mr. Keyserling, isn't it a fact that there is a basic difference between wholesale and retail prices in this: That the indexes for wholesale are based upon marketings by the wholesalers, whereas, the indexes for consumers' living costs are based upon the retail prices which the consumers have to pay and that it must necessarily take in the difference between the variation of consumer prices in the general market, and the relative stability of retail prices in the local markets?

Mr. KEYSERLING. I am sure that is entirely correct, and I shall supply for the record a complete reconciliation of those two methods.

The CHAIRMAN. Please do so.

(The following statement was later submitted for the record:)

The weights used in computing the wholesale price index are based upon quantities of the commodities moving through primary markets during 1929–31. The weights used in computing the consumers' price index are based upon the average amounts of commodities and services bought by families of wage earners and moderate-income workers in large cities during 1934–36.

The Monthly Labor Review of August 1948 contains an article Consumers' Price Index: Relative Importance of Components." This article explains in some detail the basis for determining the weights.

Senator FLANDERS. Mr. Chairman, before we close I find in my hands here a document with regard to statistical gaps. That was prepared, I judge, by the conference between the Bureau of the Budget and the Joint Committee on the Economic Report and the Council of Economic Advisers. Is there any intention of introducing this into the testimony at any time? I find much in it of interest.

Mr. KEYSERLING. I am very happy, Senator Flanders, that you are so interested in that. We have been working for some time with the other agencies, and particularly with the unit that you refer to, in trying to identify some of the important statistical gaps within the Government services. I certainly hope that before these hearings are over we shall have had an opportunity to clear that through the Council itself, which we have not yet had a chance to do, and to put it in the record. I certainly hope we shall be able to do that.

Senator FLANDERS. Thank you.

The CHAIRMAN. If I understand it, you are talking about the publication of this committee, which was prepared by the staff of the committee in conjunction with the various agencies, and which has already been made available as a committee print to members of this committee.

Senator FLANDERS. We have this original document. Now this is the administrative reaction to this document.

The CHAIRMAN. Oh, I had not seen that.

Mr. KEYSERLING. It is just building on your good works here. It shows how useful they are.

The CHAIRMAN. I did want to call attention to the good work which was initiated in the Eightieth Congress.

Well, I think we have come to the hour of 12:30, Mr. Keyserling. The committee will stand in recess until 10 o'clock tomorrow morning in this room.

(Whereupon, at 12:30 p. m., the hearing adjourned until 10 a. m. of the following day, Wednesday, February 9, 1949.)

(The matter referred to above is as follows:)

PROGRESS REPORT ON STATISTICAL GAPS

PREFACE

At the initiative of the members of the staff of the Joint Committee on the Economic Report, staff of the Division of Statistical Standards of the Budget Bureau and staff of the Council of Economic Advisers prepared the following statement as a supplement to the statistical programs outlined in the joint committee's report on current gaps. This statement shows rather concisely the present work being done and the plans for the immediate future.

* * * * * * *

Few of the major statistical projects listed last year in Statistical Gaps as needed for the determination of economic policy have been undertaken, but some work has been done to improve the information in these fields. The need for most of these data as prompt indicators of changes in our economic position is even greater today, when economic trends are not as clearly apparent.

There is one additional area, not included in Statistical Gaps, in which the lack of adequate data is serious. There is increasing need for the development of current monthly or quarterly statistics on personal incomes received in each State, supplementing the present annual estimates in this area. Such data would be of major value for several purposes. They would help indicate immediately and precisely where soft spots in the economy are developing. They are needed also for the efficient allocation of Federal grants and matching funds, for use by State agencies in evaluating tax potentials, and for the determination of business-market areas and selling quotas. Collection of the data needed for these current estimates would be related to, and coordinated with, other data collections described in Statistical Gaps; for instance, Nos. 2, 3, and 4.

The present status of information in each of the fields included in Statistical Gaps is summarized briefly below.

(1) INDIVIDUAL CONSUMER INCOME, EXPENDITURES, AND SAVINGS PATTERNS

One of the most serious gaps in our present statistical knowledge is in the field of consumer-purchasing power and demand. Prior to the war, the Government's work in this field was limited to occasional and unrelated studies, made to meet special needs and usually very restricted in scope. In the fall of 1944 a systematic and coordinated statistical program was developed, providing for a continuing series of studies in which several Federal agencies participate. During the past 4 years, work has gone forward on some phases of this program, but in general the progress made has been far from commensurate with the need for information on this area of the economy.

Three lines of work are required in this field:

(1) The collection of data through annual field surveys of representative samples of urban and rural families, to show the incomes received during the preceding year and the expenditures and savings made from these incomes;

(2) The integration of these survey data with data from income-tax returns, the Commerce national-income series, and other sources, to provide reliable annual statistical series on the distribution of income and of consumer spending and saving among the Nation's families by income level and other relevant characteristics; and

(3) The analysis of available data to determine current trends, to reveal the effect of changes in prices, taxes, and other factors on the real income of various groups of the population and on the way they spend their incomes, and to throw light on the stability and adequacy of current national levels of purchasing power and consumer demand.

Field surveys of consumer income

Considerable progress has been made since 1944 in the collection of data on consumer income from representative national samples of households. The Census Bureau has completed four such surveys, covering incomes received during 1944, 1945, 1946, and 1947, and in April of this year will obtain similar data for 1948. The Federal Reserve Board has also collected income data for several successive years as part of its surveys of consumer finances; results for 1945, 1946, and 1947 have already been published; and field work for 1948 data is now under way. In addition, information on the income of farm operators' families was obtained by the Bureau of Agricultural Economics for 2 years, 1945 and 1946; and data on urban-family incomes were collected by the Bureau of Labor Statistics for 1944.

The samples of households covered in all of these surveys were scientifically determined and served admirably to show the statistical picture for the Nation as a whole. In none of these studies, however, was the sample of sufficient size to permit adequate subclassification by size and type of family, number of family earners, occupation and industry, geographic area, and other significant factors. The Census Bureau surveys ranged in size from 7,000 to 25,000 households, and those conducted by other agencies were even more limited in scope. Requests for funds for a large-scale income survey were submitted on three occasions, but the appropriations were not approved.

Present plans for the 1950 census of population and agriculture, however, do provide for the collection of income data from an adequate sample of the Nation's households. The population schedule of the census will include several simple questions on individual and family income received during 1949, to be asked on a 20-percent sample basis; the agriculture schedule will cover questions on gross farm income for all farm operators and on selected types of farm expenses for a 20-percent sample.

These census data are essential for providing bench-mark statistics for small geographic areas and for detailed economic and demographic classifications of the population. They need to be supplemented, however, by more detailed income data collected by experienced enumerators in a follow-up survey. For this purpose, the proposal in Statistical Gaps suggested a sample of 100,000 households. It now seems, however, that a supplementary sample of 50,000 households, or even less, would probably be adequate, since it is expected that the income data from the population census as now planned will prove more satisfactory than was earlier anticipated. The costs of such a survey—roughly estimated at $10 per schedule—are not included in the 1950 budget.

Field surveys of consumer spending and saving

Progress in the collection of data on consumer expenditures and savings has unfortunately lagged far behind recent developments in the income field. The Federal Reserve Board surveys of consumer finances, mentioned above, provide the only information covering national samples of both urban and rural households since the small study of family spending and saving in wartime made in 1942. While the Federal Reserve Board surveys supply exceedingly valuable data on consumer savings and on the demand for certain types of durable goods, they do not cover the full array of consumer expenditures and they are limited in sample size to some 3,000 to 3,500 households. A number of small detailed surveys of family expenditures and savings (with data also on incomes) have recently been made by the Bureau of Labor Statistics and the Bureau of Human Nutrition and Home Economics; but, with the exception of the 1944 BLS survey already mentioned, these have been restricted to families living in selected cities or rural areas.

Requests for funds for large-scale surveys of consumer spending and saving, covering national samples of families, were submitted in November 1944 and January 1945, but not approved. No such request is included in the 1950 budget. The proposals for bench-mark surveys in this field included in Statistical Gaps still appear essential for adequate information.

Annual series on distribution of income, spending, and saving

While data collected in house-to-house surveys are an indispensable part of an adequate program of consumer statistics, they are known to reflect certain biases and deficiencies which cannot be fully avoided, even with the most careful planning and skillful administration of the field enumeration. To provide reliable estimates of the distribution of income, spending, and saving among the Nation's consumers, the results of such field surveys must be combined and reconciled with statistical data from other sources.

Work is now actively under way on the preparation of such an adjusted statistical series on the distribution of family and individual income by income level. This project was recently initiated as a joint undertaking by the Office of Business Economics, the Bureau of Agricultural Economics, and the Bureau of Labor Statistics, under the guidance of an interdepartmental technical committee. Distribution estimates for family incomes are nearly completed for 1944, the first year of the new series, and are in process for 1945, 1946, and 1947. The rate of progress on this project however, has been disappointingly slow because of limitations in staff within the cooperating agencies. The cost estimates included in the Statistical Gaps report called for a total staff of 30 persons for fiscal 1950, with additional funds for special tabulations and a total budget of $240,000. Actual expenditures as now contemplated will amount to about one-tenth of this figure.

A parallel statistical series is also urgently needed on the distribution of consumer expenditures and savings by income level, reconciling the data from field surveys, the Commerce national-expenditure series, the Securities and Exchange Commission series on individual savings, and other sources. The cost of such a project for fiscal 1950 was estimated at $90,000 in the report on Statistical Gaps. Work in this field, however, has not yet been initiated.

Analytical work on current estimates and trends

For purposes of economic analysis and determination of economic policy, perhaps the most urgent need in the consumer-statistics field is for a systematic program of analytical work on current estimates and trends, throwing light on the current situation and on prospective changes in consumer purchasing power and demand. A program of this kind would utilize, in addition to current statistics, the data from field surveys and from the adjusted distribution series for preceding years.

Such a program has not yet been undertaken by any Government agency. Its costs were estimated in the Statistical Gaps report at $50,000 for staff salaries and $20,000 for special tabulations for the first year, with smaller amounts thereafter. These relatively small outlays would make it possible to place the estimates of income distribution and of spending and saving patterns on a fully current basis, to study the weak spots in the current consumer picture and the crucial factors influencing consumer demand and savings, and to aid in stabilizing and expanding the domestic consumer market.

(2) EMPLOYMENT AND EARNINGS OF EMPLOYEES NOT COVERED BY SOCIAL SECURITY

Our estimates of national income still need more satisfactory current information on agricultural workers, domestic servants, and employees of nonprofit institutions, and no programs to obtain these data are included in the 1950 budget. For agricultural workers the need is for quarterly data in place of the present annual data. For domestic servants and employees of nonprofit institutions we still need to develop procedures for obtaining the data, either in connection with existing programs or as new surveys. It is now apparent that data on domestic service could not be obtained through the current population survey unless that survey were very greatly expanded. For employees of nonprofit institutions it is possible that the data needed for national-income estimates might be obtained through revision of existing programs, especially in view of the interests of other groups (such as the Joint Committee on Internal Revenue Taxation) in this area.

(3) RETURNS TO CAPITAL AND MANAGEMENT OF UNINCORPORATED BUSINESSES

No further exploratory work has been undertaken on means of obtaining this information, and no funds for this purpose are provided either in the current year or in the 1950 budget. This project is closely related to the program of business financial reports described below (No. 5).

(4) EXTENSION OF EMPLOYMENT AND UNEMPLOYMENT STATISTICS

The 1950 decennial census, as planned, will collect detailed data on labor-force participation, including occupations and characteristics of the unemployed, for all areas. It is not expected, however, that these data will be kept up to date except through the national totals derived from the current population surveys. This may not be too serious until the unemployment totals are substantially above current levels. No plans are now under consideration for expansion of the national sample of the current population survey to provide employment and unemployment totals for major regions and greater detail on the characteristics of the unemployed, and no annual surveys presenting geographic detail for metropolitan areas have been made since fiscal year 1947.

The third item proposed in this section, however, is in the 1950 budget. The funds for the Bureau of Labor Statistics contain an increase of a little over $500,000 to cover (1) extension and improvement of cooperative arrangements with State agencies to provide data on employment, hours, and earnings by major industry divisions and by important manufacturing industries in each of the States (also representing assumption by BLS of a greater share of the cost of the State employment-statistics program which has been financed jointly by the Bureau of Employment Security in Social Security and the BLS); and (2) obtaining data on employment, hours, and earnings for approximately 100 industrial areas, also in cooperation with the State agencies and the Bureau of Employment Security. About $350,000 for this integrated program to supply current employment statistics for each State and important metropolitan area is also contained in the item for the Bureau of Employment Security. In this case, however, the funds do not represent an increase but are roughly equivalent to funds now being expended for labor-market reporting, which will no longer be required with the establishment of the joint program.

(5) FINANCIAL TRENDS OF BUSINESS

We have in this area a number of independent series which supplement each other but which do not, taken all together, completely cover the field. The biggest total gap is in the area of unincorporated businesses. Study is going ahead on better integration of the various series, but there is considerable work yet to be done, and development to a satisfactory degree of completeness and accuracy will involve some expensive additional collections.

The most highly developed segment in this area is the FTC–SEC industrial financial report, which is now limited to brief quarterly reports from manufacturing corporations. No funds are contained in the 1950 budget either for the more detailed annual reports or for extension of the program to cover a sample of retail, wholesale, and mining corporations or unincorporated manufacturing companies.

It should be mentioned that completion of this coordinated program as planned might serve as the basin for obtaining some of the data needed on returns to capital and management of unincorporated businesses (No. 3), improved inventory statistics (No. 9), and fuller information on anticipated capital expenditures (No. 11).

(6) PERIODIC CENSUSES OF WHOLESALE AND RETAIL TRADE AND SERVICES

Plans for the first business census of wholesale, retail, and service trades since 1939 are now under way. As reported in Statistical Gaps, 1.8 million dollars was appropriated last year for preparatory work for the census of business. A request for $11,950,000 to complete the census is now pending before the Congress. It is expected that this census will be taken this spring, covering calendar year 1948.

(7) DEVELOPMENT OF MORE SATISFACTORY MEASURES OF PRODUCTIVITY

It should be possible to restore productivity indexes based upon secondary sources to the approximate prewar coverage of 60 industries by using 1947 census of manufactures data now becoming available.

The 1950 budget contains an increase of about $100,000 for BLS for work on productivity, mainly for measures of current productivity changes. This increase is designed to extend indexes derived from the direct-reports program to another 10 to 12 industries.

While the Conference on Productivity is continuing work on the conceptual problems of measuring productivity, many of the problems cannot be solved until solutions are found to such matters as production measures, man-hour data, and price deflators, as pointed out in the committee report.

(8) DEVELOPMENT OF DATA ON CONSTRUCTION

(*a*) *Construction costs.*—The 1950 budget contains an increase of about $128,000 for the BLS to conduct studies of the elements of cost (labor, materials, overhead, and profit) in constructing single-family dwellings and to obtain data on selling prices or rentals of newly completed homes in 20 areas. No funds are included for the preparation of construction cost indexes, but the studies proposed for 1950 are considered a necessary preliminary step to the construction of adequate indexes.

(*b*) *Construction volume.*—The 1950 budget requests an increase of about $115,000 for the BLS to survey new residential construction in approximately 20 industrial areas. This work will also improve the total estimates. As compared with the program outlined in Statistical Gaps, this will make possible separate figures for 20 instead of 180 metropolitan areas and will be limited to residential construction. It will provide some information on the physical and dollar volume of new work started and the value of work put in place and on characteristics of new residential units, but it will provide no information on the cost of maintenance and repair work put in place, the number and cost of residential units added by conversion, or the number of units demolished.

The special committee studying the data on volume of construction has completed its formulation of the type of program needed and is now attempting to find the least costly means of obtaining the data. Recommendations of major changes in this area will not be made until the committee has completed its inquiry in the fall of 1949.

(9) IMPROVEMENT OF INVENTORY STATISTICS

Considerable work has been done in improving the accuracy of existing series, but new funds would be required for exploratory work to develop the type of program described in Statistical Gaps. No new funds are available for this purpose in the current year or contained in the 1950 budget. This project is related to the program of business financial reports (No. 5).

(10) DATA ON MATERIALS REQUIREMENTS IN RELATION TO PRODUCTION

The National Security Resources Board is currently developing procedures whereby product and materials requirements data will be compiled, utilizing existing information and facilities of other Federal agencies. In addition, special studies are being undertaken to provide information on availability of supply facilities in selected areas. The 1950 budget request of the Board contains an amount of $750,000 for contract studies by the Board.

An Executive Office committee, composed of representatives of the National Security Resources Board, Council of Economic Advisers, and Budget Bureau, has been examining the project developed by the BLS for study of interindustry relations. The committee is recommending that funds be made available to BLS (1) for organizing more current data into the consistent framework required for this project; and (2) under the direction of the committee, for exploratory studies of concepts and procedures and for study of the problems involved in the collection of the additional data needed for substantial expansion of this approach.

(11) BUSINESS INTENTIONS WITH REGARD TO CAPITAL EXPENDITURES

Efforts are being made to expand the present data-collection program relating to business intentions with regard to capital expenditures in terms of items covered (e. g., obtaining anticipated sales) within the limitations of current budgetary provisions. However, development of the type of program on anticipated capital expenditures described in Statistical Gaps would require new funds. No such funds are available in the current year or contained in the 1950 budget.

(12) STATE AND LOCAL GOVERNMENT EXPENDITURES

A reduction in appropriations for the current fiscal year has interrupted the plans which the Government Division of the Bureau of the Census was developing for annual reporting on aggregate government expenditures. This reduction has also necessitated the elimination of reports on county finances. While some progress has been made in reducing the lag in annual reports on State and city finances for the last completed fiscal year, no effort is being made to protect government revenues and expenditures for the current or future years.

ADDENDUM: BUSINESS STRUCTURE AND BEHAVIOR

Among the most important fields for which present statistical information is gravely inadequate is in the general area of business structure and behavior. Of the numerous types of statistical data which should be secured in this field, two are of prime importance. These are: First, data on the general level and trend of economic concentration; and, second, data on unit costs.

In regard to the first, Congress, the administrative agencies, and the general public should be supplied with a continuing body of information which would show the level or extent of economic concentration in the various industries, as well as the changes which have occurred and are constantly taking place. Data of this type are essential to formulate and implement policies and programs in this area. For this item additional study of the possibility of securing measures from available statistics is necessary, but undoubtedly more information on developments in the structure of business organization will be needed.

In regard to the second, there has been a long-standing need in both Government and private industry for objective data on unit costs. The projects thus far undertaken have almost invariably suffered from two serious limitations: First, they have generally related only to one specific industry or another which at the time has presented some important economic problem; and, second, the data have generally been obtained for a particular period of time and have not been maintained on a continuing basis. Better information would be of value to the Government in the appraisal of economic conditions. It would provide individual firms with a yardstick with which to compare their own costs and operations with those of the industry as a whole. It would aid both industry and labor in the settling of labor disputes. It would provide background data, as in the analysis of the relationship between size and efficiency, which would be of great value to the development of sound and consistent programs relating to procurement, location, and size of plants essential for military production, antitrust activity, promotion of small business, regional development, and so forth. As with item 7 (better measures of productivity), it will be necessary for a great deal of study and research to be done before satisfactory measures can be secured on a recurrent statistical basis. However, the need for these data makes it desirable for intensive work in this area to be started.

JANUARY 1949 ECONOMIC REPORT OF THE PRESIDENT

WEDNESDAY, FEBRUARY 9, 1949

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

The committee met, pursuant to adjournment, at 10:15 a. m., in the caucus room, Old House Office Building, Senator Joseph C. O'Mahoney (chairman) presiding.

Present: Senators O'Mahoney (chairman) and Watkins; Representatives Hart, Huber, Rich, Herter, and Buchanan.

The CHAIRMAN. The committee will come to order.

These hearings, of course, are operating against a deadline. The committee, by direction of the law, must file its report with the Congress on or before the 1st of March. That makes it a bit difficult for us to get all of the testimony that we would like to have presented and it compels the chairman to request of all witnesses the expeditious presentation of their cases.

Following Mr. Keyserling and Mr. Clark, Secretary Snyder will appear before the committee. He will be followed by Secretary Sawyer, Secretary Brannan, Secretary Krug, and then by Secretary Tobin, who will be the last member of the Cabinet to appear. So I am wondering, Mr. Keyserling, if you and Dr. Clark could conclude your presentation this morning.

Mr. KEYSERLING. We certainly shall do our very best, and I think that will meet your requirements.

Mr. RICH. Mr. Chairman, I see you have a list here of the Secretaries who are to appear later. As I understand it, the object of this hearing is to get information in reference to the economic conditions. Are we going to get it all from the Secretaries—that is, the information we are going to file on the 1st of March—or are we going to try to get the conditions in the country from people who are out doing the work across the country and who know conditions out there?

The CHAIRMAN. It is the plan of the committee to have spokesmen from all sides.

Mr. RICH. That is what I understood, but now I see we are having the Secretaries here.

The CHAIRMAN. Well, they will begin it.

Mr. RICH. Oh; very well.

The CHAIRMAN. The committee will now resume the testimony of Mr. Keyserling.

STATEMENT OF LEON H. KEYSERLING—Resumed

Mr. KEYSERLING. Mr. Chairman and members of the committee, I shall try to proceed as fast as I possibly can with a rather complicated and extended subject, and if I don't go fast enough you make me go faster.

I ended yesterday by talking about the fact that the cost of living is still very high. I ended with some charts showing the effect of that high cost of living upon the people of this country and, through them, upon our economy generally.

The CHAIRMAN. I think you pointed out yesterday, Mr. Keyserling, that while agricultural prices have fallen you have some evidence of the stabilization, if not continued rise, of industrial prices. In view of reports which are coming from the commodity markets, I think it might be of interest to the committee if you would deal with that subject.

Mr. KEYSERLING. I am going to address myself to that subject right now, Mr. Chairman.

In addition to the cost-of-living problem, a second area where serious maladjustments are present or brewing is in the field of wholesale prices.

The first general point I want to make is that there is nothing new, nothing surprising, although much that is disturbing, in the sharp fall of farm and food products commodity prices during a period when industrial prices in the main have actually been rising.

Simply to indicate that this development is not surprising, although it lays bare fundamental problems of our economy, I should like to read to you a statement I made before the Senate Banking and Currency Committee on August 4, 1948, when I was testifying upon a similar program at that time.

This statement appears on page 323 of the hearings on the control of inflation, after the President's program was presented in the middle of last year. I there say:

> I venture the prediction, and it is one of the very few that I shall make, that in the ensuing months and years—

and here I emphasize "ensuing months"—

> the problem of preventing agricultural prices and incomes from getting too high will be less pertinent and less difficult than the problem of preventing agricultural prices and incomes from falling so low in relation to other prices and incomes as to jeopardize balanced national growth.

The events which have taken place since August of last year seem to me to correlate exactly with the burden of the analysis that I started yesterday and the analysis that I shall complete today. That analysis, in summary, as it applies to industrial and agricultural prices is this:

In some sectors of the economy we have prices which are relatively rigid, because they are in part administered prices, because they are in part monopoly prices, if you want to use that word. This is true of important segments of the industrial area. In the agricultural area, on the other hand, there is a much more rapid adjustment of prices to what is called the supply-and-demand situation.

Mr. RICH. May I ask a question right there, Mr. Keyserling?

Isn't it a fact that when you speak of industrial prices you mean anything manufactured by an industry? Prices there, you say, have been maintained and are not as high as the prices on farm commodities. Is that the statement you just made?

Mr. KEYSERLING. I have attempted in the aid of expedition to summarize my argument before I presented the facts. If you will kindly let me move on now to the facts——

Mr. RICH. The only thing about this is that we are not going to get the facts if we just let you tell everything, because it seems to me that there are very pertinent questions here in reference to the problem. I just don't agree with you. I think the only way we are going to bring that out is to ask you questions in reference to the commodity prices, and so on.

Mr. KEYSERLING. Very well. I want immediately to answer your question. It is a very fair question. I am entirely in sympathy with that question. Let me now proceed to answer it by showing you the charts which I have collected on the actual movements of prices, both industrial prices and farm prices. I am glad you asked that question because it helps to expedite the testimony.

The CHAIRMAN. Mr. Keyserling, my attention was diverted for a moment before the Congressman's question was asked. Would you be good enough to repeat the sentence that you used just before that interruption?

Mr. KEYSERLING. I had said that in the interest of expediting the testimony I had summarized my conclusion.

The CHAIRMAN. I want the summary; that is what I want.

Mr. KEYSERLING. My summary was that we have recently been facing a situation of continued price increases and continued higher margins of profits in certain industrial sectors of the economy—in part reflecting an administered price or a partly monopolistic situation. I also said that at the same time—and it is not a new problem—we have confronted what is beginning to be an excessive lowering of the fair take from the economy on the part of the farmer, the basic producer. Thus, the industrial and agricultural fronts are getting out of line. Moreover, there is a problem on the distributive side; namely, the margin between what the farmer gets and what the consumers pay is increasing.

The CHAIRMAN. In other words, as I understand you, you now intend to show by charts that there may be a repetition of the pattern which developed before the depression of 1929. You wish to show that while farm prices dropped, the prices of the things that the farmer was buying remained high and went higher?

Mr. KEYSERLING. I think, Mr. Chairman, while our economy is so complex and so viable that no two patterns repeat themselves exactly, you have hit on a very important truth. The basic economic problems with which we are struggling now in this postwar period are not entirely different in their essence from those we faced before. I certainly hope that we will find better and prompter answers than we did before.

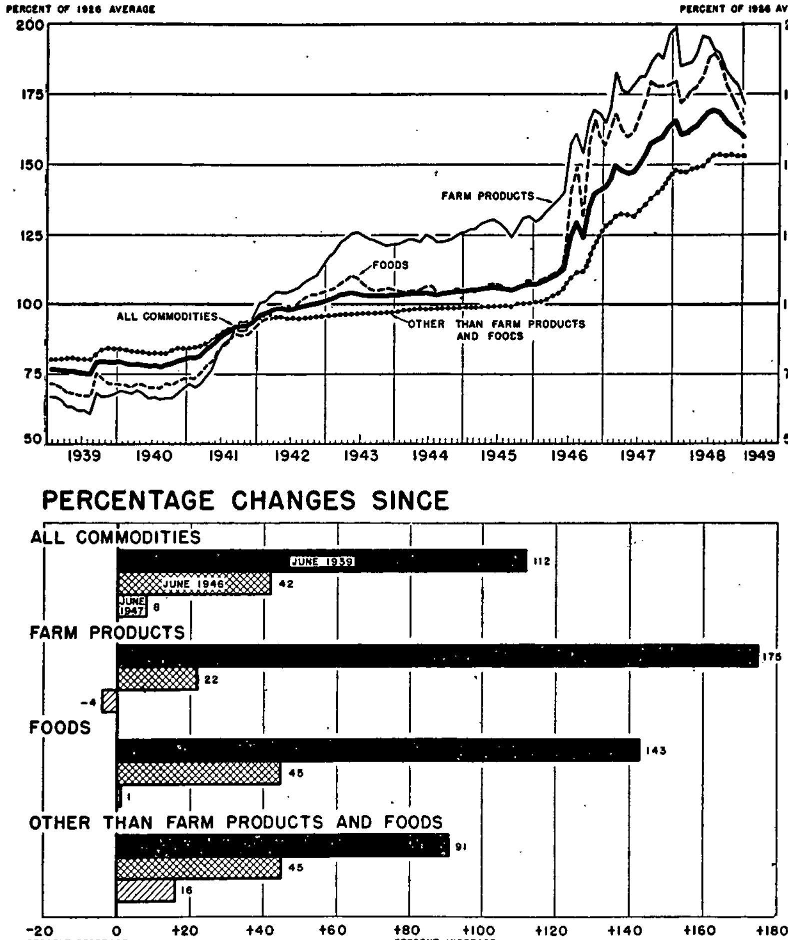
Mr. RICH. I presume you are going to show also that there are changes being made in industrial prices, or monopolistic prices as you call them.

Mr. KEYSERLING. I am very eager immediately to address myself to the very timely question asked by Congressman Rich. I want to get to that right away.

Coming now to chart 15, which deals with wholesale prices between 1939 and 1949.

CHART No. 15

WHOLESALE PRICES



Source: DEPARTMENT OF LABOR

COUNCIL OF ECONOMIC ADVISERS

Wholesale prices, 1939–49

Period	All commodities	Farm products	Foods	Other than farm products and foods
	1926=100			
Monthly average:				
1939	77.1	65.3	70.4	81.3
1940	78.6	67.7	71.3	83.0
1941	87.3	82.4	82.7	89.0
1942	98.8	105.9	99.6	95.5
1943	103.1	122.6	106.6	96.9
1944	104.0	123.3	104.9	98.5
1945	105.8	128.2	106.2	99.7
1946	121.1	148.9	130.7	109.5
1947	152.1	181.2	168.7	135.2
1948	164.9	188.3	179.1	150.6
1939—June	75.6	62.4	67.6	80.2
1946—June	112.9	140.1	112.9	105.6
1947—June	147.7	177.8	161.8	131.6
1948—January	165.7	199.2	179.9	148.3
February	160.9	185.3	172.4	147.6
March	161.4	186.0	173.8	147.7
April	162.8	186.7	176.7	148.7
May	163.9	189.1	177.4	149.1
June	166.2	196.0	181.4	149.5
July	168.7	195.2	188.3	151.1
August	169.5	191.0	189.5	153.1
September	168.7	189.9	186.9	153.3
October	165.2	183.5	178.2	153.1
November	163.9	180.8	174.3	153.3
December	162.2	177.3	170.2	152.8
1949—January [1]	160.0	171.3	164.1	152.8
	Percentage increases			
Since June 1939 [2]	112	175	143	91
Since June 1946 [2]	42	22	45	45
Since June 1947 [2]	8	−4	1	16

[1] Estimates based on incomplete data.
[2] To January 1949.

Source: Department of Labor.

As chart 15 shows, the wholesale price index for all commodities has risen by 112 percent since the middle of 1939, 42 percent since the middle of 1946 when the sharpest rise commenced, and 8 percent since the middle of 1947. From the beginning of 1948 up to the present, as the heavy black line on the chart shows, the index for all commodities rose to an all-time peak in the late summer of 1948, and since then has declined until it is now about 3 percent lower than at the beginning of last year although less than 1 percent lower than the low point for that year reached in February after the break in commodity prices. Viewed in the aggregate, it is clear that wholesale prices are still extremely high, and that the net changes in the general average during 1948 and the first month of 1949 were slight.

As to the outlook for 1949, there are some who think that the over-all average of wholesale prices will remain fairly stable; others who think that it may go down, and still others who think that it may go up. There are strong arguments in support of each of these views; but, for reasons that I have given and for others that I shall now give, I believe that the relationships among various wholesale prices, and the relationship of wholesale prices to the income structure, are vastly more important than the absolute trend of the index reflecting all wholesale prices averaged together.

The most important of these changing relationships has to do with the prices of farm products and foods on the one hand, and the prices of industrial products on the other. As the same chart 15 shows, since the middle of 1939 the price rise has been 175 percent for farm products, 143 percent for foods, and 91 percent for other than farm products and food. So that, if we go all the way back to 1939, we see that the farm and food products have increased more than others. But, as I said yesterday, that has been in response to a sound and desirable policy followed by the Government and by the country to raise the farmer from the disproportionately low level at which he found himself in 1939, as I shall demonstrate with some further facts in a minute.

Mr. RICH. But just one question in reference to that wholesale price. When you take the foods, farm products, and all commodities in 1939, they are around 75; aren't they?

Mr. KEYSERLING. Yes.

Mr. RICH. Your base is around that. When you come to 1949, they are all between 150 and 175?

Mr. KEYSERLING. Yes.

Mr. RICH. So that they have all gone up, in that time, in about the same proportion; have they not?

Mr. KEYSERLING. No; there have been great variations in the rate of advance, and I want to show that in connection with some of the further charts.

Mr. RICH. Well, in 1949—and I suppose that means January—they are practically all on the same level. We will take foods, which have advanced more than all commodities.

Mr. KEYSERLING. Some of my further charts will show, as I endeavored to show yesterday, that one cannot simply use absolute price advances and compare them to see whether the economy is in balance, because some things were relatively much too low in 1939. I have been given a limited time here, and if I could go through some of these charts I think they anticipate most of the questions you are raising. In the next few charts, I analyze the situation more in detail and I think answer all your questions. If I don't, I certainly want to.

Mr. RICH. Go ahead.

Mr. KEYSERLING. Now, if we look at the situation as it has progressed since 1939, we see a constant change. Since June, 1946, for example, all commodities have gone up 42 percent; farm products have gone up only 22 percent; foods, 45 percent; and others—that is, the industrials—42 percent.

If we start from June 1947, all commodities have gone up 8 percent; farm products have actually lost 4 percent; foods have gone up only 1 percent, and industrials have gone up 16 percent.

Now, coming to the next chart which shows the situation, chart 16——

Mr. RICH. Well, let's be fair about this. When you are speaking of commodity prices going up, you are trying to have them seek a level where we can put farm prices, manufactured products, and everything, on a basis that would show a uniform advance; are you not? That would be the thought and idea behind trying to get stabilized commodity prices for everything?

Mr. KEYSERLING. I am not at this stage interpreting. I am simply giving facts. After presenting the facts in the next few charts, I shall tie in the interpretation with the facts.

Mr. RICH. But, when you have a big upward trend and then it drops down—that is the same as the food prices on yesterday's market. I suppose it will show quite a drop on yesterday's Commodity Exchange. So it may not be a normal procedure. I figure that we are going to get an even balance over a period of time.

Mr. KEYSERLING. You and I are striving for exactly the same thing, Congressman Rich. If you will let me go through about five charts, I think I will have covered the range of your concern. But, naturally, I cannot put it all in one chart.

Coming to chart 16 for 1948 and 1949, we see that over that period of time the average for all commodities has fallen 3 percent. But when we look at the composition, here is what we see: Farm products have dropped 14 percent; foods have dropped 9 percent, while others have increased 3 percent.

Wholesale prices, 1948–49

[January 1948=100 [1]]

Month	All commodities	Farm products	Food	Other than farm products and foods
1948—January	100.0	100.0	100.0	100.0
February	97.1	93.0	95.8	99.5
March	97.4	93.4	96.6	99.6
April	98.2	93.7	98.2	100.3
May	98.9	94.9	98.6	100.5
June	100.3	98.4	100.8	100.8
July	101.8	98.0	104.7	101.9
August	102.3	95.9	105.3	103.2
September	101.8	95.3	103.9	103.4
October	99.7	92.1	99.1	103.2
November	98.9	90.8	96.9	103.4
December	97.9	89.0	94.6	103.0
1949—January [2]	96.6	86.0	91.2	103.0

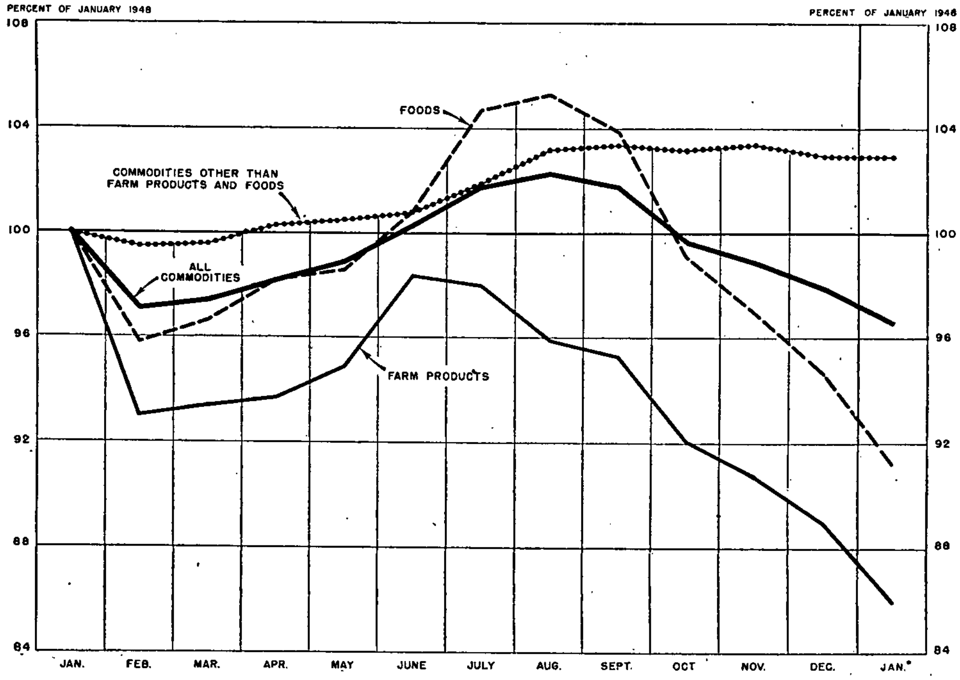
[1] Converted from the reported base, 1926=100.
[2] Estimates based on incomplete data.

Source: Department of Labor.

These sharp and divergent trends of agricultural and industrial prices seem to me to be of high and unfavorable significance. It is no answer to say that the prices of farm products and foods have increased more since the prewar year 1939 then other prices, because we would all admit that the farmer was very disadvantageously positioned in 1939 and that this was not good for the economy as a whole. Even if farm prices were relatively too high in 1947, the trends since then show clearly how quickly agricultural prices respond to changes in conditions of supply or demand. Actually, I believe that recent trends show the

CHART 16

WHOLESALE PRICES, 1948-1949



* PRELIMINARY

SOURCE: DEPARTMENT OF LABOR

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clear emergence of the farm problem in its more traditional aspects. This problem is to maintain farm prices and incomes in a high enough relationship to other prices and incomes to do justice to the farmer, to further the desirable objective of bringing his standards of living into a closer proximity to those of other groups, and thus to maintain his share of demand for the products of industry and contribute to the full prosperity of the country at large.

One would not need to be so particularly concerned about the fact that industrial prices and incomes are continuing to go upward while farm prices and incomes are going downward, if we were now in a period of balance or near-balance between industrial income and agricultural income. Then we would have a relatively simple problem of trying to hold the relationships where they are now. But we are not now in that kind of balance, and we are getting further out of balance.

Agricultural income as percent of national income, 1919–48

Year	Net income from agriculture as percent of national income [1]			Year	Net income from agriculture as percent of national income [1]		
	Total	To persons on farms [2]	To persons not on farms [3]		Total	To persons on farms [2]	To persons not on farms [3]
1919	17.9	14.9	3.0	1934	9.2	7.1	2.1
1920	13.8	11.4	2.4	1935	10.9	9.0	1.9
1921	9.0	6.5	2.5	1936	9.9	8.2	1.7
1922	10.6	8.0	2.6	1937	10.1	8.5	1.6
1923	10.3	7.9	2.4	1938	9.2	7.6	1.6
1924	10.3	7.9	2.4	1939	8.9	7.4	1.5
1925	11.3	9.1	2.2	1940	8.2	6.8	1.4
1926	10.3	8.2	2.1	1941	9.5	8.0	1.5
1927	10.2	8.0	2.2	1942	10.5	9.1	1.4
1928	10.3	8.3	2.0	1943	10.6	9.3	1.3
1929	9.8	7.8	2.0	1944	9.5	8.2	1.3
1930	8.7	6.8	1.9	1945	9.7	8.4	1.3
1931	7.7	5.8	1.9	1946	11.2	9.8	1.4
1932	7.4	5.2	2.2	1947	11.1	9.7	1.4
1933	9.3	7.1	2.2	1948 [4]	10.6	9.3	1.3

[1] Agricultural income includes Government payments.
[2] Includes net income of farm operators and wages to workers on farms.
[3] Includes wages to workers not living on farms, net rents to nonfarm landlords, and net interest payments.
[4] Preliminary estimate.

Sources: Department of Agriculture and Department of Commerce.

As the first indication of this, let us turn to chart 17.

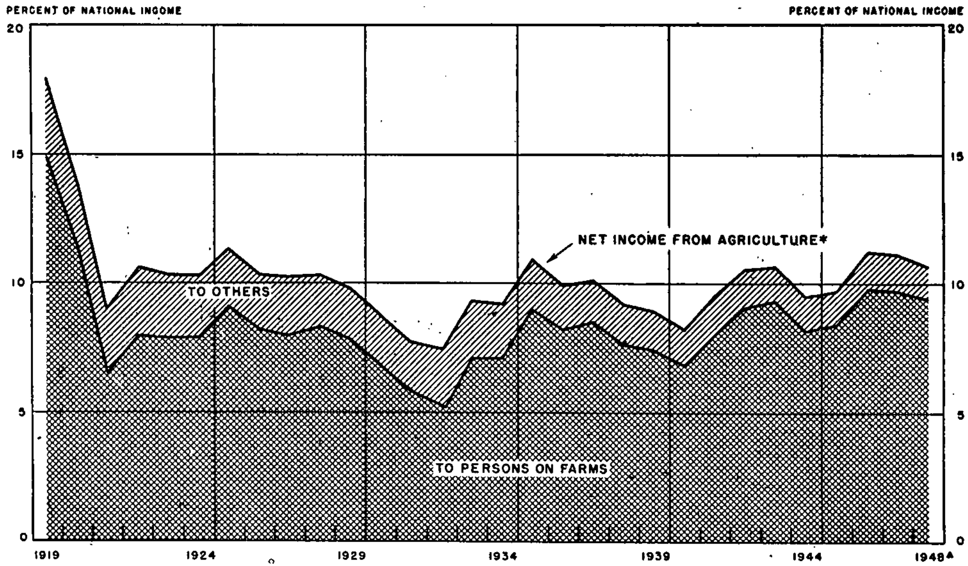
Chart 17 shows agricultural income, as percent of national income. It shows that agricultural income as percent of national income was 17.9 percent in 1919, 9 percent in 1921, 7.4 percent in 1932. Those three figures indicate that when the economy begins to get into difficulty, the farm sector of the economy takes it first and takes it hardest, because it is not an organized sector of the economy. By 1946 we had succeeded in moving the farm sector of the economy back to the position where its share of the national income was 11½ percent.

Mr. Herter. What do you mean by "we had succeeded"?

Mr. Keyserling. There is no significance in the use of the word "we." I said before, my language is rather imperfect. I am trying here to be merely descriptive, Congressman Herter. But after 1946 a decline set in, and, as the line shows, in 1947 the agricultural percent was lower than in 1946, and in 1948 it was lower than in 1947, and now it is still lower than it was at the end of 1948.

CHART 17

AGRICULTURAL INCOME AS PERCENT OF NATIONAL INCOME



* INCLUDES FARM PROPRIETORS' INCOME AND OTHER AGRICULTURAL INCOME
▲ PRELIMINARY ESTIMATE BASED ON 11 MONTHS DATA

SOURCE: BASED ON DATA FROM DEPARTMENT OF AGRICULTURE AND DEPARTMENT OF COMMERCE

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This loss of relative position by the farmer hardly seems desirable when, as chart 18 shows, the per capita net income of persons on farms was estimated at only $909 in 1948, contrasted with $1,569 for persons not on farms. This is far better than the 1935–39 average when the figures were $243 for farm individuals and $603 for nonfarm individuals, but it is by no means good enough. Nor is the loss of ground by the farmer to be justified by use of the mistaken theory that the demand for farm products has been abnormal during the past few years and should decrease in future years. If we maintain maximum employment and production throughout the economy as a whole, we shall need even higher farm output—though with some changes in composition—in the years ahead to keep industry running at full speed and to satisfy the dietary requirements for good standards of nutrition for all American families.

Income per capita of persons on farms and of persons not on farms, 1935–39 average and 1946–48

Period	Per capita income	
	Persons living on farms	Persons not living on farms
1935–39 average	$243	$603
1946	774	1,300
1947	851	1,453
1948 [1]	909	1,569

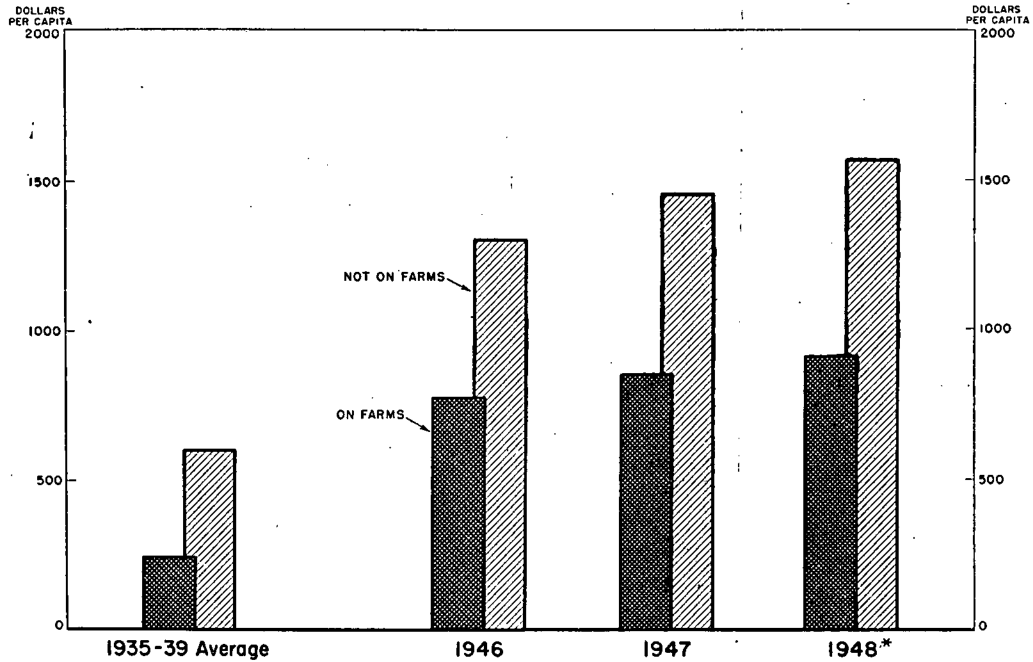
[1] Preliminary estimate based on 11 months' data.

Source: Department of Agriculture.

Our objectives for agriculture should not be to let forces drive farm incomes still lower in relation to other incomes, but rather to bring the two into better balance. This can be achieved consistently with a somewhat lower cost of living, if the farmer is helped to improved efficiency through a variety of agricultural measures, if the prices of durables and the incomes of those producing durables are not allowed to continue their disproportionate increase, and if there is a reduction of the spread between what the consumer pays and what the farmer gets through more attention to distributive costs and distributive profits. As chart 19 shows, the farmers' share of the consumer dollar spent for a typical market basket has declined from 54 percent in 1946 to 53 percent in 1947, to 52 percent in 1948, and the marketing margin has correspondingly risen.

CHART 18

INCOME PER CAPITA OF PERSONS LIVING ON FARMS AND OF PERSONS NOT LIVING ON FARMS



*Preliminary estimate based on eleven months' data

SOURCE: DEPARTMENT OF AGRICULTURE

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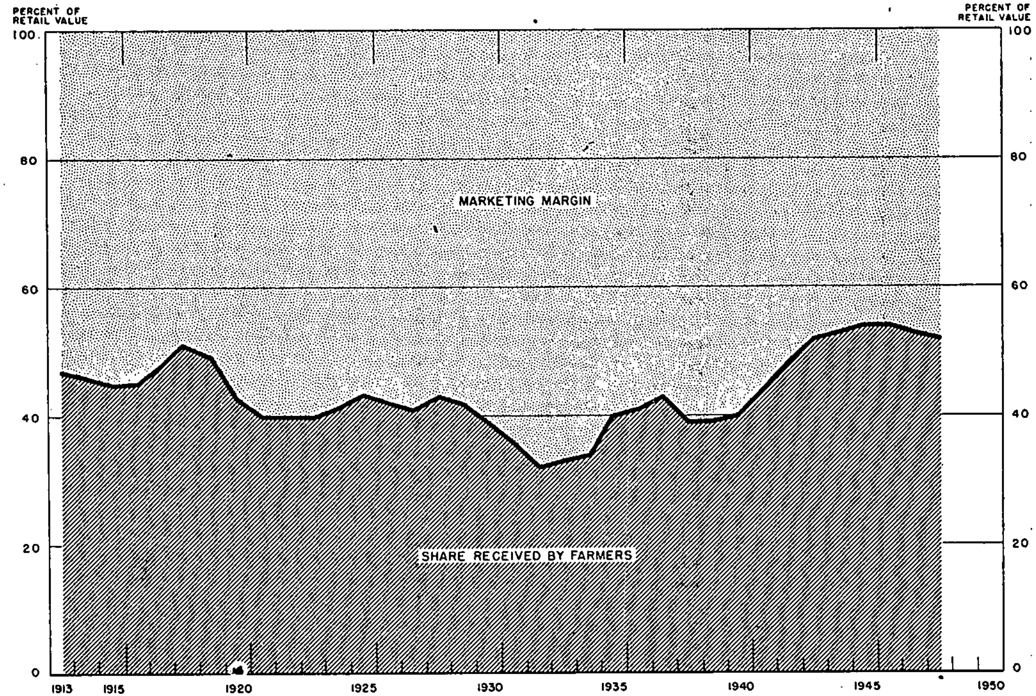
CHART 19

THE FARMER'S SHARE OF THE CONSUMER'S DOLLAR
SPENT FOR A TYPICAL "MARKET BASKET" OF FOOD



*Preliminary

SOURCE: DEPARTMENT OF AGRICULTURE.

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87727—49—6

The farmer's share of the consumer's dollar, 1913–48, spent for a typical "market basket" of food

Year	Percent of retail value of consumer's dollar		Year	Percent of retail value of consumer's dollar	
	Received by farmers	Marketing margin		Received by farmers	Marketing margin
1913	47	53	1931	36	64
1914	46	54	1932	32	68
1915	45	55	1933	33	67
1916	45	55	1934	34	66
1917	48	52	1935	40	60
1918	51	49	1936	41	59
1919	49	51	1937	43	57
1920	43	57	1938	39	61
1921	40	60	1939	39	61
1922	40	60	1940	40	60
1923	40	60	1941	44	56
1924	41	59	1942	48	52
1925	43	57	1943	52	48
1926	42	58	1944	53	47
1927	41	59	1945	54	46
1928	43	57	1946	54	46
1929	42	58	1947	53	47
1930	39	61	1948 [1]	52	48

[1] Preliminary.

Source: Department of Agriculture.

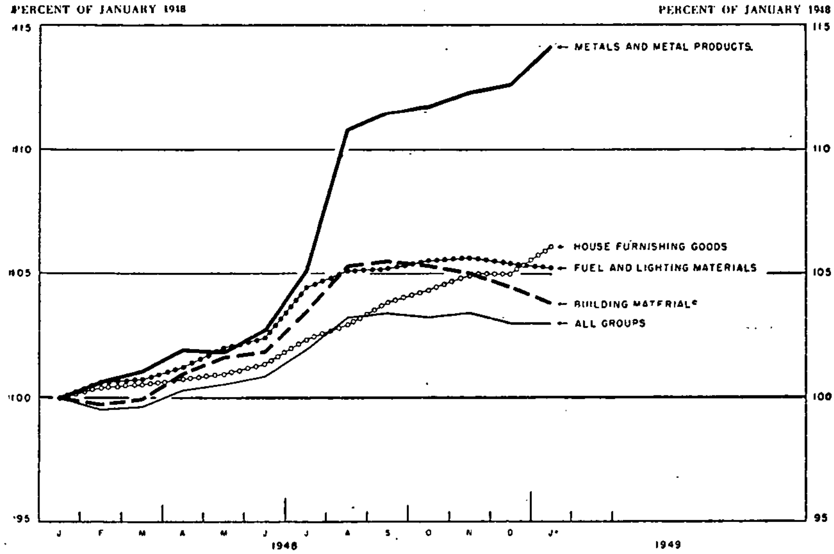
From January through November 1948, the prices received by farmers for farm food products dropped almost 10 percent, while the retail prices of farm food products declined only 3 percent. From January through October 1948, the farm price of wheat dropped about 30 percent; the price of flour at the mill and the miller's margin after allowance for change in value of feed byproducts dropped by about 20 percent; but the price of bread rose slightly and the baker's and retailer's margins increased 15 percent. This is but one example of what I have already called the revival of the farm problem in its more traditional aspects.

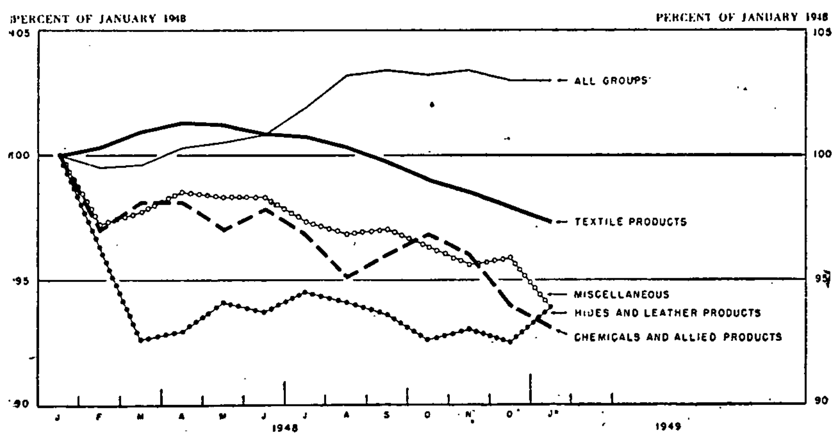
Now, to round out the discussion, let's get into the industrial price area and see what has been happening there, while farm and food prices have continued to drop. Let me emphasize at this point what I said yesterday, that nothing could be more delusory in economic analysis than to make general averages of all kinds of prices. If certain prices are rising at an inflationary rate and draining off an excessive part of the wealth and resources of the economy, that situation becomes even more dangerous when you have softening in other areas, because if you allow that draining off to persist the softening which is specific and limited will become general and all-pervasive. In other words, when we begin to see that inflation is doing damage, that is not the time to stop worrying about it, and we don't want to wait until it does complete damage.

Chart 20 shows the index of wholesale prices in 1948 and 1949. Here you see the situation since the beginning of 1948. You see how mixed the picture has been, and how completely incorrect it is to say broadly that prices have leveled off. The chart is divided into two parts. The bottom half of the chart shows the prices which have fallen below the level of the beginning of 1948. The top half of the chart shows the prices which have risen above the level of the beginning of 1948, and this extends all the way from January 1948, in some cases, into the first month of 1949.

CHART 20

WHOLESALE PRICES OF OTHER THAN FARM PRODUCTS AND FOODS, 1948-1949





Wholesale prices of other than farm products and foods, 1948–49

[January 1948=100[1]]

Period	Total	Metals and metal products	Fuel and lighting materials	House furnishing goods	Building materials	Textile products	Miscellaneous	Chemicals and allied products	Hides and leather products
1948—January	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0
February	99.5	100.6	100.6	100.4	99.7	100.3	97.2	97.0	96.3
March	99.6	101.0	100.7	100.5	99.9	100.9	97.7	98.1	92.6
April	100.3	101.9	101.2	100.7	100.9	101.3	98.5	98.1	92.9
May	100.5	101.8	102.0	100.9	101.6	101.2	98.3	97.0	94.1
June	100.8	102.7	102.4	101.3	101.8	100.8	98.3	97.8	93.7
July	101.9	105.1	104.4	102.3	103.4	100.7	97.3	96.8	94.5
August	103.2	110.8	105.1	102.9	105.3	100.3	96.8	95.1	94.1
September	103.4	111.5	105.2	103.8	105.5	99.7	97.0	96.0	93.6
October	103.2	111.7	105.5	104.3	105.3	99.0	96.3	96.8	92.6
November	103.4	112.3	105.6	104.9	105.0	98.5	96.4	96.0	93.0
December	103.0	112.6	105.4	105.0	104.5	97.9	95.9	94.0	92.5
1949—January [2]	103.0	114.1	105.2	106.1	103.8	97.3	93.9	93.1	93.9

[1] Converted from the reported base, 1926=100.
[2] Estimates based on incomplete data.

Source: Department of Labor.

You see metals and metal products way up in the top line, and rising. Metals and metal products, of course, are one of the most strategic and significant parts of the economy, not only from the point of view of our domestic operations, but also from the point of view of our foreign aid program and our preparedness program in general.

Mr. Herter. Mr. Chairman, might I interrupt there?

Can you tell us to what extent metals and metal products are weighted in the consumer cost of living index?

Mr. Keyserling. I would have to get you the figures on that.

(The following statement was later submitted for the record:)

Items in the Consumers' Price Index using metals primarily (i. e. bed springs, sewing machines, vacuum cleaners, stoves, razor blades, etc.) had a weight of 4 percent in December 1948. This 4 percent weight excludes a great range of items not solely metals, such as inner spring mattresses. It also excludes items using metals indirectly, such as canned goods using tin cans, transportation services dependent on wires, and building materials, eventually affecting rents.

Mr. Herter. How large a part do they play in the small wage-earner's expenditures?

Mr. Keyserling. I will have to get that for you, Congressman Herter. I do want to say at this point that there is another reason why I am glad you have brought up this question: In determining the interest of the consumer, while our attention has focused on the Consumer Price Index, the greatest interest of the consumer is in the condition of the whole economy. In other words, even when the cost of living is high, if the consumer is employed, he is relatively better off than if large numbers are unemployed, even though the cost of living is lower. Therefore, if there are distortions in the industrial parts of the economy that for reasons which I shall now indicate seem to be dangerous, the consumer is going to pay the bill in the long run if these conditions jeopardize the whole economy. I shall try to elaborate on this a little bit.

Mr. RICH. I am glad you made that statement, because I have been under the impression, from listening to your arguments here all the way through, that your whole objective is to keep prices up. Yet you say you are for the consumer. Now, if you keep prices up all the time, how are you going to be for the consumer? Whenever you increase the prices of your commodities, whether it is manufactured products or agricultural products, then how are you going to take care of the consumer when you expect him to get lower prices?

Mr. KEYSERLING. I am here trying to develop the analysis that very many important prices are too high, are rising too fast, and should be restrained rather than kept up. I certainly do not want to keep all prices up.

I simply made the point that one should not carry the argument that the way to help the consumer is to bring prices down to the reductio ad absurdum of forcing farm prices and farm incomes so low that the whole economy begins to stagger and move downhill. We have to strike a balance. My whole testimony is directed toward this problem of balance.

The CHAIRMAN. I suggest that you make clear to the committee whether you are here as a proponent of continued inflation or as a proponent of some restraint upon inflation.

Mr. KEYSERLING. I am very definitely here pleading for restraint upon inflation. I think we need a rounded and balanced stabilization program. I think that such a stabilization program includes many elements of restraint, but also includes some elements of support, because we now have a mixed economic situation. We don't have a situation where everything now is too high and rising too fast. We have an economy where some things are beginning to suffer because other things are rising too high and too fast, and we have to get things into better balance.

Now, going on with this industrial price situation, which I think is very significant, particular in areas where prices definitely are rising too high and going too fast—and so are incomes, and I will come to that a little later on—we see this a bit more clearly if we turn from the general chart——

Mr. RICH. May I ask you one question right there?

You say prices are rising too fast. As I said to you yesterday, and I reiterate now, in my judgment prices of all kinds are coming down, and have been doing so since Christmas in every line. I don't know of anything where the prices are going up. It seems to be the tendency that they are all declining.

Now, let us dwell on the fact whether some are declining too fast and others not fast enough.

Mr. KEYSERLING. Well, Congressman Rich, let us explore the figures together and see whether or not they are all declining as you say. That is what we want to do.

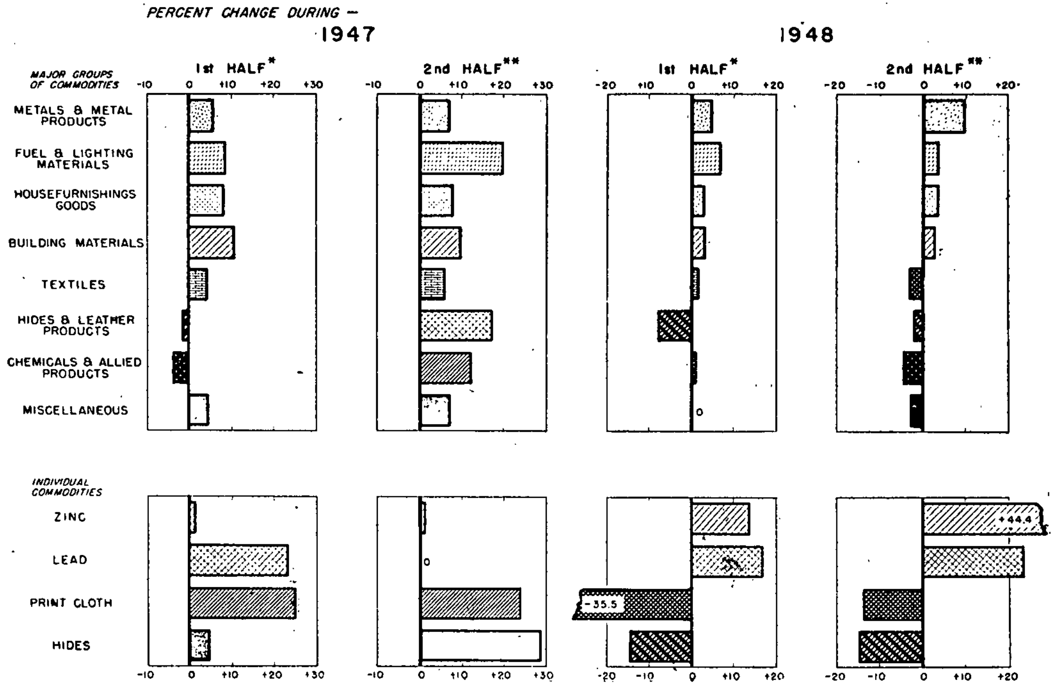
Mr. RICH. That is what I thought we were here for.

Mr. KEYERSLING. That is what we are here for, to see whether or not they are all declining.

Chart 21 attempts to answer Congressman Rich's question. It shows very definitely that, while some prices are declining, others are increasing and some of the most important ones are increasing at an accelerating rate. Let me read the figures to the Congressman and read them into the record at the same time.

CHART 21

CHANGES IN WHOLESALE PRICES
COMMODITIES OTHER THAN FARM PRODUCTS AND FOODS



* December average to June average.
** June average to December average.

Source: DEPARTMENT OF LABOR

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Changes in wholesale prices, 1947–48: Commodities other than farm products and foods

Commodities	Percent change during— 1947 First half [1]	1947 Second half [2]	1948 First half [1]	1948 Second half [2]
Major groups:				
Metals and metal products	5.4	6.7	4.6	9.7
Fuel and lighting materials	8.2	19.8	6.8	2.9
Housefurnishing goods	7.9	7.5	2.7	3.6
Building materials	10.3	9.7	3.0	2.6
Textile products	3.9	5.8	1.1	−2.9
Hides and leather products	−1.6	17.0	−7.7	−1.3
Chemicals and allied products	−3.9	11.8	.6	−3.9
Miscellaneous	4.2	7.0	0	−2.5
Individual commodities:				
Zinc	.9	.9	13.5	44.4
Lead	23.0	0	16.7	22.9
Print cloth	24.6	23.7	−35.5	−13.7
Hides	4.2	28.5	−14.5	−14.6

[1] December average to June average.
[2] June average to December average.

Source: Department of Labor.

Mr. RICH. Give us the dates there.

Mr. KEYSERLING. Oh, yes; I will give you the exact figures and dates.

May I, at this point, read from my testimony because that will expedite matters?

Mr. RICH. I thought you were going to show us these prices as they are declining. I would like to go on and finish that. You have said two or three times you are going to show us, and I would like you to do it. I want to see for myself.

Mr. KEYSERLING. I am going to show you that some prices are increasing. The Congressman says they are all declining, but I say that some are increasing. I can't show them all declining when they are increasing.

Mr. RICH. I can take you down to any store in town and show you the price tags on the articles as being reduced. I can show you most any article you want as being reduced. Shop a little and you will see reduced prices.

Mr. KEYSERLING. I have said, Congressman, that there has been some softening, some very minor softening, in the cost of living and in certain consumer articles.

The CHAIRMAN. I suggest to the witness that you immediately name the commodities which are rising.

Mr. KEYSERLING. That is what I would like to do.

The CHAIRMAN. If you do that now there will not be any other interruptions.

Mr. RICH. I am not asking the chairman to give me these answers, I am asking the witness.

The CHAIRMAN. Certainly. I am asking him to answer your question directly and specifically.

Mr. KEYSERLING. Let me read the paragraph related to the chart which is before you.

Senator WATKINS. Where are you reading from, Mr. Keyserling?

Mr. KEYSERLING. I am reading from page 14 of my prepared statement. I have not used my prepared statement because I wanted to talk orally with the committee, but it will expedite the matter if I read these particular figures.

Mr. RICH. When did you write that?

Mr. KEYSERLING. I finished it about a day and a half ago. [Reading:]

This solid continuation of price advances involving some of the most vital commodities in the whole economy during 1947 and 1948 is shown by chart 21—

I will come in a minute to January 1949—

Building materials increased 9.7 percent in the second half of 1947, 3 percent in the first half of 1948, and 2.6 percent in the second half of 1948. Fuel and lighting materials increased 19.8 percent in the second half of 1947, 6.8 percent in the first half of 1948, and 2.9 percent in the second half of 1948. House furnishings, an important cost-of-living item, increased 7.5 percent in the second half of 1947, 2.7 percent in the first half of 1948, and 3.6 percent in the second half of 1948. Metals and metal products, in some respects the most important category of all, increased 6.7 percent in the second half of 1947, 4.6 percent in the first half of 1948, and showed the biggest increase of all, 9.7 percent, in the second half of 1948. In the second half of 1948, the price of zinc increased 44.4 percent and of lead 22.9 percent.

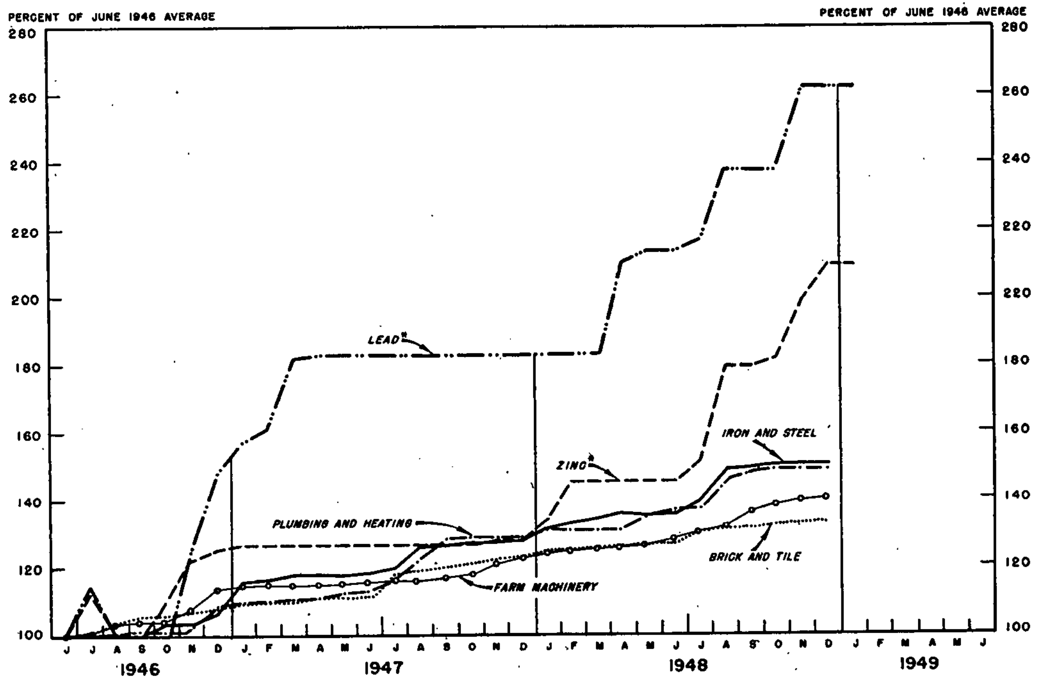
Now, the Congressman asked me when I wrote that statement. I finished it about a day and a half ago. But when I wrote it I did not have the latest figures for January 1949. When we look at the January figures for 1949, we find that metals and metal products, which increased 9.7 percent in the second half of 1948, increased at a still more accelerated rate of between 1½ and 2 percent in January 1949, alone, or at an annual rate of 18 percent or more.

Between the week ending December 28, 1948, and the week ending January 25, 1949, while wholesale prices for farm products declined 6.3 percent and for foods 6.1 percent, the wholesale price index for other than farm products and foods, including about 115 items, reached their postwar peak. All major industrial categories, except textiles, showed increases, and the increase for metals and metal products was 2.4 percent over the 4-week period.

Now, let me read on a little further. Let us now turn to chart 22.

CHART 22

PRICE ADVANCES SINCE JUNE 1946 FOR SELECTED COMMODITIES



SOURCE: DEPARTMENT OF LABOR.

*MONTHLY AVERAGE OF DAILY SPOT MARKET PRICES.

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Price advances since June 1946 for selected commodities

[June 1946=100]

Month	Lead [1]	Zinc [1]	Iron and steel [2]	Brick and tile	Farm machinery	Plumbing and heating
1946—June	100.0	100.0	100.0	100.0	100.0	100.0
July	114.6	112.6	101.1	101.0	100.1	100.0
August	100.0	100.0	102.9	103.9	103.7	100.3
September	100.0	100.0	103.1	105.3	103.8	101.1
October	100.0	106.9	103.3	105.4	103.9	101.1
November	126.8	121.8	103.5	106.4	107.5	101.1
December	148.8	125.3	106.6	107.2	114.0	108.4
1947—January	157.3	126.4	116.0	109.2	114.8	109.7
February	161.0	126.4	116.8	109.3	114.9	109.7
March	181.7	126.4	117.6	109.4	114.8	110.4
April	182.9	126.4	117.9	110.9	114.9	110.7
May	182.9	126.4	117.6	110.9	115.2	112.4
June	182.9	126.4	118.0	111.0	115.5	112.4
July	182.9	126.4	119.6	118.1	115.5	116.4
August	182.9	126.4	125.6	119.0	115.9	122.1
September	182.9	126.4	126.2	119.9	117.1	128.3
October	182.9	126.4	126.5	120.7	118.3	128.4
November	182.9	127.6	126.7	122.1	121.1	128.4
December	182.9	127.6	127.3	122.7	122.6	128.4
1948—January	182.9	134.5	131.3	124.4	123.9	130.9
February	182.9	144.8	132.9	124.6	124.3	130.8
March	182.9	144.8	134.2	125.0	124.7	130.8
April	209.8	144.8	135.7	125.7	125.2	130.8
May	213.4	144.8	135.2	126.0	125.9	135.1
June	213.4	144.8	135.7	126.4	127.8	137.0
July	217.1	150.6	139.1	130.2	129.9	137.1
August	237.8	179.3	148.1	130.8	131.3	145.2
September	237.8	179.3	149.0	131.0	136.1	148.1
October	237.8	181.6	149.4	132.0	138.1	148.4
November	262.2	198.9	149.9	132.2	139.3	148.4
December	262.2	209.2	150.2	132.3	139.7	148.4
1949—January	262.2	209.2	(3)	(3)	(3)	(3)

[1] Monthly average of daily spot market prices.
[2] Includes iron ore, pig iron, scrap, and miscellaneous items as well as steel mill products.
[3] Not available.

Source: Department of Labor.

Chart 22 shows what has been happening to some of the most significant and vital industrial products. You just have to take one look at the chart to see what is moving upward. These prices aren't moving upward in a straight line; they usually don't. They are moving upward in fits and starts. These prices are not "supply and demand" prices entirely, they are prices that are fixed from time to time by new business decisions.

Let me read the figures on that and you will get the pace of the increases.

Using June 1946 as the base period, and then taking January 1947, June 1947, January 1948, June 1948, and January 1949—where the January figures are available—or December 1948—where the January figures are not available.

Farm machinery, and I will read the figures rounded off: 100, 114, 115, 123, 127, 139 for December 1948.

Brick and tile: 100, 109, 111, 124, 126, 132 for December 1948.

Iron and steel: 100, 116, 118, 131, 135, and 150 for December 1948.

Now, if you look at that iron and steel figure, you will find that in some half years the jump is bigger than in others. In other words, in the first half-year period, the jump is from 100 to 116. In the second, the jump is from 116 to 118. But in the third, the jump is from 118 to 131. Then in the next one, the jump is from 131 to 135, but in the next one the jump is from 135 to 150.

Plumbing and heating: 100, 109, 112, 130, 137, 148 for December 1948.

Zinc: 100, 126, 126, 134, 144, 209 for January 1949.

Lead: 100, 157, 182, 182, 213, and 262 for January 1949.

Now, according to the very latest figures which are not even shown on the chart, the figures that I have for the third week in January 1949, these indicate that if we take farm and food products from out of the wholesale price average index, the industrials were at an all-time peak in the third week of January 1949.

Mr. Rich. You have given enough report here on commodities which we know are scarce. We know there is a great demand for them, such as building materials and steels. But now give us something in clothing, give us something in foodstuffs, give us something in radios, give us something in a lot of those commodities that are used in the household, other than steel and automobiles. You will see a drop in prices.

Mr. Keyserling. The Congressman is exactly right, and that is exactly what I have been saying throughout my testimony, namely, that we have a two-fold development in the economy now. We have in one very important sector of the economy—I don't like to call it one, because it is so important—but we have in the industrial area a constant inflationary pressure. At the same time we have some softening in some other areas.

The chart shows both developments. The chart shows there has been a decline in prices of hides, for example.

Mr. Rich. How is clothing?

Mr. Keyserling. Print cloth has gone down.

Mr. Rich. Print cloth, yes, but how about a suit of clothes?

Mr. Keyserling. I talked about apparel yesterday. I said that the cost of living index for apparel rose 5 percent in the first three quarters of 1948 to an all-time peak, and since then has declined about 1 percent, so that it is now about 1 percent below the all-time peak.

Mr. Rich. You can go downtown now and buy clothing for 10, 20, or 30 percent of the price that was on it in December.

Mr. Keyserling. I think I have gone into that subject about as thoroughly as I can, Mr. Chairman and members of the committee. Of course, there have been sales at various times and places. I am dealing with the national situation. I reiterate that, according to the latest valid Nation-wide figures, the cost of apparel as it enters into the consumer price index, is down about 1 percent from the all-time peak, after rising 5 percent within the most recent year.

Mr. Rich. May I ask you a question? Were you ever in the manufacturing business, or ever in business?

Mr. Keyserling. I was never in the manufacturing business.

Mr. Rich. I would just like to ask you this question: If you were in the manufacturing business, where the price of your commodity was high and you wanted to keep your people working, and you couldn't get any business, what would you do?

Mr. Keyserling. I shall be glad to discuss that right now.

Mr. Rich. Well, that is what I asked you for.

Mr. Keyserling. The questions you are asking are perfect. I still say, despite our seeming difference on details, that our thinking is moving in the same line.

Here is the situation in summary. When you have a softening in the food area, the farmer is not administering his price. You asked about my experience, and I will answer that. I grew up in a farm community and I saw my father's goods shipped to market. He would get back a telegram telling him what his products sold for.

Sometimes what he got was less than the freight. In other words, your farm and food products adjust to the changing situation, and therefore they are not the primary source of growing unemployment and growing under production.

Your industrial prices, however, operate in a different fashion. They do not adjust so rapidly to what we call changes in supply and demand. They tend to overstay the market, and, because they tend to overstay the market, that is where the main problem of maintaining general economic stability is to be found.

Mr. RICH. But if the demand overstayed the market today you couldn't sell anything, you couldn't do any business. You would simply shut down.

Mr. KEYSERLING. I am going to give some examples of that, Congressman Rich. I would say this: If nobody overstayed the market, we might never have a depression. If all prices and incomes adjusted themselves automatically to changing relationships between supply and demand, we might never have a serious industrial downturn. One of the very reasons we have "the business cycle" is because they don't; that is why we have the problem.

Now, let me give you some specific examples of that, because we are getting right to the heart of the problem.

I want to show you one very important case where industrial prices, producer prices, have overstayed the market. I have said that prophecy is not very good, but here I would like to read one other thing from a record of some time ago. I read a little while back from the record with regard to agriculture.

Mr. RICH. We are dealing with prices today. We are not talking about what happened, or are not so much interested in what happened, 3 or 4 years ago. Get right down to the commodity prices you are dealing with in the market today.

Mr. KEYSERLING. Congressman, I am not reading anything for the purpose of saying "I told you so." Goodness knows I have made as many mistakes as anybody in this room.

Mr. RICH. I don't believe you made as many as I did, or I wouldn't be here. [Laughter.]

Mr. KEYSERLING. Our thinking is still together, then. I am reading it solely for the purpose of indicating that economic analysis has some value. One way to prove that it has any value is by relating prior analysis to what has happened since. That is a test.

Now, let me read what was said in the economic report of the President on July 21, 1947, a year and a half ago, with respect to housing. [Reading:]

> But already high prices are preventing the bulk of new housing construction from serving those who need it most and are preventing the total volume of new housing from reaching desired levels. If not reduced, these prices will lead inevitably to a decline in housing construction when the limited market made up of those who can buy, in spite of cost, has been served.

Mr. RICH. Now, with that statement, would you recommend slum clearance today and construction of additional houses by the Government? It would naturally tend to increase the price of all houses that are being built if the Government went into building houses.

Mr. KEYSERLING. I certainly would, for reasons which I will come to later in my testimony. But at the moment, let me show you what has happened.

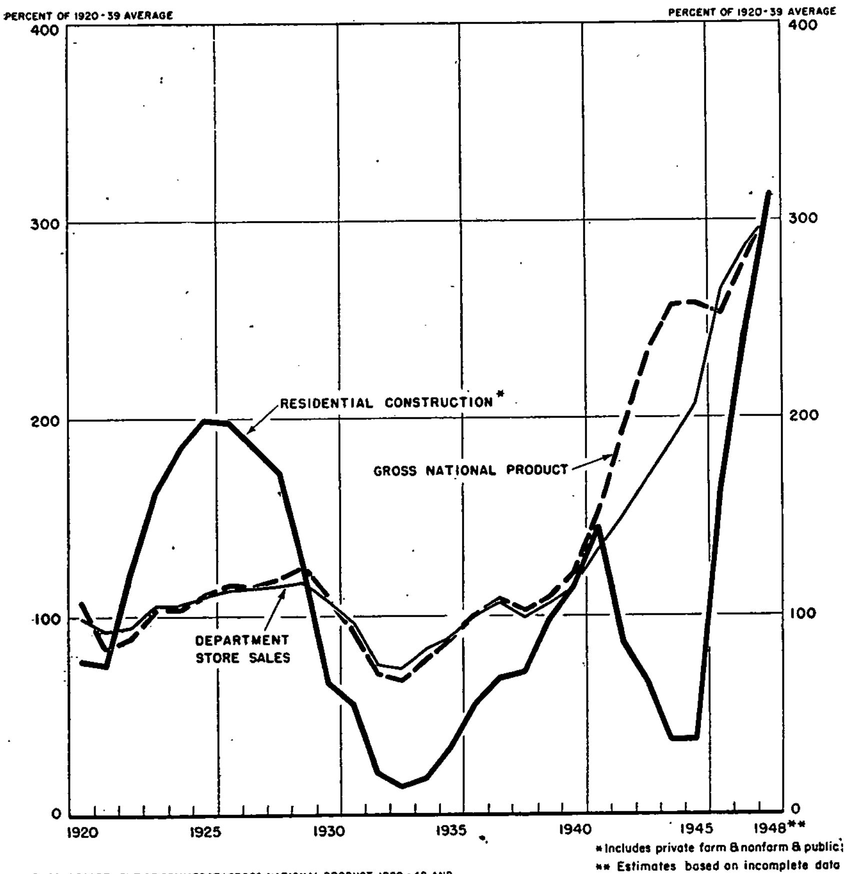
Mr. RICH. Well, if you do that, when they are using all the materials we have in this country for the construction of homes, and building more homes than we ever had in our history, if you go out now and start to clean up slums, and at this time, with the increase in prices of all the commodities that go into the homes, I don't think much of your reasoning and argument; I just don't think it is sound.

Mr. KEYSERLING. Congressman, let's not anticipate too much. I am analyzing now, and not discussing program. Let me demonstrate what has happened in the housing field.

You raise the question with respect to whether prices can over-stay the market. Let me say what has happened in the housing field. I would like to show you chart 23, which shows how unstable residential construction has been.

CHART 23

RESIDENTIAL CONSTRUCTION AND ECONOMIC ACTIVITY



SOURCES: DEPARTMENT OF COMMERCE (GROSS NATIONAL PRODUCT, 1929-48, AND RESIDENTIAL CONSTRUCTION) AND BOARD OF GOVERNORS OF THE FEDERAL RESERVE SYSTEM (DEPARTMENT STORE SALES)

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Residential construction and economic activity, 1920–48

[1920–39=100]

Year	Residential construction [1]	Gross national product [2]	Department store sales [3]	Year	Residential construction [1]	Gross national product [2]	Department store sales [3]
1920	77	108	99	1935	33	87	88
1921	75	84	92	1936	55	100	100
1922	122	89	94	1937	68	109	107
1923	162	104	105	1938	71	102	99
1924	185	104	105	1939	98	109	106
1925	199	111	110	1940	115	121	114
1926	198	116	113	1941	144	151	133
1927	185	115	114	1942	86	192	150
1928	172	119	115	1943	66	232	168
1929	126	125	117	1944	37	256	187
1930	66	110	108	1945	37	257	207
1931	55	92	97	1946	161	252	264
1932	21	70	75	1947	243	279	286
1933	14	67	73	1948 [4]	313	305	302
1934	18	78	83				

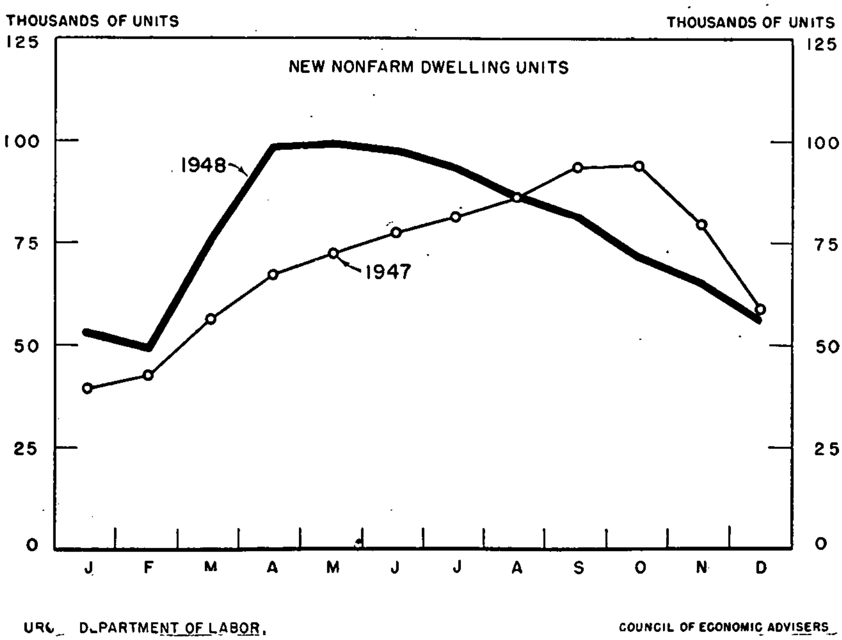
[1] Based on dollar value of new construction put in place; includes private farm and nonfarm and public.
[2] Based on current dollar estimates. Estimates for 1920–28 by Council of Economic Advisers.
[3] Converted from the reported base, 1935–39=100.
[4] Estimates based on incomplete data.

Sources: Department of Commerce, Board of Governors of the Federal Reserve System, and Council of Economic Advisers.

Now let us look at chart 24, showing housing starts in 1947 and 1948. The lighter line is 1947, the heavier line is 1948. Beginning in March 1948, despite what we all recognize as a serious housing shortage, the decline in housing starts commenced at an accelerated rate, and in the months following that we have been starting housing at a lower level than in 1947. There is a clear and distinct case of out-pricing the market.

CHART 24

NEW HOUSING STARTS



New housing starts, 1947–48: Total new nonfarm units (conventional and prefabricated)[1]

Month	1947	1948	Month	1947	1948
January	39,300	52,600	July	81,100	93,500
February	42,800	49,600	August	86,300	86,300
March	56,000	75,100	September	93,800	[2] 81,000
April	67,100	98,800	October	94,000	[2] 72,000
May	72,900	99,400	November	79,700	[2] 65,000
June	77,200	97,500	December	58,800	[2] 56,000

[1] New nonfarm family dwelling units. Temporary units are excluded after 1947 when the program ended.
[2] Preliminary.

Source: Department of Labor.

Now, let me connect this housing illustration with the general situation in the industrial area. It may be perfectly true for a while—and this is the point that Congressman Rich made—that, with the heavy demands of the preparedness program, the foreign aid program, the backlogs accumulated during the war, and so forth, we shall not reach a situation where this decline in residential construction causes serious unemployment and drops in production generally. But if we allow prices in other areas to continue upward, the process of inflationary rise will finally reach the breaking point. Take, as an example, farm machinery. How much longer can the demand for farm machinery be maintained when farm machinery prices are moving steadily upward, while farm incomes and farm prices are moving downward?

Mr. RICH. I would like you to talk about housing.

Mr. KEYSERLING. I am giving you another example.

Mr. RICH. Well, you always get off onto something about the farmers. Now stay on the housing while you are on it and show us why you want to clean slums and create a greater demand on materials that we do not have. Show us why that would not increase the prices on those homes.

Mr. KEYSERLING. I shall come to that in a minute, Congressman Rich.

Mr. RICH. You were talking about housing but you always get back onto the farm. Let us stay on the housing while we are on it.

Mr. KEYSERLING. I was talking about housing to illustrate the point of out-pricing the market. That is a clear example of out-pricing the market.

There is another hearing which explains in part why some members of this committee are absent. There is a hearing going on now, about all the details of the slum-clearance and housing program. That in itself is a long and complex subject.

Let me just answer your question briefly by saying that we cannot, because we are at a high level of national income and production, neglect the question of national priorities. That is one of the reasons we have to deal with inflation. In other words, we cannot simply rule out various types of necessary activities because they may accelerate the inflation. We have to face up frankly to the fact that, when we have very high employment and very high national income, there are strong demands and inflationary pressures. Basically, that is a better situation than when you have a buyers' market to the point that demand is falling so far behind supply that you have nowhere to distribute the goods and get large-scale unemployment. So we must curb price inflation, not abandon our high-demand objectives.

This means that, in a full employment economy, a maximum employment economy, there is always the question of priorities.

There is always the question, on balance, of whether you want to use your steel, your bricks, and your labor force for housing or whether you want to use it for fixing up the fronts of hotels or whether you want to use it for race tracks. That is one of the reasons why I believe, in the situation we are now in, that we have to go ahead with the housing program. The people vitally need housing, and in the current situation this necessarily requires some allocation of scarce materials. That is why we need allocations, and some price control, to prevent the diversion of materials from places where they are most needed in the interest of the country.

These price increases in sensitive areas increase the cost of the preparedness and foreign-aid programs and diminish their benefits. They provide fuel for extensive wage demands based upon high profits in sensitive areas and thus add momentum to the price-wage spiral in these areas. This price-wage spiral, in turn, has ramifying effects throughout the rest of the economy because it takes place at vital spots toward which the attention of the whole economy is directed.

But far more important in the long-run is the fact that these persistent price increases in vital industrial areas constitute a growing threat to the maintenance of economic stability and maximum employment and production. To indicate why this is so, it would be well at this point to summarize the conclusions to be drawn from the foregoing review of retail and wholesale price developments in various fields.

There has been in recent months a leveling off or slight reduction in the cost of living. This reflects in part a sharp decline in farm prices. However, while the problem now is that farm prices and incomes may decline too far relatively to other prices and incomes, only a small part of the decline in farm prices has thus far been translated into lower retail food costs. Another factor in the slight decline in the cost of living, which has recently taken place besides some improvement in the supply situation, is a softening of consumer demand. This softening of demand is also reflected in the clothing area, and, as I shall shortly indicate, in the housing area. Since the consumer needs of a large part of the population are not yet adequately satisfied, this softening reflects an inadequacy of buying power among large segments of the population.

The softening of consumer demand in certain areas such as food does not lead quickly to reductions in employment and production because agricultural prices respond quickly and sensitively to this kind of softening and an automatic adjustment takes place. But one of the reasons for this softening is that an excessive amount of income is being drained off by relatively high levels of prices and profits in certain key industrial areas. If the time comes when the softening of demand extends to the vital industrial areas where prices, unlike those in the agricultural area, do not respond quickly or sensitively, the typical reaction would be cut-backs in employment and production, and the down-spiral toward recession or depression is then under way. That is why, from the viewpoint of maintaining economic stability, the industrial price situation is so crucial and why the continuance of current price trends in some of these areas is so serious. The softening in other areas accentuates rather than mitigates the danger; it is a warning signal.

As I have said earlier, to stop worrying about rising and excessive prices in some areas of the economy because employment and demand may be softening in other areas would be to neglect the real problem of inflation just when it becomes most dangerous.

It is true that, if we maintain maximum employment and production in a stable and growing economy, the need for these vital industrial products should be even higher than it is now. But need and buying power are not the same thing. And full buying power cannot indefinitely be sustained at a rising price level when some of the backlogs and savings created during the war period have been further worked down, and when—we all hope—the extraordinary demands for national defense and foreign aid begin to taper off with an improved international outlook.

That, Mr. Chairman, completes, subject to questioning, my discussion of the industrial price situation.

Mr. RICH. Let me ask this question. In reference to iron and steel, isn't it a fact that we manufactured more steel in this country last year than we have ever manufactured before?

Mr. KEYSERLING. Certainly we manufactured more last year than ever before. We are a great and growing country.

Mr. RICH. And we are using more in this country?

Mr. KEYSERLING. Yes.

Mr. RICH. But at the same time we were furnishing more steel to foreign countries, which creates a greater demand on our steel industry, does it not?

Mr. KEYSERLING. Yes; it does.

Mr. RICH. And then the great demand for automobiles is another reason for creating a steel demand. Do you have an idea, considering the effort being made by the steel industry today, that we are going to soon catch up, providing we regulate the amount of steel that we ship to foreign countries?

Mr. KEYSERLING. In 1948 the estimated steel shortage—in terms of steel ingots and steel for castings—was about ten and a half million net tons. I shall be coming to the steel question, under the subject of capacities. But, first, I should like to continue my analysis on maladjustments in the current economic situation.

To illustrate why the strength of demand in certain industrial areas cannot compensate indefinitely for the softening of certain types of consumer demand, let us now turn to a third method of analyzing current or developing maladjustments, by looking at the general composition of production, investment, incomes, and demand.

Chart 25 shows our gross national product, or total value of goods and services produced, for a number of significant years.

Gross national product, selected years, 1929–48

[Billions of current and 1939 dollars]

Year	Current dollars	1939 dollars [1]	Year	Current dollars	1939 dollars [1]
1929	103.8	84.3	1946 [2]	209.3	145.6
1933	55.8	60.0	1947 [2]	231.6	144.4
1939	90.4	90.4	1948 [2]	252.7	146.7

[1] Current dollar estimates deflated by consumers' price index, 1939=100, adjusted for understatement from December 1941 to February 1947.

[2] Deflated gross national product is not an exact measure of output in war and postwar years because of the shift in composition and quality of production. Estimates for 1948 are based on incomplete data.

Sources: Department of Commerce and Department of Labor.

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In current dollars, the gross national product, which was 103.8 billion dollars in 1929 and 90.4 billion in 1939, has been well above 200 billion in each postwar year and reached 252.7 billion in 1948. When these dollar figures are deflated in order to show real output on an annual basis, the gain has been about 74 percent since 1929 and about 62 percent since 1939. This indicates the tremendous growth of our economy. It should be noted that, while the deflated bars on the chart do not show any appreciable increase in output between 1947 and 1948, a comprehensive index of production of goods and services indicates that the 1948 level of output was 3 to 4 percent above the 1947 level. Unfortunately, technical difficulties prevent gross national product as thus deflated from being a very precise measurement of changes in output from year to year during periods when the composition of goods produced is changing rapidly.

From the viewpoint of appraising factors making for economic stability or instability, the composition of the gross national product is more significant than its total volume. This composition reveals the relationships among the main categories of expenditure or demand, and thus some analysis of whether these relationships are in workable balance for the present and for the near future.

Percent distribution of gross national product, 1929–48, by type of expenditure

Year	Gross national product	Personal consumption expenditures	All other expenditures for goods and services	Gross private domestic investment
1929	100.0	75.9	9.0	15.2
1930	100.0	77.9	10.9	11.2
1931	100.0	80.6	12.4	7.1
1932	100.0	84.4	14.2	1.5
1933	100.0	83.0	14.7	2.3
1934	100.0	80.0	15.7	4.3
1935	100.0	77.8	13.6	8.4
1936	100.0	75.8	14.1	10.1
1937	100.0	74.4	13.0	12.6
1938	100.0	76.2	16.4	7.4
1939	100.0	74.7	15.5	10.0
1940	100.0	71.7	15.3	12.9
1941	100.0	65.7	20.6	13.7
1942	100.0	56.9	37.3	5.8
1943	100.0	52.8	44.9	2.4
1944	100.0	52.5	44.5	3.0
1945	100.0	57.5	38.1	4.3
1946	100.0	70.4	17.0	12.7
1947	100.0	71.2	15.9	13.0
1948 [1]	100.0	70.0	14.7	15.4

[1] Estimates based on incomplete data.

NOTE.—Detail will not necessarily add to totals because of rounding.
Source: Department of Commerce.

Chart 26 is designed to show this composition for a number of significant years. It shows that consumer expenditures, representing the share of output absorbed by effective consumer demand, was about 76 percent of the total in 1929, and almost 75 percent in the last prewar year 1939, but only 70.4 percent in the first postwar year 1946 and only 70 percent in 1948. In fact, the percentage of the total represented by consumer expenditures was lower in 1948 than in any peacetime year between 1929 and now. On the other hand, the percentage of the total represented by gross private domestic investment was 15.2 percent in 1929, 10 percent in 1939, 12.7 percent in 1946, and 15.4 percent in 1948. All other expenditures for goods

CHART No. 25

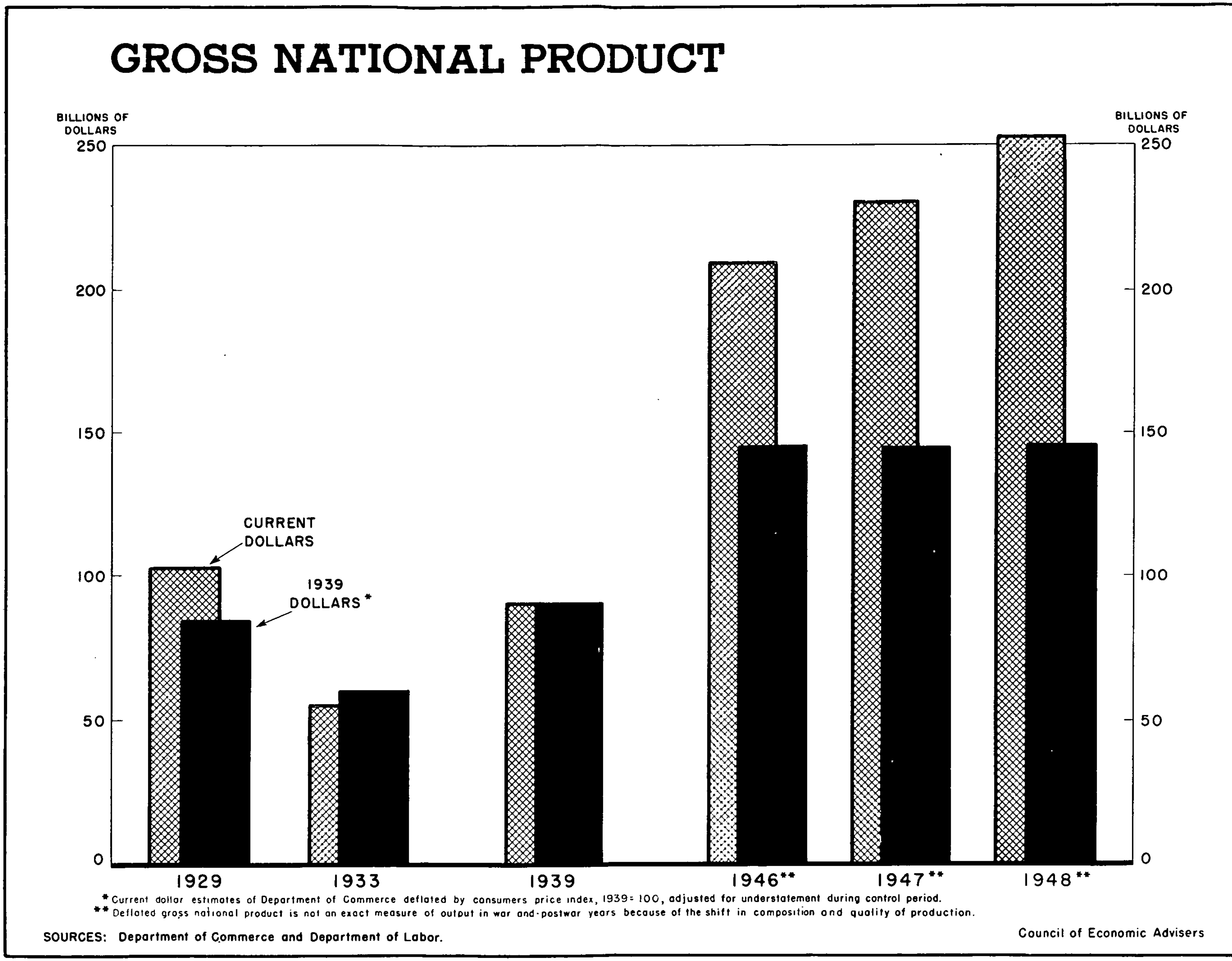

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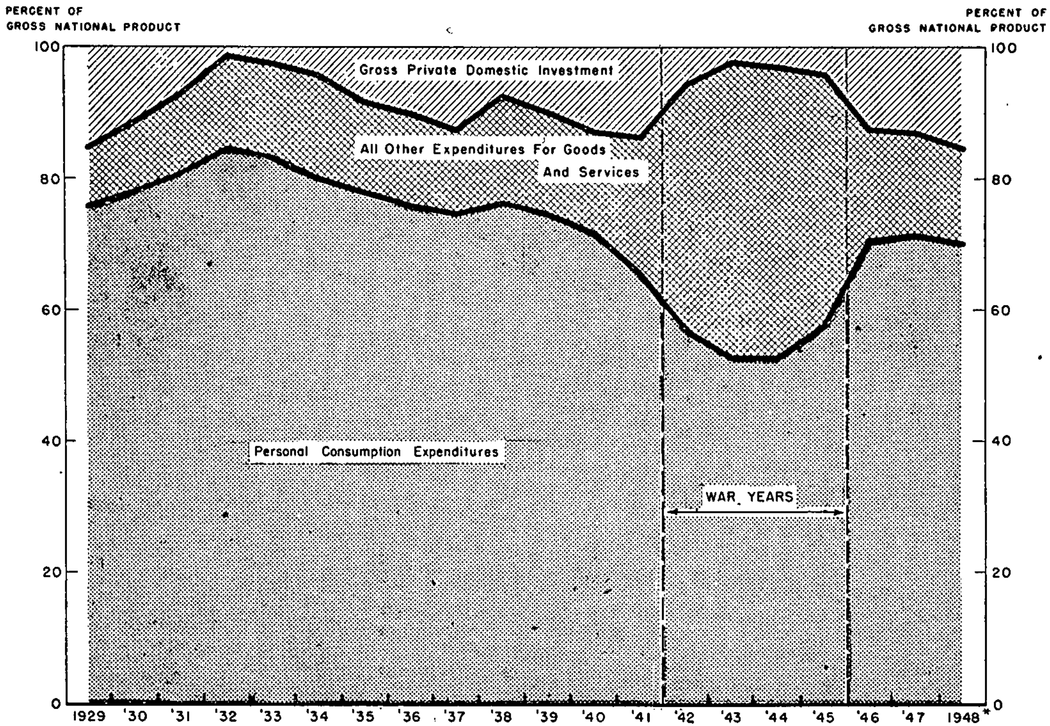
Chart 26

PERCENT DISTRIBUTION OF GROSS NATIONAL PRODUCT



*Estimates based on incomplete data

SOURCE: BASED ON DATA FROM DEPARTMENT OF COMMERCE

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and services were 9 percent of the total in 1929, 15.5 percent in 1939, 17 percent in 1946, and 14.7 percent in 1948. Contrasting 1948 with the practically full-employment year 1929, the ratio of business investment to the total was slightly higher in 1948 than in 1929, while the ratio of consumer expenditures to the total was very much lower and this was compensated for by a much higher ratio of Government expenditures.

Up to the present time, the total of all these types of expenditures has been sufficient to maintain maximum employment and to absorb full output of the economy over the past few years. But in view of the objective of increasing national output by about 3 percent or approximately 8 billion dollars a year, the question arises as to what types of demand will increase to absorb the additional output and thus maintain maximum employment. Certainly, the most desirable adjustment would not be to increase Government expenditures by that amount or anywhere near it. On the contrary, we would hope that the relative role exerted by Government expenditures would decline with the advent of a more normal international situation. Nor can it be expected that business investment will expand sufficiently to absorb all or most of the increasing output, although we do want and must depend upon a high or even increasing absolute level of business investment in the years ahead. Business has now practically gotten through the reconversion boom, and cannot be expected to increase still further a ratio of investment to total output which in 1948 was even higher than in 1929. In fact, most analysts think that in 1929 the ratio of business investment to consumer buying power was too high, and that this had a good deal to do with the depression which followed. Thus, to preserve a workable balance between productive capacity and ultimate consumption, consumer expenditures or demand will need to assume not only an increasing in absolute terms but also a relatively larger role if the total national output is to continue to increase by 3 percent a year or better, and if maximum employment is to be maintained.

Since expenditures or demand are based fundamentally upon incomes, the composition of national income distribution best indicates whether the foundations are being established for needed adjustments in the composition of demand.

As chart 27 shows, the total of national income has increased in real terms by about 83 percent since 1929, and by about 79 percent since the last prewar year 1939. Upon examining the composition of national income before taxes, as shown on chart 28, it appears that the following developments have taken place: Business and professional income, as a share of total national income, increased from 9.5 percent in 1929 and 9.4 percent in 1939 to 11.5 percent in 1947, and stood at 11.2 percent in 1948; while corporate profits were 11.8 percent in 1929, 8 percent in 1939, 12.2 percent in 1947, and 13.7 percent in 1948. Both business and professional income and corporate profits were at a much higher percent of the total in 1948 than in 1929. In contrast, compensation of employees, which was 58.1 percent in 1929 and rose to 65.9 percent in 1939, declined to 63 percent in 1947 and to 61.5 percent in 1948. It is thus approaching the 58.1 percent level of 1929 which most students of our economy now regard as having been too low and contributory to the depression which followed. As chart 29 shows, per capita real income after taxes is now considerably lower than in 1944, 1945, or 1946.

CHART No. 27

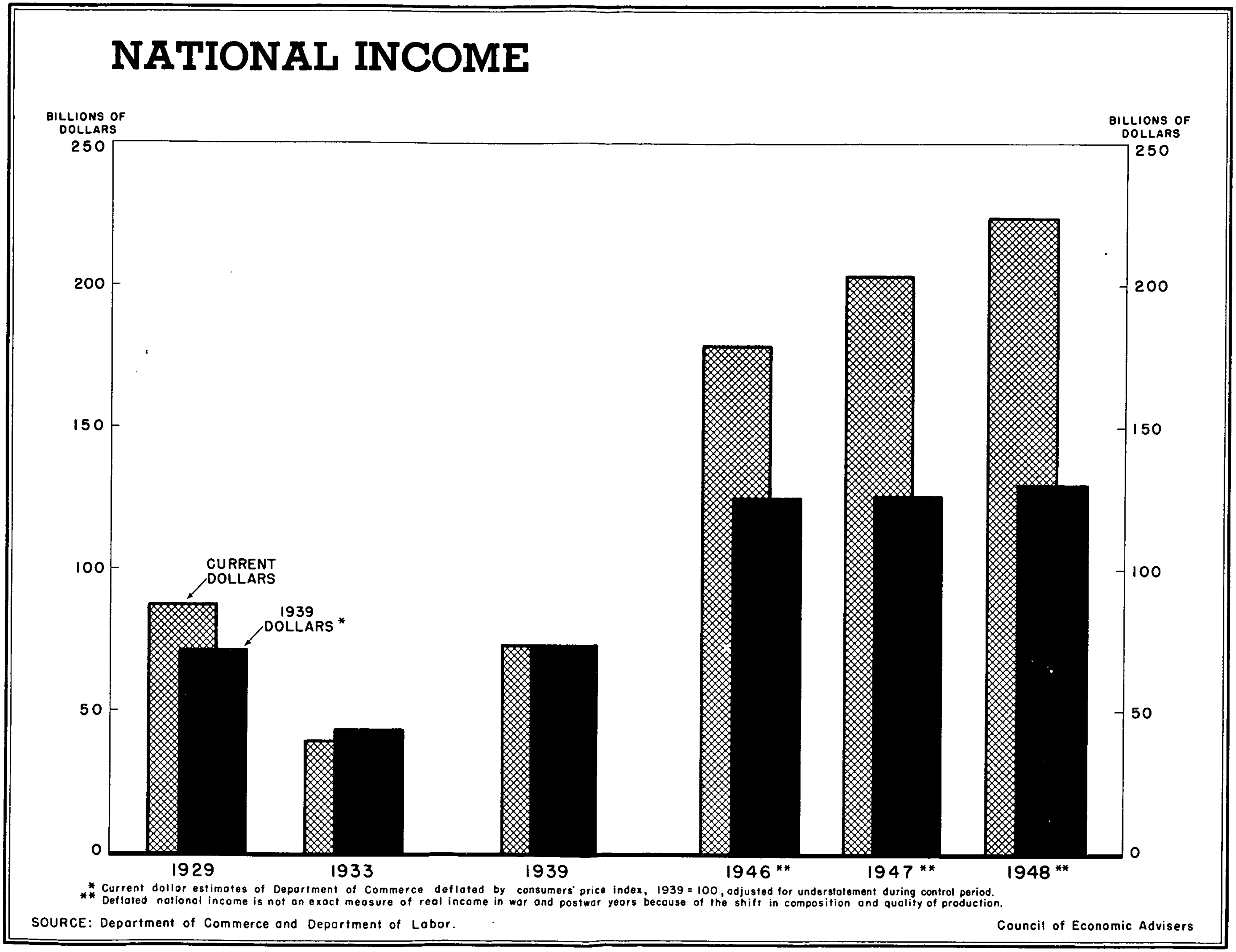

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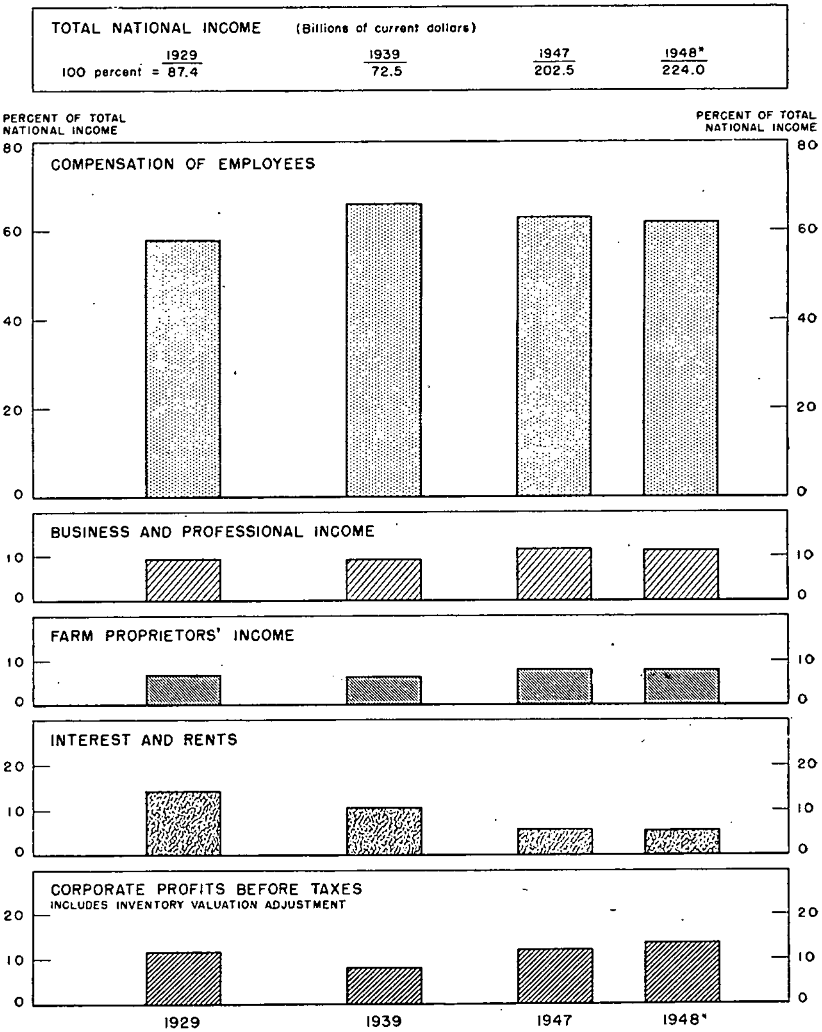
CHART 28

NATIONAL INCOME
BY DISTRIBUTIVE SHARES



* ESTIMATE BASED ON INCOMPLETE DATA.

SOURCE: DEPARTMENT OF COMMERCE.

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National income, selected years, 1929–48

[Billions of current and 1939 dollars]

Year	Current dollars	1939 dollars [1]	Year	Current dollars	1939 dollars [1]
1929	87.4	70.9	1946	179.3	124.8
1933	39.6	42.6	1947	202.5	126.2
1939	72.5	72.5	1948 [2]	224.0	130.1

[1] Current dollar estimates deflated by consumers' price index, 1939 equals 100, adjusted for understatement from December 1941 to February 1947.
[2] Deflated national income is not an exact measure of real income in war and postwar years because of the shift in composition and quality of production. Estimates for 1948 are based on incomplete data.

Sources: Department of Commerce and Department of Labor.

National income by distributive shares, selected years, 1929–48

Share	1929	1939	1947	1948 [1]
	Billons of current dollars			
Total national income	87.4	72.5	202.5	224.0
	Percent of total			
Total national income	100.0	100.0	100.0	100.0
Compensation of employees	58.1	65.9	63.0	61.5
Business and professional income	9.5	9.4	11.5	11.2
Farm proprietors' income	6.5	6.2	7.7	8.0
Interest and rents	14.1	10.6	5.6	5.5
Corporate profits before taxes and inventory valuation adjustment	11.8	8.0	12.2	13.7

[1] Estimates based on incomplete data.

NOTE.—Detail will not necessarily add to totals because of rounding.

Source: Department of Commerce.

Per capita personal income after taxes, 1939–48 [1]

[Current and 1939 dollars]

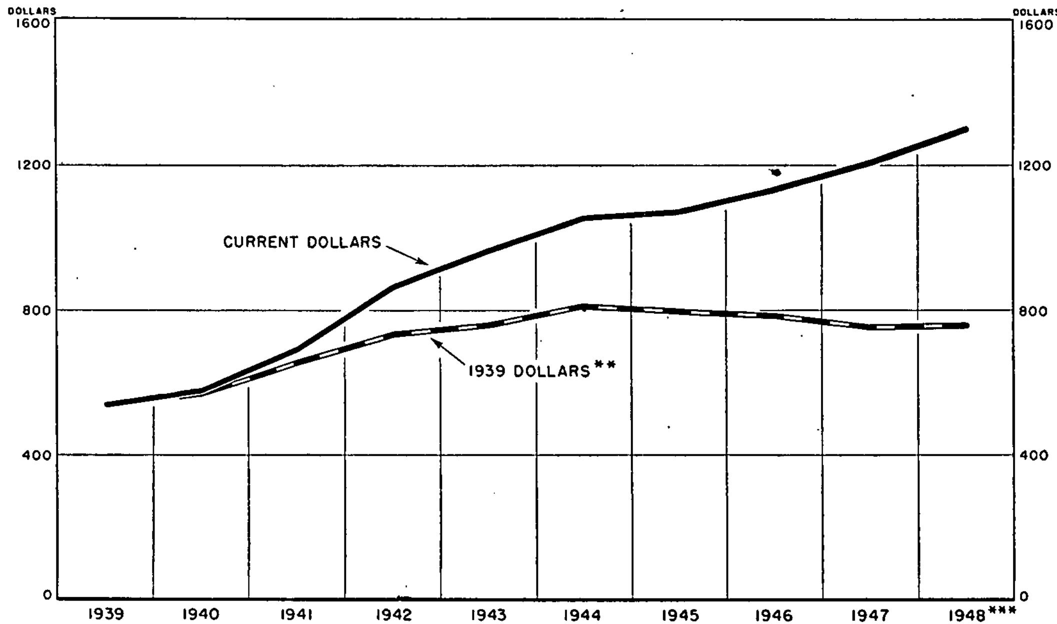
Year	Per capita personal income after taxes [1]		Consumers' price index 1939=100 [3]	Year	Per capita personal income after taxes [1]		Consumers price index 1939=100 [3]
	Current dollars	1939 dollars [2]			Current dollars	1939 dollars [2]	
1939	536	536	100.0	1944	1,054	808	130.5
1940	574	569	100.8	1945	1,070	798	134.1
1941	691	653	105.8	1946	1,127	784	143.7
1942	863	730	118.3	1947	1,205	751	160.4
1943	964	758	127.1	1948 [4]	1,299	754	172.2

[1] After Federal and State personal taxes.
[2] Current dollars divided by consumers' price index, adjusted for understatement during control period (see footnote 3), to give a rough measure of the changes in buying power of disposable income.
[3] Consumers' price index has been roughly adjusted to take account of the understatement during the period, December 1941 to February 1947. This adjustment is in line with the report of the Mitchell committee.
[4] Estimates based on incomplete data.

Sources: Department of Commerce and Department of Labor.

CHART 29

PER CAPITA PERSONAL INCOME AFTER TAXES*



* AFTER FEDERAL AND STATE PERSONAL TAXES

** CURRENT DOLLARS DIVIDED BY CONSUMERS' PRICE INDEX, 1939=100, ADJUSTED FOR UNDERSTATEMENT OF PRICE INCREASES FOR PERIOD DECEMBER 1941 - FEBRUARY 1947

*** PRELIMINARY ESTIMATE

SOURCES: DEPARTMENT OF COMMERCE AND DEPARTMENT OF LABOR

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While I do not mean to intimate that we are now in a situation comparable to 1929 or that the outlook now is for another 1930 or 1932, it is important to realize that the postwar inflation has developed some important maladjustments which as a matter of hindsight we can detect in previous booms. In this instance, we would be well advised to use some foresight as well.

It may be said that total consumer income is not adequate to take the supply of goods now available for consumer use, although there is softening in some spots, and that when more goods are available for consumer use the additional income to absorb them will automatically be created. This would be a comforting conclusion, if we could but ignore the lesson of experience. For experience during past periods of adjusment leaves little room for the belief that wages would be increased, or prices decreased systematically, at the very time when the business outlook might be dampened by a decline in Government-created demand for foreign aid and preparedness. Experience indicates, rather, that the delay of adjustment until that time would result in curtailment of employment and production, followed by disorderly price breaks and a general economic decline—the spiral of depression.

It would be far safer if real consumer incomes were kept more nearly abreast of increases in domestic output. If compelling reasons of national policy require for a time that an extraordinary part of this output be diverted away from domestic consumers, the worst way to deal with the situation is by price increases which enormously magnify the coming problem of peacetime adjustment. A more prudent approach, for the time being, would be to keep income relationships in sounder balance by a restrained price-profit policy, and to cut consumer spending rather than consumer incomes by voluntary savings and high taxes. We should then have a better chance to maintain a full economy by not cumulating maladjustments against the day of reckoning.

The conclusion (a) that consumer expenditures and incomes should not only increase in absolute terms but also achieve a higher ratio to total national output and (b) that business investment and income can hardly be expected to achieve a still higher ratio to total national output than the extraordinarily high one of recent years, raises the question of what approximate levels of business investment and income seem consistent with that orderly national growth over the next few years in which business should certainly share.

The subject of appropriate levels of business investment is extraordinarily complex, and no one can pretend to definitive measurement. In fact, more than one pattern of business investment might be entirely consistent with a strong and progressive economy. I should certainly like to see the highest level of business investment consistent with a stable economy, because that is the road toward fundamental progress and toward the long-run lifting of standards of living. Perhaps as our economy grows from year to year, the absolute level of business investment should rise gradually above current levels.

But the foregoing analysis of ratios of expenditure to total output indicates fairly clearly that the ratio of business investment to the total cannot be lifted even above the 1948 rate. On this, I think there would be fairly wide agreement. Those who take this position are not inimical to business investment. On the contrary, by seeking to encourage a ratio of business investment to total economic activity which can be permanently sustained, they seek to protect business as well as the whole economy from the extremes of the business cycle which have resulted in large measure from the extremely volatile and irregular character of business investment in the past. Looking back again to chart 26, it will be seen that private domestic investment as a percentage of gross national product dropped from 15.2 percent in 1929 to 7.1 in 1931 and 1.5 in 1932. It then rose to 12.6 percent in 1937, but dropped to 7.4 percent in 1938.

Chart 30 points up the same problem by use of a different measurement. It shows that private outlays for new nonfarm plant and equipment were 9.5 percent of gross national product in 1948, contrasted with only 9.2 percent even in 1929, only 7.9 percent as an average for the years 1919–29, and only 5.7 percent as the average for the years 1930–39. In order to prevent business investment from falling disastrously in the trough of recession or depression, the problem is to prevent it from becoming relatively excessive in periods of so-called boom.

Private outlays for new nonfarm plant and equipment as percent of gross national product, selected periods, 1919–48

Year	Plant and equipment outlays as percent of gross national product
1919–29 average	7.9
1930–39 average	5.7
1929	9.2
1933	3.9
1946	7.5
1947	8.8
1948 [1]	9.5

[1] Estimates based on incomplete data.

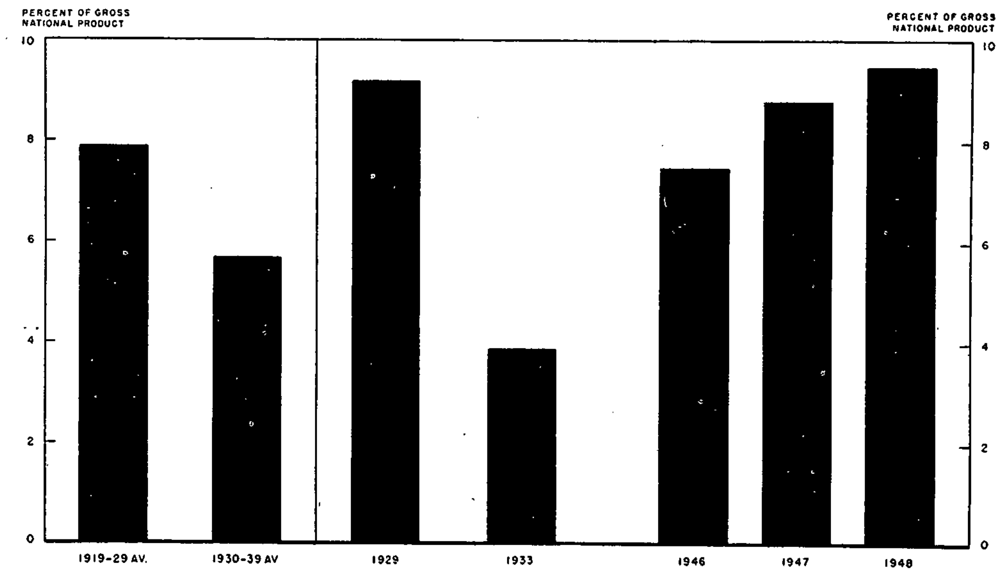
NOTE.—The plant and equipment expenditures on which the percentages in this table are based differ from the Securities and Exchange Commission-Department of Commerce series primarily because certain plant and equipment outlays charged to current account are included in the former and excluded from the latter series.

Source: Department of Commerce (1919–47).

The conclusion that business investments cannot be expected to increase even above the current ratio to total output has direct bearing upon the problem of profit levels. For profits provide both funds and incentives for business investment. No one who believes as I do in our enterprise system would be critical of business or of profits per se. I should like to see as high a level of profits after taxes as is needed to provide the incentives and the funds for the highest levels of useful investment that can be maintained on a fairly stable basis. But the extreme instability of investment in the past, and the extreme instability of profits in the past, has been part and parcel of the same problem. For either to maintain a stable rate of growth, both must maintain a stable rate of growth, because the two are interrelated. Just as the ratio of business investment to total output in a year like 1948 seems upon objective analysis to be higher than can be increased or perhaps even sustained, the same may be said of the ratio of profits in that year to total national income. This conclusion is not inconsistent with the proposition that the absolute level of profits should

Chart 30

PRIVATE OUTLAYS FOR NEW NONFARM PLANT AND EQUIPMENT AS PERCENT OF GROSS NATIONAL PRODUCT



SOURCE DEPARTMENT OF COMMERCE

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rise in future years as the economy becomes constantly larger and more productive.

Businessmen should join with others in aiming toward stable profits in a stable economy, and any disagreement about specific profit analyses should not prevent cooperation and mutual trust toward the achievement of objectives which we certainly all hold in common. Some of the things that have been said in criticism of profits have been extreme or unfair, but extreme or unfair things are said from time to time about many things in our complex economy. The solution will not be worked out by the extremists, but rather by those who apply sober judgment and constantly improved analysis to genuine problems.

Chart 31 shows corporate profits, before and after taxes, for certain significant years since 1929.

Corporate profits

[All private corporations]

Period	Corporate profits (billions of dollars)		Corporate profits after taxes as percent of—	
	Before taxes	After taxes	Net worth	Sales [1]
1929	9.8	8.4	5.1	5.4
1933	.2	−.4	−.3	.5
1939	6.5	5.0	3.5	3.9
1946	21.8	12.8	7.2	4.6
1947	29.8	18.1	9.6	5.2
1948 [2]	34.0	20.8	10.3	5.5
	Annual rates, seasonally adjusted			Not adjusted for seasonal variation
1948—First quarter	31.4	19.2	10.0	5.2
Second quarter	33.4	20.4	10.4	5.4
Third quarter	35.5	21.7	10.9	5.6

[1] Excludes finance, insurance, and real estate.

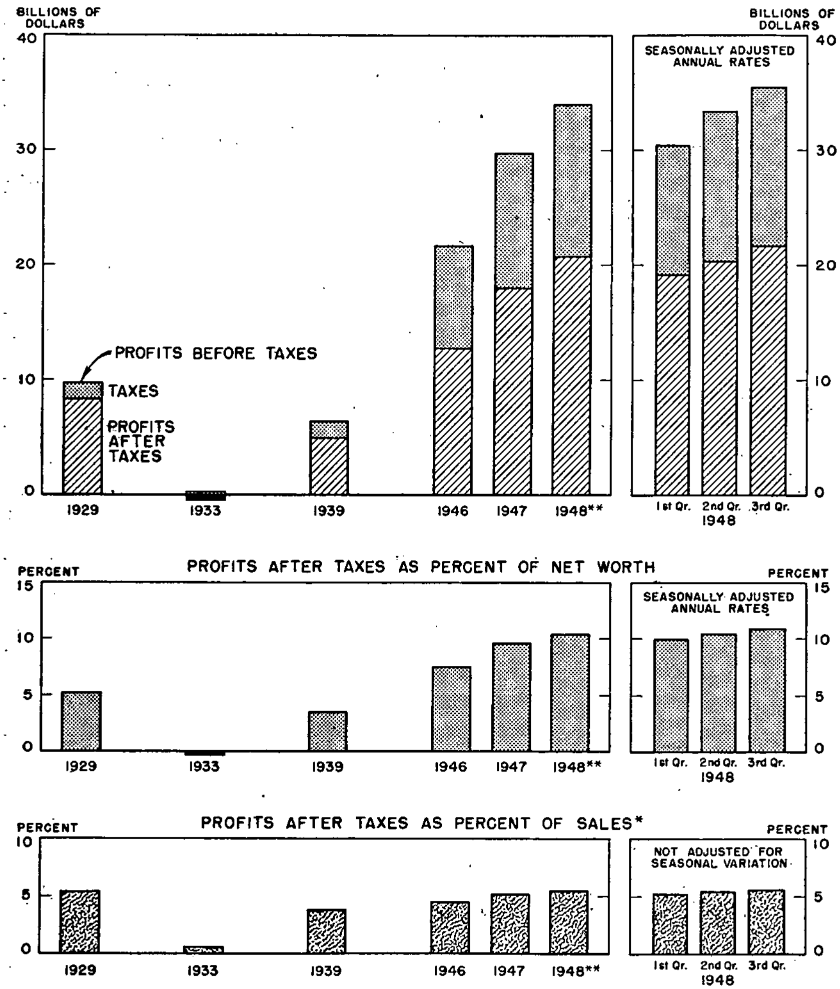
[2] Estimates based on incomplete data; profits for 1948 include estimates for fourth quarter at same level as third quarter.

Sources: Department of Commerce and Council of Economic Advisers.

It is only to be expected that the dollar volume of these profits should be much higher in the postwar years than in the prewar years. The whole economy is bigger in substance, and it is also operating at a higher price level. However, profits have risen rapidly in each year beginning with 1946, although national output has not risen rapidly. During the three quarters of 1948 for which final figures are available, profits before taxes increased at an annual rate of about $2,000,000,000 in each quarter, and after taxes they increased at an annual rate of more than a billion dollars in each quarter. Further, as a percentage of sales, corporate profits after taxes have risen constantly since 1946, which indicates that on a unit basis prices rose faster than costs. In the third quarter of 1948, profits after taxes as a percentage of sales were higher even than in 1929 and very much higher than in the last prewar year 1939. The figures showing the ration of profits to sales are not conclusive, because in an expanding economy profits should not maintain a fixed ratio to sales. As a percentage of net worth, corporate profits after taxes, which stood at

CHART 31

CORPORATE PROFITS
All private corporations



* EXCLUDES FINANCE, INSURANCE, AND REAL ESTATE.

** ESTIMATES BASED ON INCOMPLETE DATA; PROFITS FOR 1948 INCLUDE ESTIMATE FOR 4TH QUARTER AT SAME LEVEL AS 3RD QUARTER.

SOURCES: DEPARTMENT OF COMMERCE, SECURITIES AND EXCHANGE COMMISSION, AND COUNCIL OF ECONOMIC ADVISERS.

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5.1 percent in 1929 and at 3.5 percent in 1939, have risen constantly since 1946 to an estimated 10.3 percent for 1948 as a whole and to 10.9 percent for the third quarter of 1948.

Even if it were to be conceded that a ratio of business investment to total activity as high as the current ratio is desirable and maintainable, which seems unlikely, chart 32 indicates that corporate profits after taxes have been higher than the amounts required to maintain recent or current levels of investment. Between 1947 and 1948, corporate profits after taxes increased by 2.7 billion dollars, undistributed profits increased by $2,000,000,000, while there was an actual decline of $2,000,000,000 in corporate uses of funds.

Changes in corporate profits after taxes, undistributed profits, and corporate use of funds, 1947 to 1948

[Billions of dollars]

Item	1947	1948 [1]	Change from 1947 to 1948
Corporate profits after taxes	18.1	20.8	+2.7
Undistributed profits	11.2	13.2	+2.0
Corporate uses of funds	28.3	26.3	−2.0

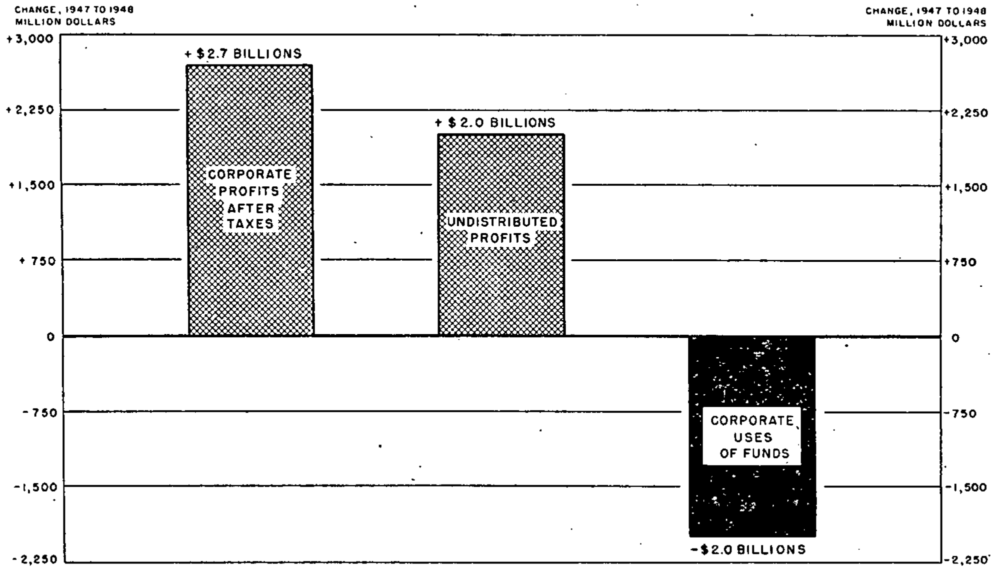
[1] Estimates based on incomplete data; profits for 1948 include estimate for fourth quarter at same level as third quarter.

Source: Department of Commerce.

It follows from the foregoing that in 1948 corporations financed a larger proportion of their capital requirements from internal sources than in 1947. Chart 33 shows that internal sources provided 53 percent of corporate new capital funds in 1947 and 65 percent in 1948. Retained net earnings and depletion allowances accounted for 36 percent of corporate new capital funds in 1947 and 46 percent in 1948. The capital funds requirements referred to are those needed to finance new plant and equipment, an increase in inventories, and an increase in customer financing. The gist of these figures supports the proposition that a lower rate of profits and retained earnings would have been consistent with a not lower or even higher rate of investment and business activity.

CHART 32

CHANGES IN CORPORATE PROFITS AFTER TAXES, UNDISTRIBUTED PROFITS, AND CORPORATE USES OF FUNDS, 1947 TO 1948



SOURCE: DEPARTMENT OF COMMERCE

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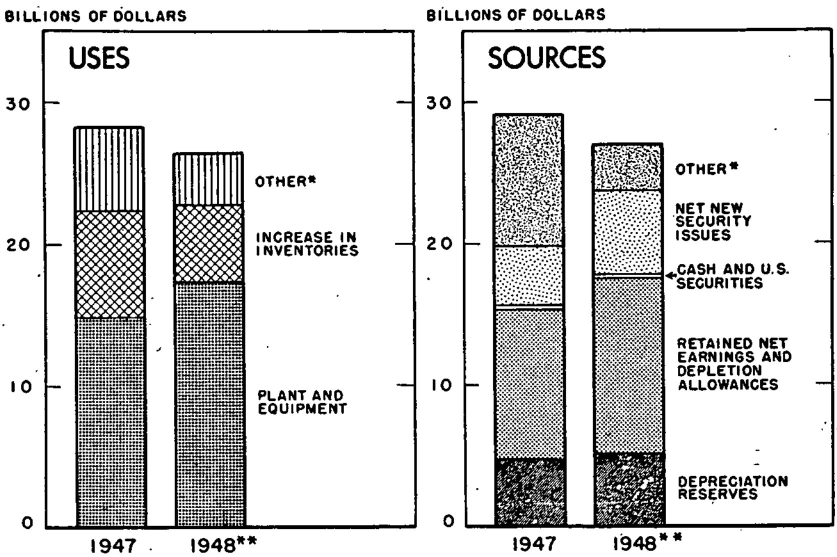
CHART 33

SOURCES AND USES OF CORPORATE FUNDS



* SEE THE ECONOMIC REPORT OF THE PRESIDENT, JANUARY 1949
** ESTIMATES BASED ON INCOMPLETE DATA
SOURCES: DEPARTMENT OF COMMERCE (ESTIMATES BASED ON SECURITIES AND EXCHANGE COMMISSION AND OTHER FINANCIAL DATA). COUNCIL OF ECONOMIC ADVISERS

Sources and uses of corporate funds, 1947 to 1948 [1]

[Billions of dollars]

Use or source of funds	1947	1948 [2]
Uses:		
Plant and equipment outlays	15.0	17.1
Inventories (increase in book value)	7.2	5.5
Increase in customer financing	5.9	3.3
Net repayment of RFC loans	.2	(3)
Other net uses	0	.4
Total uses of funds	28.3	26.3
Sources:		
Internal sources:		
Funds retained from operations:		
Depreciation reserves	4.5	4.9
Retained net earnings and depletion allowances	10.6	12.5
Reduction in cash and U. S. Government securities	.3	.2
External sources:		
Increase in bank loans:		
Short-term	1.6	.4
Long-term	1.3	.4
Increase in mortgage loans	.8	.8
New security issues:		
Bonds	3.1	4.8
Stocks	1.3	1.1
Increase in liability for Federal income tax	2.4	1.2
Increase in trade debt	2.4	.6
Other net sources	.8	0
Total sources of funds	29.1	26.9
Discrepancy (sources less uses)	.8	.6

[1] Excludes banks and insurance companies.
[2] Estimates based on incomplete data.
[3] Net increase (less than $50,000,000) of such loans.

Sources: Department of Commerce estimates based on Securities and Exchange Commission and other financial data.

Chart 34 throws further light upon the proposition that the current or even a higher rate of investment in new plant and equipment could be maintained with a somewhat lower level of over-all corporate profits. In 1948 mining and manufacturing received 66 percent of the total corporate profits after taxes, but accounted for only 50 percent of the total investment in plant and equipment. On the other hand, transportation and utilities received less than 9 percent of the total corporate profits after taxes, but accounted for 36 percent of the total investment in plant and equipment. Looked at in another way, from 1947 to 1948 the corporate profits after taxes in mining and manufacturing increased more than $2,000,000,000, but investment increased only about $700,000,000. In transportation and utilities, profits after taxes increased by about $320,000,000, while investment in plant and equipment increased by nearly 1.3 billion dollars. This shows, particularly when profits in the aggregate have reached exceptionally high levels, that there is not a very direct connection between a dollar of additional profits and a dollar of additional investment.

Increases in corporate profits after taxes and investment in new plant and equipment, 1947 to 1948

[All private corporations, by major industry group]

[Millions of dollars]

Industry	1947	1948 [1]	Increase, 1947 to 1948
Corporate profits after taxes:			
All industries	18,075	20,743	2,668
Manufacturing and mining	11,650	13,655	2,005
Transportation, communications, and utilities	1,508	1,829	321
Commercial and miscellaneous	4,913	5,259	346
Business investment in new plant and equipment:			
All industries	14,270	16,640	2,370
Manufacturing and mining	7,540	8,260	720
Transportation, communications, and utilities	4,770	6,060	1,290
Commercial and miscellaneous	1,960	2,320	360

[1] Estimates based on incomplete data; profits for 1948 include estimate for fourth quarter at same level as third quarter.

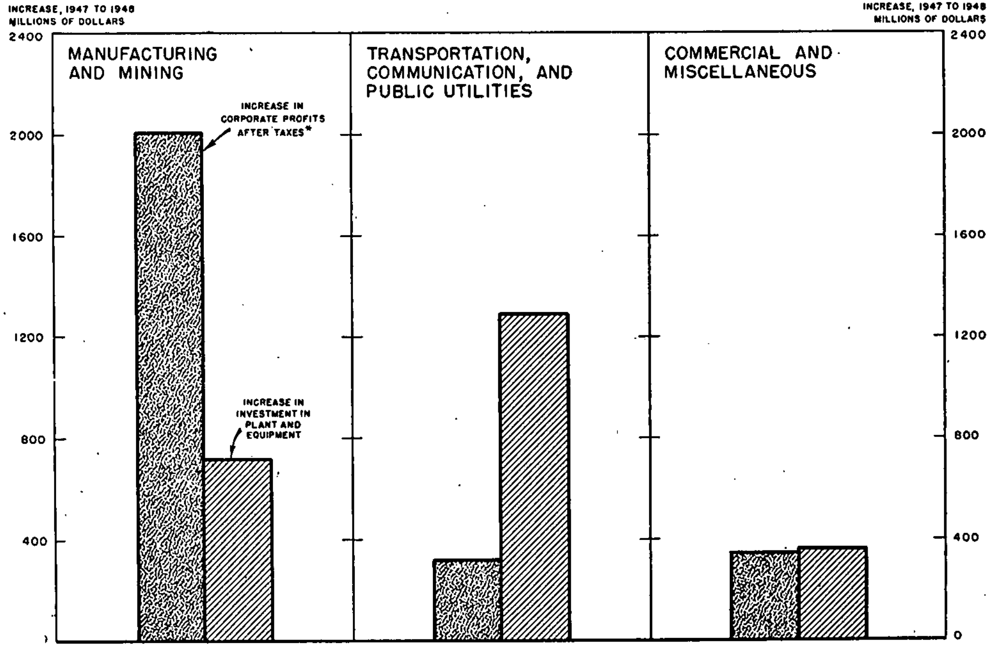
NOTE.—Detail will not necessarily add to totals because of rounding.
Sources: Department of Commerce and Securities and Exchange Commission.

While there is a good deal of discussion of the inadequacy of equity capital, relatively little attention has been given to whether this has imposed strictures upon desirable levels of business investment or merely means that corporations are attaining relatively more of their needed funds through retained earnings. The latter seems to be the case, although there are undoubtedly many small businesses that find difficulty in obtaining capital, and the implications of this will be subsequently discussed. There would probably be a larger use of equity capital as that term is commonly used if a larger part of profits were distributed in dividends and a smaller part of business needs were financed from undistributed profits. As chart 35 shows, dividend payments were 69 percent of corporate profits after taxes in 1929, 76 percent in 1939, and only 37 percent in 1948.

CHART 34

INCREASES IN CORPORATE PROFITS AFTER TAXES AND IN INVESTMENT IN PLANT AND EQUIPMENT, 1947 - 1948

All private corporations, by major industry groups.



* PROFITS FOR 1948 INCLUDE 4TH QUARTER ESTIMATE AT LEVEL OF 3RD QUARTER.

SOURCES: DEPARTMENT OF COMMERCE AND SECURITIES AND EXCHANGE COMMISSION

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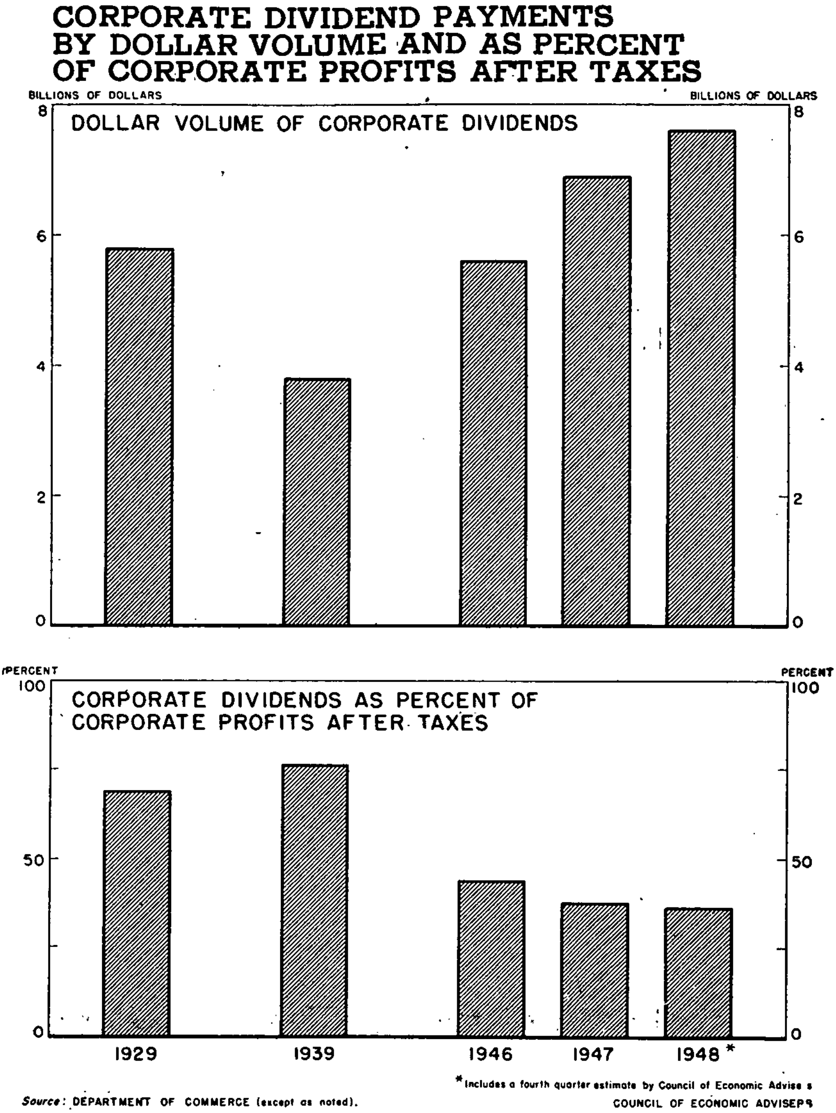
CHART 35



Corporate dividend payments by dollar volume and as percent of corporate profits after taxes, selected years, 1929 to 1948

Year	Corporate dividend payments (billions of dollars)	Corporate profits after taxes (billions of dollars)	Dividend payments as percent of profits after taxes
1929	5.8	8.4	69
1939	3.8	5.0	76
1946	5.6	12.8	44
1947	6.9	18.1	38
1948 [1]	7.6	20.8	37

[1] Profits for 1948 include estimate for fourth quarter at same level as third quarter.

Source: Department of Commerce.

Most of the debate between those who fear that some prices and profits are unduly high, and those who contend that they are not, does not rest primarily upon disagreement upon basic facts or even upon current economic analysis. It rests instead upon different assumptions regarding longer-range economic objectives. Those who defend in toto the current levels of prices and profits do not generally say that they are sustainable. But they do say that an exceptionally high level is needed now to carry business over a period in the future, when they expect the business cycle to turn downward and employment and production to be much lower. This line of reasoning, in my opinion, is subject to two deficiencies: First, as a Nation we cannot afford to act upon the assumption of another recession or depression, but instead must do all we can to prevent it; and second, the very policies designed to provide profits high enough to protect against a substantial economic downturn conspire to bring on that downturn by creating current maladjustments. Those who say that some prices and profits are now on the high side believe that the ironing out of the business cycle is an attainable objective, that business will earn more profits in the long run if this is achieved, and that present price and profit policies should be adjusted to this assumption in the interests both of business and of the whole economy.

In fact, the commonly-heard statement about how rapidly profits and prices would decline or disappear even with a relatively slight business downturn is a realistic recognition on the part of business that it can no more afford a recession or depression than other parts of the economy. The high "break-even" point in many industries is well known. It follows that the maintenance of maximum production and employment, under which conditions business will always be assured a rewarding rate of profit, is far more important to the business community than the maintenance of a particularly high rate of profit for a short period of time.

This leads to a suggestion for business policy. As we move this year into some readjustments in the price-cost-income structure, business should realize that even from its own viewpoint some profit relinquishment or even profit sacrifices should be preferred to cost reductions through lay-offs or lowered production schedules. Reductions of employment and production cannot be helpful to business in the long run; some price and profit adjustments would be helpful by brightening the long-run outlook.

Of course, it may be said that no single business or industry, even when it recognizes the policies required for sustained prosperity and stability, can afford by itself to put these policies into effect. It must seek instead to make hay while the sun shines because others are doing likewise. I appreciate the difficulties involved, and I am completely sympathetic toward the problems of each industry or business as it seeks to wrestle with them. But the fact that no one industry or business can afford to act alone in the interests of stability does not dispose of the problem. Instead, it indicates why national policies as well as business policies are required to create an environment favorable to economic stability and to the long-run business prosperity that goes with it.

The final specific problem which I should like to discuss involves the question of whether sufficient capacities exist in certain basic industries to supply the needs of a stable and growing economy operating at maximum general levels of production and employment.

CAPACITY NEEDS AND MAXIMUM PRODUCTION

I am in agreement with the proposition that, in some instances, capacity expansion is required far in excess of that indicated by current or revealed business plans, if maximum production throughout the economy is to be maintained.

Let me begin by analyzing two of the arguments advanced against the validity of this proposition.

First, it is argued that it would be inconsistent to undertake capacity expansion at a time when some softening of demand is beginning to appear or may subsequently appear. Quite aside from the fact that actual demand now and for the foreseeable future far exceeds supply in those critical areas where capacity expansion is most needed, the proposition that our national output should be reduced downward to meet falling demand is a defeatist rejection of the central purpose of the Employment Act. That act pledges our every effort to the realization of a sound idea as old as the history of economic thought: That there are no limits to human needs, and that the great blessing of ability to produce more goods should not be surrendered for want of ability to distribute these goods. This is why the Employment Act emphasizes maximum purchasing power, which sets before us the task of achieving the distributive machinery whereby we can continue to enjoy to the fullest our unrivalled resources of productive power.

Production, indeed, cannot exceed our resources, and it is limited also by decisions affecting the relative values that we may place upon more goods and more leisure. But it should not be limited by a confession of inability to find markets for what we can produce. The needs and worthy desires of the American people are boundless, and there are world needs also to be served.

The second argument against the expansion of our productive power—that backlogs created by the war are being worked down and that demand will be lowered as soon as this process is completed—may be true for a select number of things. But as a generalization applied to the economy as a whole or to such basic products as steel or electric power, it is tantamount to saying that, in the future as in the past, periods of high production and employment must be followed by periods of lowered production and employment because the boom must end up in a bust. The essence of our problem now is to turn production along paths where, instead of backlogs to be worked down, there is an endless opportunity to improve the whole range of living standards of the people.

In the main, the dispute as to whether the capacities of certain basic industries are sufficient does not turn primarily upon disagreement as to the amount of capacity required for sustained maximum employment and production. It turns rather upon whether the industry in question is assuming continuous high levels of employment and production or assuming a repetition of the business cycle. If we were necessarily committed by inexorable economic laws to a serious downturn in economic activity after the postwar boom, then any basic industry would be quite correct in claiming that it could not run the risk of expanding its capacities further. But when we set forth the objective of constant growth at a rate of 3 percent or better per year, then it becomes relatively clear that some basic industries do not now have, and are not now planning for, capacities adequate to the load of effective demand that will confront them if the objectives of the Employment Act are to be realized.

There is no inconsistency between this and what I have said in previous portions of this statement. In the first place, the point I made that the current levels of total business investment probably cannot expand as rapidly as total economic activity should expand is entirely consistent with the point that some highly strategic lines of business investment should expand more rapidly than they are now doing. In the second place, what I have already said about some prices and some profits is not inconsistent with the proposition that investment in some areas should be increased. For in these very areas, in the main, present price and profit levels are more than adequate to finance and justify expansion if high future demand is assumed. And no level of prices or profits would justify further expansion if a high level of future demand is not assumed. The problem is not primarily one of financing, but rather one of the business outlook. It should be said, however, that while there is no general dearth of funds, there are some specific businesses that are finding it harder to obtain capital and could make a worthy contribution toward overcoming specific shortages if they were facilitated in obtaining capital.

As chart 36 shows, higher prices will not in themselves stimulate increasing industrial production.

Wholesale prices and industrial production, 1946–49

[June 1946=100]

Month	Index of wholesale prices other than farm products and foods [1]	Index of industrial production [2]	Month	Index of wholesale prices other than farm products and foods [1]	Index of industrial production [2]
1946—June	100.0	100	October	132.7	112
July	103.7	101	November	134.6	113
August	105.7	105	December	137.8	113
September	106.3	106	1948—January	140.4	114
October	109.7	107	February	139.8	114
November	114.3	108	March	139.9	112
December	118.1	107	April	140.8	111
1947—January	121.6	111	May	141.4	113
February	122.5	111	June	141.6	113
March	124.7	112	July	143.1	109
April	125.4	110	August	145.0	112
May	125.3	109	September	145.2	113
June	124.6	108	October	145.0	115
July	126.4	104	November	145.2	115
August	129.0	107	December	144.7	113
September	131.0	110	1949—January	144.7	113

[1] Converted from the reported base, 1926=100.
[2] Converted from the reported base, 1935-39=100; seasonally adjusted.

Sources: Department of Labor and Board of Governors of the Federal Reserve System.

Since June 1946, the index of wholesale prices for other than farm products and foods has increased 44.7 percent, but the index of industrial production has gone up only 13 percent. Since January 1947, the price index has gone up from 121.6 to 144.7 percent, or about 19 percent, while the production index has gone up only from 111 to 113, or less than 2 percent.

CHART 36

WHOLESALE PRICES and INDUSTRIAL PRODUCTION

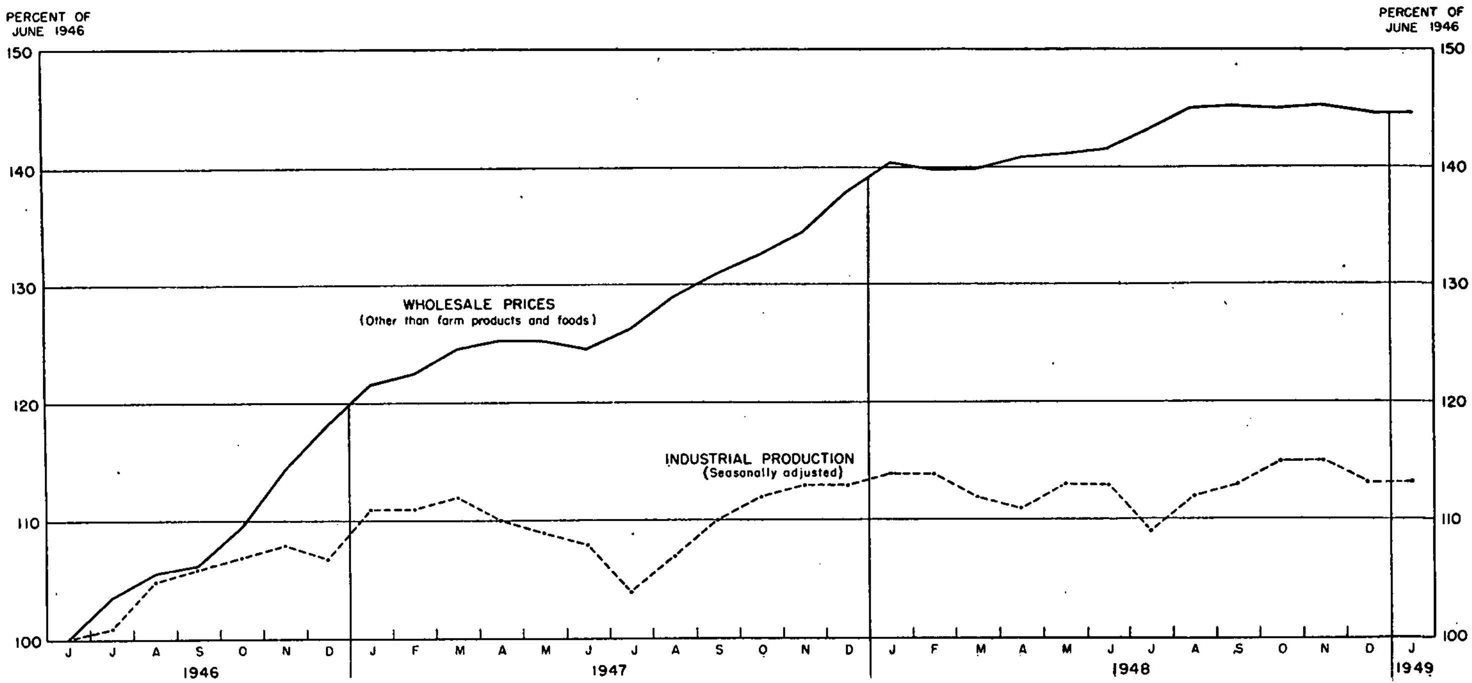
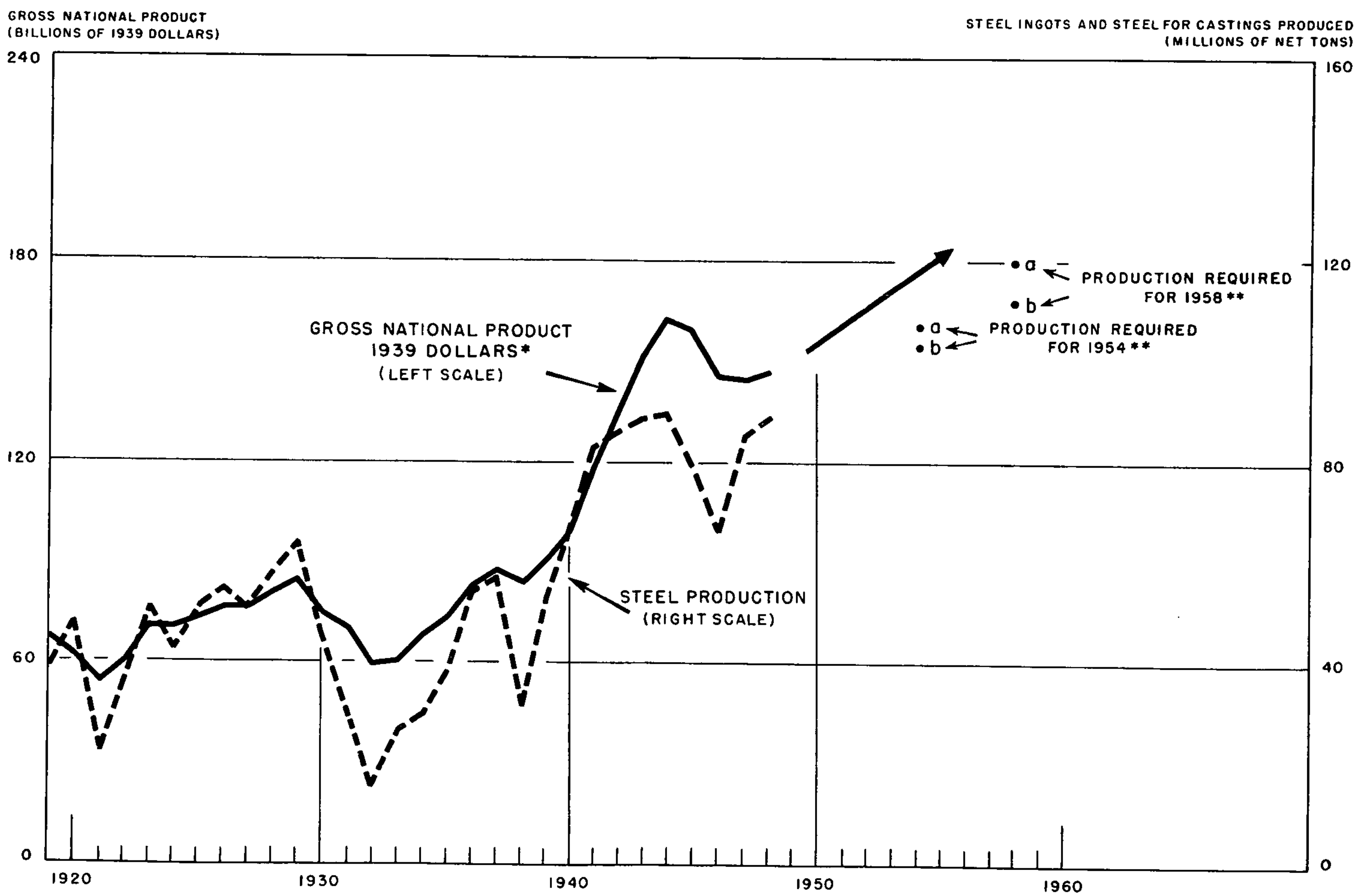


Chart No. 37

STEEL PRODUCTION AND GROSS NATIONAL PRODUCT (1939 DOLLARS)



* CURRENT DOLLAR ESTIMATES DIVIDED BY CONSUMERS' PRICE INDEX, 1939=100, ADJUSTED FOR UNDERSTATEMENT DURING CONTROL PERIOD.

** ESTIMATES FOR STEEL PRODUCTION REQUIRED FOR FULL EMPLOYMENT IN 1954 AND 1958 BASED ON GNP OF ABOUT $175 BILLION AND $200 BILLION (1939 DOLLARS) RESPECTIVELY IN THOSE TWO YEARS. ESTIMATES "a" ASSUME THE SAME RATIO BETWEEN STEEL USE AND GNP AS IN 1948. ESTIMATES "b" ALLOW FOR A SHIFT IN USE PATTERNS FOR STEEL.

SOURCES: DEPARTMENT OF COMMERCE, DEPARTMENT OF LABOR, COUNCIL OF ECONOMIC ADVISERS, AND OTHER SOURCES.

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By way of illustrating the capacity problem, the steel industry is very significant. Chart 37 shows the relationship between steel production and gross national product from the end of World War I through 1948. The chart indicates a considerable correlation between steel output and total national output. But it also shows that the ups and downs of steel production have been much sharper and more drastic than the ups and downs of total national production. This illustrates the enormous stake which an industry such as steel has in the stabilization of the economy generally. It also suggests how much a stable employment and production pattern in the steel industry would contribute toward general economic stability.

Steel production and gross national product (1939 dollars), 1919–58

Year	Gross national product (billions of 1939 dollars) [1]	Steel production (millions of net tons)	Year	Gross national product (billions of 1939 dollars) [1]	Steel production (millions of net tons)
1919	66.8	38.8	1936	82.7	53.5
1920	62.2	47.2	1937	87.3	56.6
1921	54.4	22.2	1938	83.5	31.8
1922	61.0	39.9	1939	90.4	52.8
1923	70.6	50.3	1940	99.7	67.0
1924	70.3	42.5	1941	[2] 118.4	82.8
1925	72.8	50.8	1942	[2] 134.9	86.0
1926	75.9	54.1	1943	[2] 151.5	88.8
1927	76.4	50.3	1944	[2] 162.6	89.6
1928	80.2	57.7	1945	[2] 159.1	79.7
1929	84.3	63.2	1946	[2] 145.7	66.6
1930	75.7	45.6	1947	[2] 144.4	84.8
1931	69.4	29.1	1948	[2] 146.7	88.5
1932	59.4	15.3	1954		[4] *a* 107, *b* 103
1933	60.0	26.0			
1934	67.4	29.2	1958	[3] 200	[4] *a* 120, *b* 112
1935	73.2	38.2			

[1] Current dollar estimates deflated by the consumers' price index, 1939=100, adjusted for understatement from December 1941–February 1947. Estimates for 1919–28 by Council of Economic Advisers.
[2] Deflated gross national product is not an exact measure of output in war or postwar years because of the shift in composition and quality of product.
[3] Target estimate for 1958 based on annual increase of output of about 3 percent. (The Annual Economic Review, January 1949, a report to the President by the Council of Economic Advisers, p. 52.)
[4] Estimates for steel production required for full employment in 1954 and 1958 based on GNP of about $175,000,000,000 and about $200,000,000,000 (1939 dollars) respectively in those 2 years. Estimate *a* assumes the same ratio between use of steel and GNP as in 1948. Estimate *b* allows for a shift in use patterns for steel.

Sources: Council of Economic Advisers, Department of Commerce, Department of Labor, and American Iron and Steel Institute.

The arrow in the right-hand segment of this chart indicates that, if maximum employment and production are maintained, our gross national product should increase by about 20 percent from 1948 to 1954, and by about 35 percent from 1948 to 1958. The letters "a" and "b" indicate upper and lower range estimates of the amount of steel that would be required by 1954 and 1958 respectively, if the economy as a whole achieves this stable rate of growth. The upper range, indicated by the letter "a," assumes the same ratio between the demand for steel and the gross national product as in 1948. The lower range, represented by the letter "b," takes into account certain studies of shifts in the use patterns for steel. According to the higher estimate, steel ingots and steel for castings requirements would be 107 million net tons in 1954 and 120 million net tons in 1958, compared with actual production of 88.5 million in 1948. According to the lower estimate, the requirements would be 103 million net tons in 1954 and 112 million net tons in 1958. This range of estimates has been selected in order to allow for detailed differences in computing requirements.

Chart 38 shows, for steel ingots and steel for castings, production and capacity covering the same period as the previous chart—from the end of World War I until now.

Steel production and capacity, 1919–51 and production requirements for 1948–58

[Millions of net tons]

Year	Steel production	Steel capacity [1]	Projection of production requirements 1948–58	Year	Steel production	Steel capacity [1]	Projection of production requirements 1948–58
1919	38.8	55.1		1938	31.8	80.2	
1920	47.2	55.9		1939	52.8	81.8	
1921	22.2	57.1		1940	67.0	81.6	
1922	39.9	59.0		1941	82.8	85.2	
1923	50.3	59.3		1942	86.0	88.9	
1924	42.5	59.9		1943	88.8	90.6	
1925	50.8	61.8		1944	89.6	93.9	
1926	54.1	63.5		1945	79.7	95.5	
1927	50.3	65.9		1946	66.6	91.9	
1928	57.7	66.4		1947	84.8	91.2	
1929	63.2	70.0		1948	88.5	94.2	[4] 100
1930	45.6	71.5		1949	[2] 92.5	96.1	
1931	29.1	75.8		1950	[2] 94.6	[3] 98.3	
1932	15.3	77.2		1951	[2] 95.1	[3] 98.8	
1933	26.0	77.0		1954			[5] *a* 107; [5] *b* 103
1934	29.2	78.1					
1935	38.2	78.5		1958			[5] *a* 120; [5] *b* 112
1936	53.5	78.2					
1937	56.6	78.1					

[1] All capacity figures are as of Jan. 1 except those given for 1941–45, which are averages of Jan. 1 and July 1. The capacity figures for 1919–33 have been adjusted for changes in the basis of reporting.
[2] Production possible at 96.3 percent of Jan. 1 capacity.
[3] Capacity scheduled by the steel industry.
[4] Estimated 1948 level of domestic demand plus actual 1948 exports (Department of Commerce).
[5] Estimates for steel production required for full employment in 1954 and 1958 based on GNP of about $175,000,000,000 and about $200,000,000,000 (1939 dollars) respectively in those 2 years. Estimate *a* assumes the same ratio between use of steel and GNP as in 1948. Estimate *b* allows for a shift in use patterns for steel.

Source: American Iron and Steel Institute (1919–51, except as noted).

It indicates a fairly steady growth of capacity, but an extremely irregular production pattern which in many years carried production far below capacity and in 1932 carried it down to less than 20 percent of capacity. If one were to assume that the economy in general would be as unstable in the future as it has been in the past, there would be many years in the future when steel production would fall very far below capacity. This is the argument most strongly advanced by those skeptical of large increases in capacity. But the chart is designed primarily to show how far steel production fell below requirements in the high-level prosperity year 1948, and also to show how estimated steel production requirements for 1954 and 1958 under the assumption of maintaining high-level prosperity rises far above the highest production that could result from the expansion plans now revealed by the steel industry. In 1948, as the chart shows, steel production was 88.5 million net tons, or about 11 million below estimated requirements of nearly 100 million net tons. In 1949, it is expected that production may reach 92.5 million tons. That figure would represent production at 96.3 percent of rated capacity, a ratio higher than has been recorded

Chart No. 40

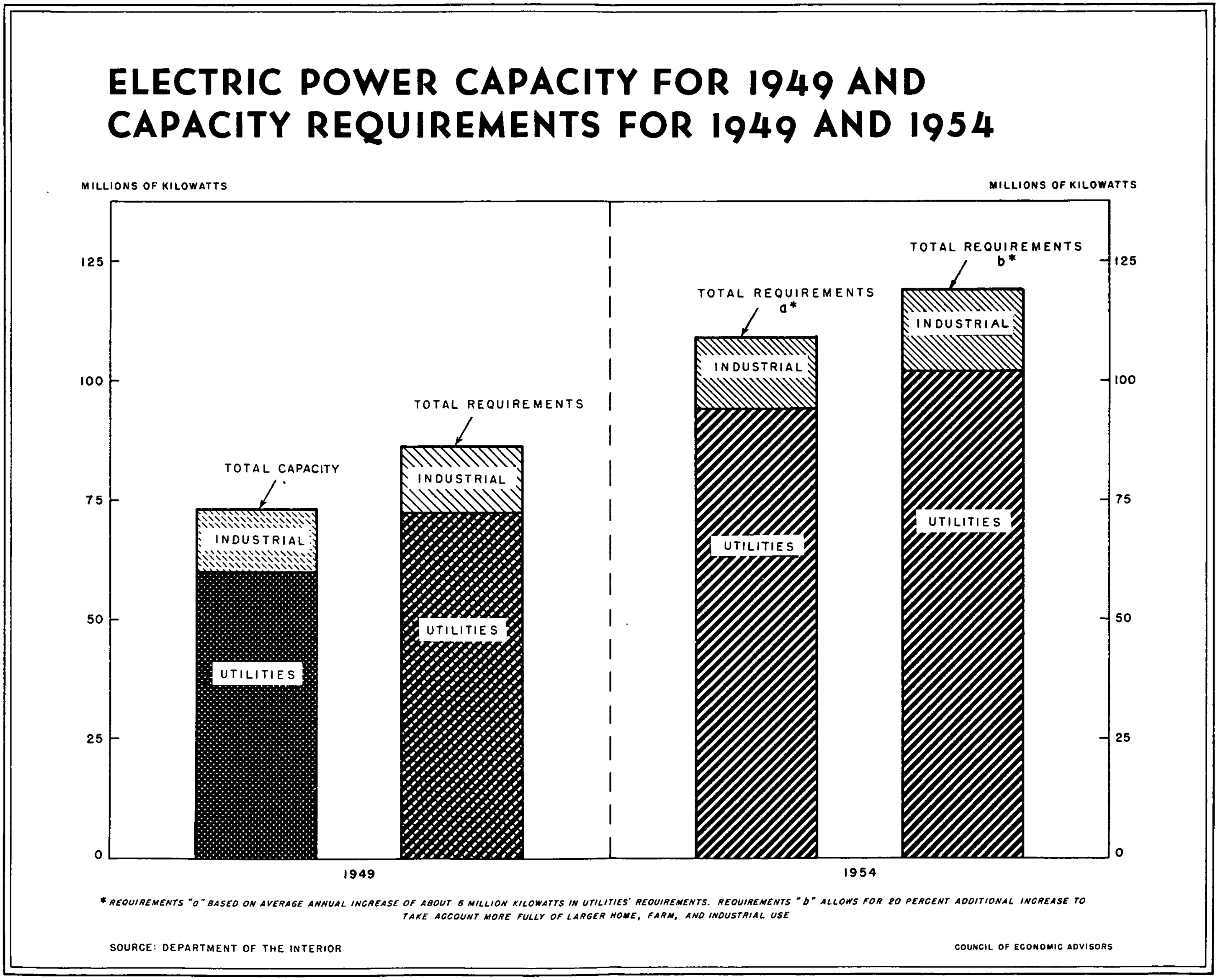

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CHART No. 39

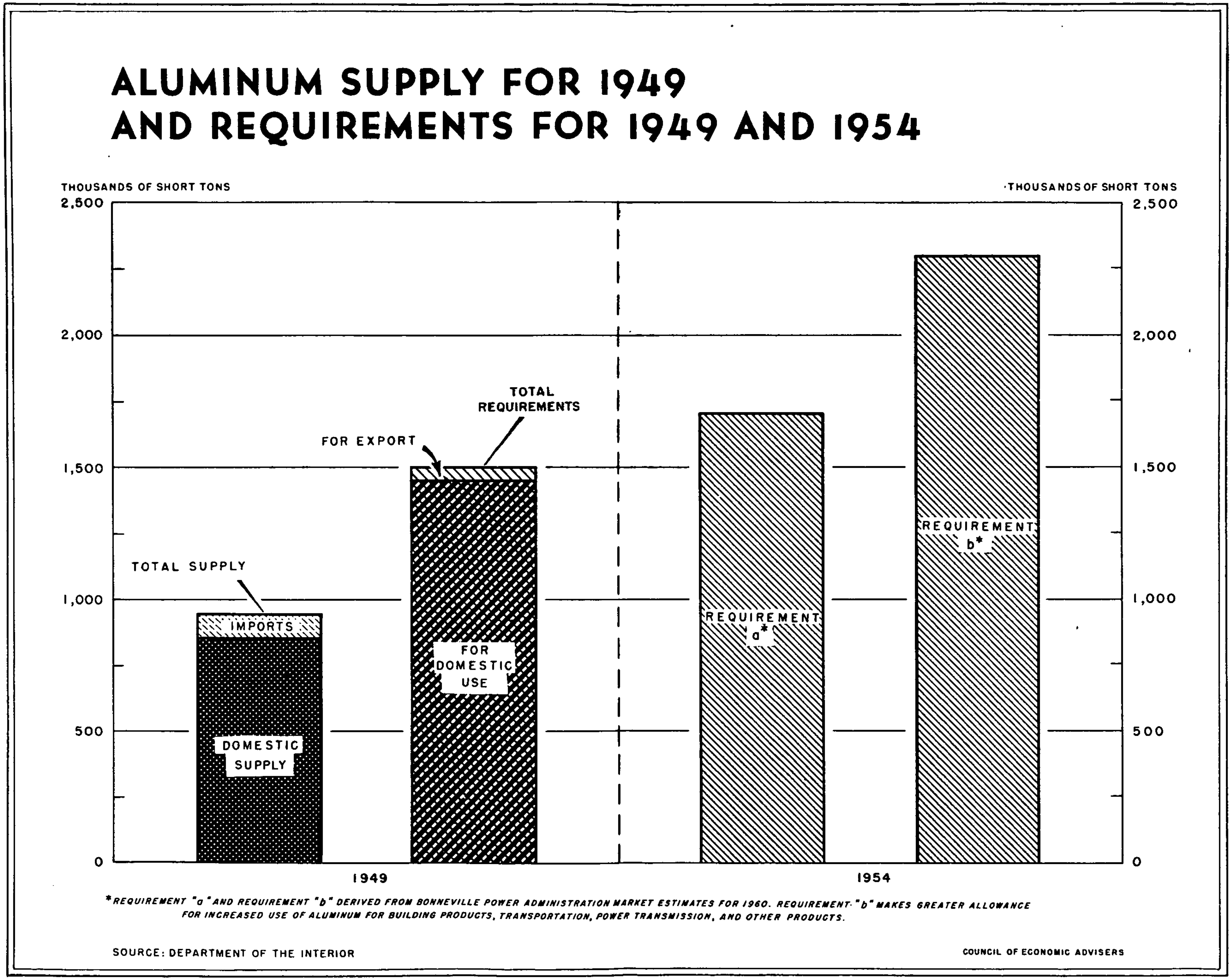

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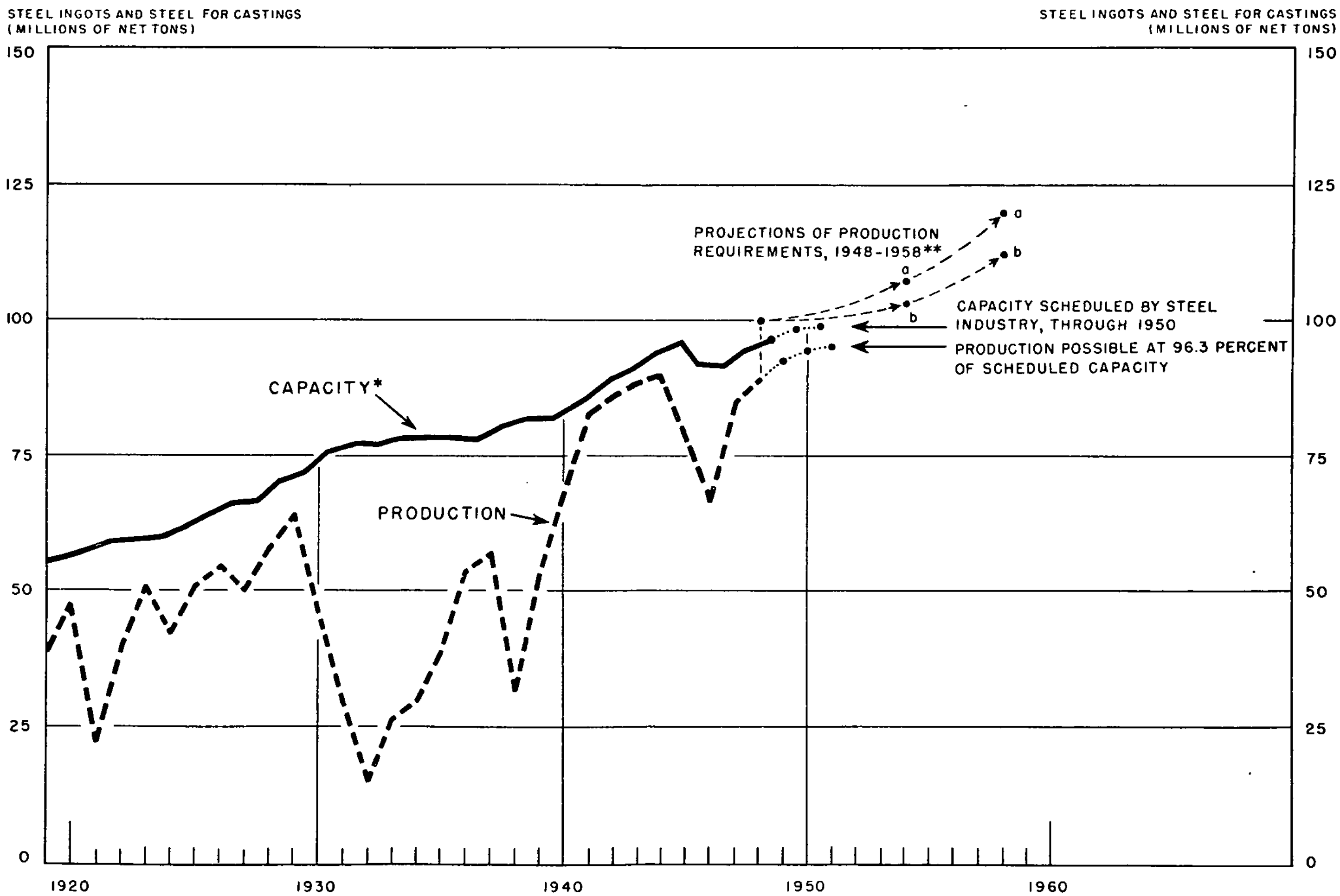
CHART NO. 38

STEEL PRODUCTION AND CAPACITY



* *CAPACITY ESTIMATES ADJUSTED TO ALLOW FOR CHANGES IN REPORTING BASIS*

** *ESTIMATES FOR STEEL PRODUCTION REQUIRED FOR FULL EMPLOYMENT IN 1954 AND 1958 BASED ON GNP OF ABOUT $175 BILLION AND $200 BILLION (1939 DOLLARS) RESPECTIVELY IN THOSE TWO YEARS ESTIMATE "a" ASSUMES THE SAME RATIO BETWEEN STEEL USE AND GNP AS IN 1948 ESTIMATE "b" ALLOWS FOR A SHIFT IN USE PATTERNS FOR STEEL.*

SOURCES: DEPARTMENT OF COMMERCE, COUNCIL OF ECONOMIC ADVISERS, AND OTHER SOURCES

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for any peacetime year. Assuming continuance of that high rate of capacity utilization and allowing for capacity expansion plans thus far announced by the industry, we could turn out 94.6 million tons in 1950 and 95.1 million tons in 1951. These figures are shown on the chart. The matter of central significance on this chart is the spread between the line showing production prospects under the revealed capacity plans of the steel industry and the two lines showing two estimates of steel requirements consistent with a stable and growing economy of maximum production and employment over the next 10 years.

Chart 39 relates to aluminum.

Aluminum supply for 1949 and requirements for 1949 and 1954

Item	Thousands of short tons
1949—Supply:	
Domestic supply	855,000
Imports	90,000
Total	945,000
Requirements:	
For domestic use	1,450,000
For export	50,000
Total	1,500,000
1954—Requirements:	
a [1]	1,700,000
b [1]	2,300,000

[1] Requirement *a* and requirement *b* derived from Bonneville Power Administration market estimates for 1960. Requirement *b* makes greater allowance for increased use of aluminum for building products transportation, power transmission, and other products.

Source: Department of the Interior.

For 1949, it shows an estimated total aluminum supply of 945,000 short tons and estimated total requirements of 1,500,000 short tons. For 1954, two estimates of requirements are made. The *a* estimate comes to 1,700,000 short tons and the *b* estimate comes to 2,300,000 short tons. On the supply side, the present outlook is for little, if any improvement between 1949 and 1954. While present industry plans call for an increase in primary capacity of about 57,000 tons, this may be offset partially or wholly by decreases in secondary output. The chief bottleneck to the further increase of supply is the shortage of electric power. Nearly all primary aluminum is produced by hydropower and 70 percent by Federal hydropower, 50 percent in the Northwest and 20 percent in the Tennessee Valley. In general, privately owned electric utilities are reluctant to forego more profitable markets in order to make increasing supplies of power available for an expanding aluminum industry, and even if willing, are not equipped to supply the huge amounts of power required by the aluminum industry.

Chart 40 shows electric power capacity for 1949, and estimated capacity requirements for 1949 and 1954. The total capacity for 1949 is about 73.2 millions of kilowatts, contrasted with estimated requirements of 86.6 millions A lower and higher range of estimated requirements for 1954 come to 109 and 119 millions of kilowatts, respectively.

Electric power capacity for 1949 and capacity requirements for 1949 and 1954

Item	Millions of kilowatts
1949—Capacity:	
Utilities	60.0
Industrial	13.2
Total	73.2
Requirements:	
Utilities	72.6
Industrial	14.0
Total	86.6
1954—Requirement *a*: [1]	
Utilities	94
Industrial	15
Total	109
Requirement *b*: [1]	
Utilities	102
Industrial	17
Total	119

[1] Requirements *a* based on average annual increase of about 6 million kilowatts in utilities' requirements. Requirements *b* allows for 20 percent additional increase to take account more fully of larger home, farm, and industrial use.

Source: Department of the Interior.

I have introduced these capacity, production, and requirements charts mainly to identify some of the magnitudes of this problem, in the course of a discussion of its general economic significance. Other witnesses, more expert in specialized fields, will bring much more detailed analysis to bear upon various present and prospective shortages in critical areas.

Returning to my primary concern—the general economic significance of the capacity expansion problem—let me reiterate what I said before. An industrial price or profit or capacity policy which gears itself not to the requirements for stability and growth throughout the economy, but rather to the expectation of economic decline, tends to bring on the very calamity which it fears. The more important the industry, the more meaningful this statement becomes. For example, inadequate steel output causes curtailments of production and employment in an industry such as the automobile industry. The unemployment of automobile workers causes a softening in demand for the products which they buy. This in turn affects other parts of the economy. Then, following a circular line of reasoning, it is argued that the softening of demand justifies the nonexpansionist policies of the basic industry. Our national interests should not permit the perpetuation of this vicious cycle.

But this problem will not and cannot be solved by attempting to pillory any particular industry, however far short of the national need its plans for expansion may be. No one industry alone can create an economic climate that will assure sustained prosperity throughout the economy. And, therefore, no one industry alone can be expected to act as if such a favorable economic climate were assured unless action is taken by all those who together can reasonably assure it.

Because the Government, not only by virtue of the Employment Act, but by the compelling realities of our economic life is the largest single factor in determining the economic climate, the Government above all must apply those consistent policies which will add up to that assurance. But neither Government nor private enterprise alone can create the economic climate which will determine whether the American economy moves toward periodic catastrophe or toward constant growth. The answer is to be found in the whole range of private and public policies, as they are brought to bear upon the current and foreseeable economic situation.

I shall now endeavor to summarize the current economic situation as I see it, to appraise the immediate economic outlook insofar as it may be discernible, and to point up some of the most pressing problems—all toward the end of evaluating a program of timely action to further our economic progress and stability.

Mr. RICH. Let me ask you this question right there. The greater the capacity an industry has and the more efficiently that industry is operated up to what they figure to be 100 percent, anything they can do over that capacity increases their profits proportionately a great deal more than their average profits, does it not?

Mr. KEYSERLING. It shouldn't do that indefinitely; I think that would not be sound pricing policy.

Mr. RICH. It should and it does.

Mr. KEYSERLING. As volume expands, both costs and profits per unit should decline.

Mr. RICH. You take an industry that is operating at 110 or 115 percent of capacity now; while that one particular industry—it might be steel—could get the business, let us take other industries now. You would not expect them to expand, would you?

Mr. KEYSERLING. I would not expect an industry which is not getting business to expand. But just in conclusion——

Mr. RICH. I have not finished. The particular industry you are alluding to now is steel, is it not?

Mr. KEYSERLING. I am alluding to steel, aluminum, electric power, and a number of others which will be discussed more in detail by more specialized witnesses.

Mr. RICH. Well, the aluminum industry is not in short production, is it?

Mr. KEYSERLING. The aluminum industry is in short production.

Mr. RICH. That is news to me. I thought they were keeping up. Then the only thing is steel. I was going to ask you the question: If you were in the steel business and had this great exporting now of steel, would you want to put your capital which you are supposed to put out in the form of dividends—on account of section 201 (a) of the Revenue Act—would you put that into increased expansion of plant or would you continue on in a conservative line? What would you do?

Mr. KEYSERLING. What I would do is this: If I were in the steel industry, I would come before this Joint Committee on the Economic Report and say to you, "Gentlemen, we have a problem which we can solve only by working together. As a member of the steel industry acting alone I, of course, cannot assume that we are not going to have the same kind of boom and bust cycle that we had before. Big as I am, important as I may be—"

Mr. RICH. Well, now——

Mr. KEYSERLING. Let me tell you what I would do if I were a member of the steel industry.

Mr. RICH. Everybody in the country has been coming to the Government for things. Those steel men are big enough and independent enough to try to go out and do the things that they think are best for the country. They are doing it now to the very extent of their capacity. You want them now to come to the Government and ask the Government for aid and assistance?

Mr. KEYSERLING. I didn't say that.

Mr. RICH. Oh, yes; you did. You just now said that those steelmen would come into the Government and ask them to solve their problem.

Mr. KEYSERLING. No; that is not what I said.

Mr. RICH. I hope they run their business without Government aid or interference.

Mr. KEYSERLING. I think this will perfectly illustrate my point.

The CHAIRMAN. Will the witness suspend for a moment. I should like to say that the only reason this committee is here is to determine what, if anything, the Government can do within the framework of the free, competitive enterprise system. There is nobody on this committee who has any authority to go beyond the free, competitive enterprise system. All we are seeking to do here is to determine what the facts are. Anybody is entitled to make his presentation to this committee. The committee has already invited representatives of industry who have no connection with the Government to sit with the committee and to discuss the facts. After we have the facts we may reach conclusions. That is the system under which we are working. But until we get the facts it is altogether futile to discuss remedies or imagined remedies.

Mr. KEYSERLING. Thank you very much, Mr. Chairman.

In other words, I have not attempted in any way to pillory either the steel industry or any other industry. If I were a member of the steel industry, and Congressman Rich asked me that question, I would say that my primary obligation was quite properly to my stockholders and my business. I couldn't try to stabilize the whole economy by myself. The business outlook being what it is, I would hardly be justified in expanding unless I knew whether other policies were going to be undertaken to help stabilize the economy as a whole and maintain its constant growth. That is the very reason why there is an Employment Act of 1946. That is the very reason why this committee is here, as the chairman has so ably said; namely, to recognize that no one industry can—and certainly we must maintain the free, competitive system—no one industry——

The CHAIRMAN. Let us proceed and get the facts on the record. The argument will take place later among the members of the committee. I am sure Congressman Rich can take care of himself in any argument with the balance of us.

Mr. KEYSERLING. He certainly can.

Mr. HERTER. Mr. Chairman, might I interrupt for just a moment.

The chairman stated that the purpose of the hearings here is to stay within the framework of free, competitive enterprise, yet, unless I am incorrect, in the President's report which is now before us there has been the suggestion, at least, that the Government itself furnish capital to increase the capacity of the steel industry, the intimation being that the Government itself would go into the steel business to produce that increase in capacity.

I think the witness is probably getting to that point and I have some doubt as to whether that stays within the framework of what you mentioned.

Mr. RICH. That is what brought this whole thing up because when he said, "come to the Government" I was thinking about the President's speech.

The CHAIRMAN. May I say to the Congressman that he did not say "come to the Government"; he said "come to this committee." We have invited them to come to this committee. I suggest an argument about something the witness is going to say is utterly futile—wait until he says it.

Mr. KEYSERLING. May I summarize now, Mr. Chairman?

The CHAIRMAN. If you please.

SUMMARY OF CURRENT ECONOMIC SITUATION, IMMEDIATE OUTLOOK, AND PRESSING PROBLEMS

Mr. KEYSERLING. We are now at extremely high levels of national income and general well-being. Our total output is some 60 percent higher than in the best year before the war—1939—and our standard of living is very much higher despite the cost of preparedness and foreign aid. Income distribution is also better than before the war, which makes for improved economic stability. We have already built into the structure of our economy a number of fortifying elements, and through the Employment Act of 1946 we can develop the others that are needed.

According to the latest available figures, some on a quarterly and some on a monthly basis, consumer incomes, business incomes, personal incomes, national income, and total national output are at higher postwar levels than ever before. Employment, which fluctuates seasonally, exceeds that of a year ago. Industrial production is fluctuating within about 1½ percent of its postwar peak. Aggregate savings are at very high levels. Government demand for goods and services is also high and will increase throughout the year. Under this combination of factors, 1949 can and should be a very good year; in it we can and should achieve maximum employment and production.

But we can no longer achieve these ends automatically by the momentums gained during war. More positive efforts will be required. We should not be diverted from these efforts, or from the confidence necessary to undertake them, by spectacular distortions of very recent economic events. For example, the evolving employment situation should have our constant attention, but it presents as yet no reason for pessimism.

While total civilian employment dropped from 59,434,000 in December 1948 to 57,414,000 in January of this year, a decline of about 2,000,000, about 1,300,000 of this decline was accounted for by reductions in the labor force due to seasonal factors and to the withdrawal of some marginal persons who could not be expected to remain permanently employed. Actual civilian employment in January, 1949, estimated at 57,414,000, was above the level of any of the first 3 months of 1948, and 1948 was considered a boom year. Unemployment from December 1948 to January 1949 increased by about 700,000, but from December 1947 to January 1948, with a labor force smaller by one to two million, unemployment increased by about 400,000. Total unemployment in January 1949, estimated at about 2,664,000, is higher than in January 1948 but at approximately the same level as 2,639,000 in February 1948. The most recent signs are that the rate of increase in unemployment, which may continue seasonally for another month or two, is tapering off. While continued claims for State unemployment insurance rose by almost 93,000 during the week ending January 15, 1949, initial claims declined by more than 39,000. The outlook for a higher level of employment as the year progresses is good. Civilian employment increased by more than 4,000,000 from February to June 1948, held the extraordinarily high level of more than 61,000,000 throughout the summer months, and then started to decline as the school year and colder weather set in. The labor force is now so large and has in it so many marginal workers that considerable fluctuations are to be expected. In fact, the current level of unemployment is within or almost within a definition of maximum employment for this time of year.

Nor is there anything deeply disturbing in the most recent production trends. In December of last year, industrial production fell off about 1½ percent after reaching a new postwar peak in October and November, and preliminary estimates for January of this year indicate no change from the December level. Seasonally adjusted, the production of manufactured goods increased about 1 percent in January and this was offset by a drop of about 2 percent in mining. Nothing in the immediate production outlook seems threatening, but production is not showing the dynamic quality of growth of which our economy is capable.

Agricultural prospects are uncertain at this time of year. A record acreage of winter wheat was planted last fall, and with normal weather we should expect a continued high output of agricultural products. The recent bad weather in the West will force the liquidation of cattle and sheep in some areas, and may have damaged the winter wheat crop in some other areas. As yet there are no official estimates of the damage.

The immediate outlook seems good for a continued high level of business investment. The comprehensive McGraw-Hill survey for 1949 as a whole indicates a dollar level of investment in plant and equipment for the whole year of only about 5 percent below the 1948 level. This survey regards such level of business investment as consistent with a maximum employment economy, which is sound because of prospective changes in the composition of national expenditures as a whole. A Department of Commerce survey indicates, for the first quarter of 1949, a rise over the first quarter of 1948. This survey is now being completed for the rest of the year. An additional favorable factor is that business has been pursuing a cautious inventory policy. The rate of inventory accumulation slackened during the second half of 1948, and the ratio of inventories to sales remains good. Net foreign investment this year may be a bit below the 1948 level.

If this outlook for business investment is realized, any dollar decline in such investment below the 1948 level would be more than compensated for by increases in the rate of Government expenditures. As chart 41 shows, Federal cash payments to the public, which were at an annual rate of 38.7 billion dollars during the second half of 1948, are estimated on the basis of present and proposed legislation at 44.3 billion dollars for 1949. On this basis, Federal cash payments would increase, at an annual rate, by about 2.8 billion dollars from the second half of 1948 to the first half of 1949, and by about 5½ billion dollars from the first to the second half of this year.

CHART 41

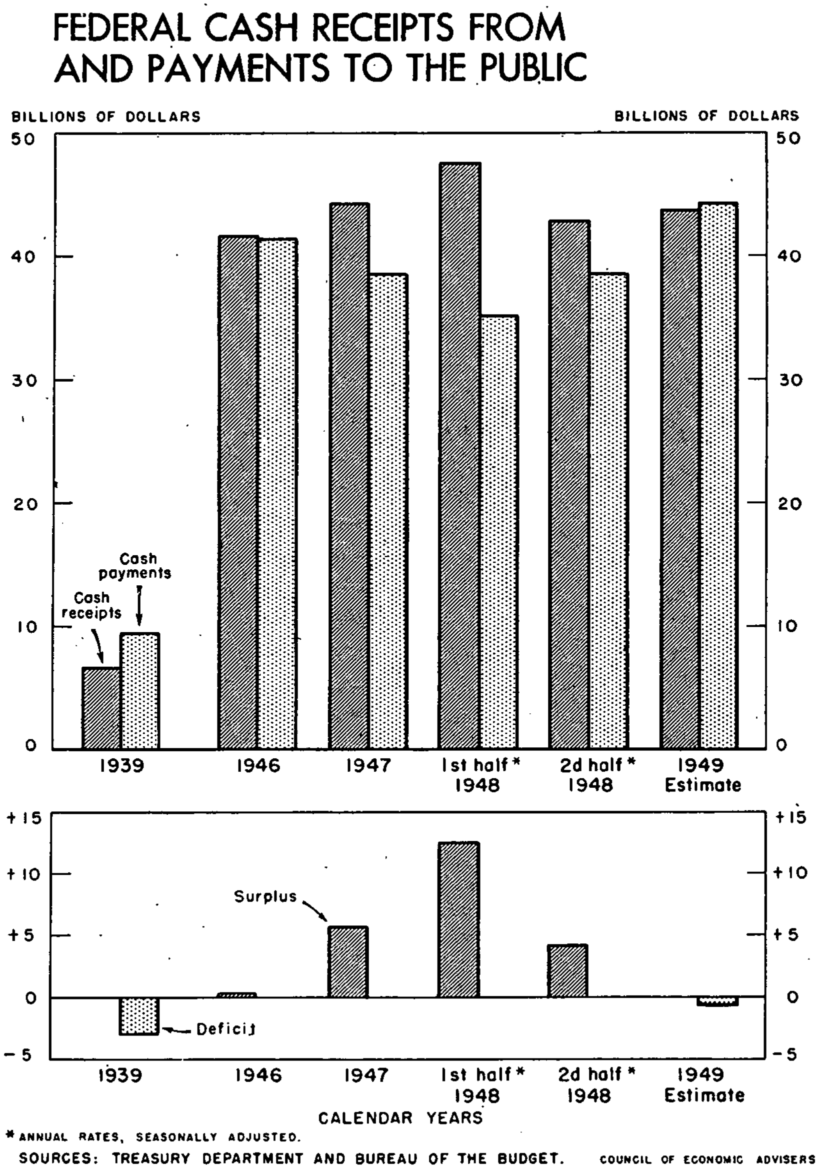
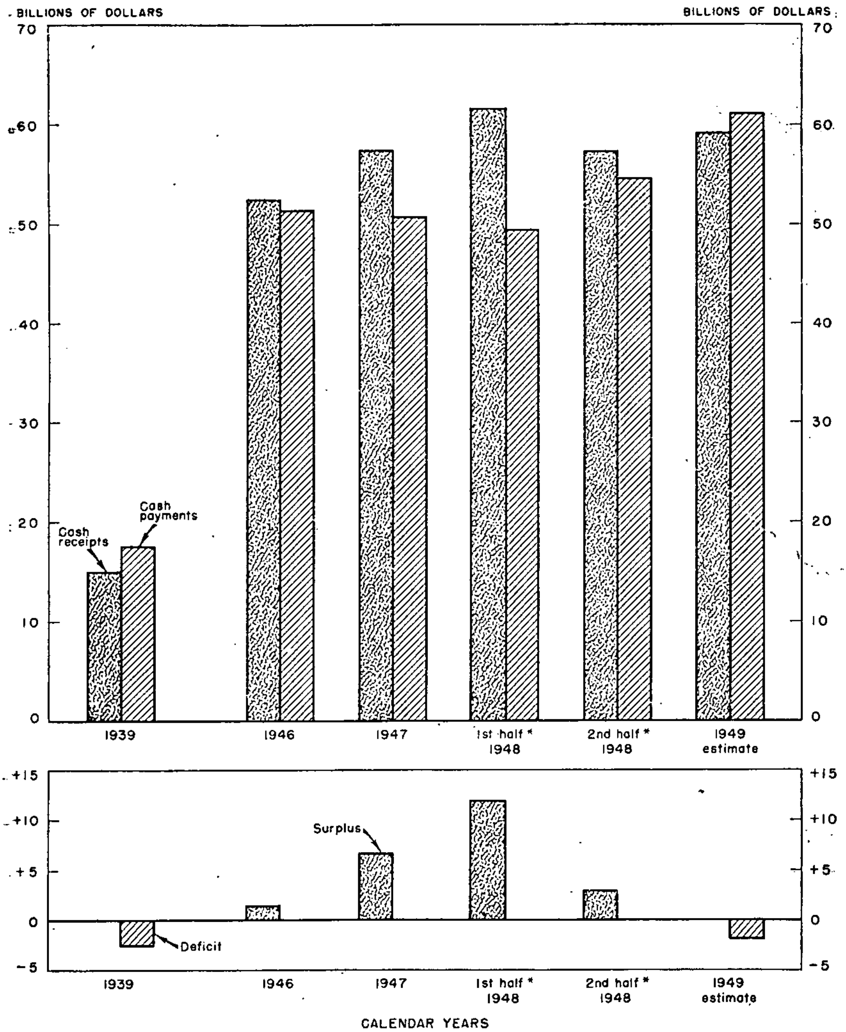


Chart 42 shows all Government cash payments to the public, including State and local as well as Federal, and indicates an increase in the annual rate from 54.6 billion dollars in the second half of 1948

Chart 42

GOVERNMENT CASH RECEIPTS FROM AND PAYMENTS TO THE PUBLIC



* ANNUAL RATES, SEASONALLY ADJUSTED.

SOURCES: TREASURY DEPARTMENT AND BUREAU OF THE BUDGET.

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to an estimated $61,000,000,000 for 1949. State and local expenditures alone may increase by a billion to a billion and a half dollars this year.

Federal cash receipts from and payments to the public, 1939 and 1946–49

[Billions of dollars; annual rates, seasonally adjusted]

Calendar year	Federal cash receipts	Federal cash payments	Surplus (+) or deficit (−)
1939	6.6	9.5	−2.9
1946	41.5	41.3	+.2
1947	44.3	38.6	+5.7
1948—First half	47.6	35.1	+12.5
Second half [1]	42.3	38.7	+3.6
1949 estimate [2]	43.7	44.3	−.6

[1] Based on incomplete data.
[2] Based on present and proposed legislation.

NOTE.—Detail will not necessarily add to totals because of rounding.
Sources: Treasury Department and Bureau of the Budget.

Government cash receipts from and payments to the public, 1939 and 1946–49, Federal, State, and local governments

[Billions of dollars; annual rates, seasonally adjusted]

Calendar year	Government cash receipts	Government cash payments	Surplus (+) or deficit (−)
1939	15.0	17.6	−2.6
1946	52.5	51.2	+1.3
1947	57.4	50.7	+6.7
1948—First half	61.5	49.6	+11.9
Second half [1]	57.4	54.6	+2.8
1949 estimate [2]	59.2	61.0	−1.8

[1] Based on incomplete data.
[2] Includes an estimate for Federal receipts and payments based on present and proposed legislation.

Sources: Treasury Department and Bureau of the Budget.

Under these levels of expenditures, charts 41 and 42 also indicate the budgetary position at current tax rates. For the Federal Government, alone, an annual rate of budgetary surplus of 12.5 billion dollars in the first half of 1948 and of 3.6 billion dollars in the second half of 1948 would be translated into an estimated deficit for 1949 with the deficit increasing as the year progressed. Taking the State and local situation also into account, the estimated deficit in 1949 would be greater. This trend, of course, has a profound bearing upon the prospect for continuance of inflationary factors.

In appraising the immediate economic outlook, let us remember that this Nation has not reached the frontiers of its growth and progress. There are no limits to the needs and desires of our domestic markets, and there are world markets as well. On balance, the economic weather ought to be bright during 1949, and within a decade, if we maintain maximum employment and production, we can increase our annual output by a third or better and correspondingly improve our standards of living.

But our economy, while more powerful than ever before, is not ipso facto more stable. We have not yet adopted the programs needed to iron out the business cycle, or at least to reduce the extent of of its ravages. Another major depression within the next 10 years, as much larger than the last one as our economy is now bigger than the prewar economy, could cost us about $800,000,000,000 in lost national income. Economic policy needs to concentrate upon this

$800,000,000,000 question, and the answer we provide will shape our own future and largely determine our place in world affairs.

Despite the basically favorable outlook for 1949, the process of inflation has by now generated at least two growing dangers or uncertain factors which require immediate attention.

The first of these uncertain factors, with increases in public expenditures about compensating for possible decreases in business investment and net foreign investment, is whether consumer buying power in real terms will increase sufficiently to absorb most of the 3 to 4 percent increase in total output which should result if maximum employment is maintained. There is already sound reason to question the buoyancy of consumer income in relation to the price-income structure, and recent unemployment developments while not alarming should provide a warning which ought not to go unheeded. Increases of unemployment in such consumer durable lines as electrical appliances, furniture, clocks and watches, and also in textiles and apparel, indicate some softening of consumer demand and call for policies, later to be discussed, to check the trend in this direction.

The second uncertain factor in the current economic situation has to do with the business climate, and the effect of that climate upon levels of business investment. Objective conditions are favorable now, but a further softening of consumer demand might create a recessionary psychology of damaging proportions. The only sound and lasting way to improve the business climate is not psychological. It is rather to improve the fundamental economic conditions which alone can provide the foundation for growth and stability. Business itself has a large share of the responsibility for improving these conditions, by not looking upon necessary price and income adjustments in the business structure as a cause for concern or as a reason for reducing employment and production. Instead, business should assist in guiding these adjustments along lines that will make for the sustained employment and production upon which business prosperity rests. Government also has large responsibilities for improving the economic climate favorable to business confidence and progress. The Employment Act of 1946 is designed for this purpose, and by making that act work we can keep our business system and labor force fully at work.

The underlying conditions for the kind of growth and stability we want may be described as a state of balance throughout the economy. This balance is attained when useful jobs in accord with abilities are available for practically all who are able and willing to work, and when the vast output created by the combination of maximum employment with our unrivaled resources and managerial skills can be absorbed promptly by a sufficiency of purchasing power. This sufficiency of purchasing power, in turn, depends upon how national income is flowing to various groups. Business should receive enough income to encourage the highest sustainable levels of investment and production, but not so much income as to result in frozen savings or lead to so-called overproduction. Consumers should receive enough income to buy their full share of total output, but not so much income as to cause either inflation or the impoverishment of investment in plant and equipment. Farmers should receive enough income to carry them closer toward genuine parity of income, opportunity and living standards with the rest of the country. Personal incomes should be distributed, not to achieve equality of income for everybody, but to get enough equity into the income structure so that large parts of the population do not suffer want in the land of plenty.

When these conditions are reasonably met economic stability can be maintained. When they are not reasonably met, the consequent maladjustments will ultimately drive the economy downward although it may take some time for the evil consequences to become fully felt. Prices and wages and profits, as determined by the operations of our private-enterprise economy, have the greatest influence upon the flow and use of income by various groups and, therefore, upon whether the economy maintains a stable rate of growth or moves from boom to bust. Many Government policies, such as taxation, credit, regulation, and spending, also profoundly influence economic conditions because they affect the flow and use of income and correspondingly affect production and employment.

As I have said, the economic and business outlook for 1949 remains bright, because the balance of the economy has not yet been profoundly unsettled by the process of postwar inflation. The disturbances that have thus far taken place, while measurable and substantial, and which already have produced unemployment and some business hesitancy, can certainly be corrected if we do not too long delay. But if do delay about taking action, the maladjustments that are now present might throw the economy more seriously off balance within 1949. In any event, if allowed to persist, these maladjustments would throw it disastrously off balance in due course of time. Therefore, remedial action should be taken now before it is too late to act effectively.

These current maladjustments, some of which are on the surface and others of which are still hidden deep beneath the surface, may be listed as follows:

(1) The first maladjustment in the current economic situation results partly from the fact that the cost of living has risen 74 percent since the middle of 1939, and 29 percent since the middle of 1946. The downturn in the cost of living in recent months has thus far been only about 2 percent, and there is as yet no assurance that it will continue. The cost of living is now higher than at the beginning of last year. At the current cost of living, clearly more than a fifth and possibly a fourth of the families in the country do not have sufficient income to maintain what has been defined as a reasonably adequate living standard. People living on fixed income have been hit hardest. Possibly a full half of the families in the lower-income groups are currently spending more than they earn, or barely breaking even. Aside from the social ills resulting from this situation, it is a heavy economic liability because it increases tensions, adds to public costs, and threatens eventually to unsettle the general balance between production and consumption. The immediate outlook is not suggestive of a sharp decline in living costs, and some increase may occur. Rent is creeping upward; and even with good crops the per capita food supply will not increase. During the first half of the year, at least, meat will be in shorter supply.

(2) The second maladjustment in the current economic situation involves the relationship between industrial prices and farm prices. Since the last prewar year, 1939, farm prices and incomes have risen more than most other prices and incomes. This has helped to redress

the unfortunate position of the farmer in the prewar economy. But since the middle of 1946, industrial prices and incomes have been outpacing agricultural; since then, wholesale prices of farm products have risen 22 percent and of industrial commodities 45 percent. In 1948, wholesale prices of farm products declined almost 14 percent and wholesale food prices declined almost 9 percent, while industrial prices continued to rise. In January 1949, wholesale prices of farm products and foods each declined more than 6 percent, while industrial prices continued to climb. With per capita net income of persons on farms estimated at $909 in 1948, contrasting with $1,569 per person not on farms, we again face the emergence of the traditional problem of maintaining agriculture in balance with the rest of the economy. The farmer's share of the consumer's dollar has dropped constantly since 1946, and the cost of living can and should be reduced without driving farm income further downward. This can be accomplished by lower distributors' margins, and by a comprehensive program to stimulate farm output and improve efficiency.

(3) The third maladjustment in the current economic situation is the sharp and continued increases in prices of certain vital industrial products. The dangers of this should not be concealed by grouping all price trends into a single misleading average. On top of earlier price increases, during the second half of 1948, there were further increases in such significant categories of wholesale prices as fuel and lighting materials and house furnishings. Prices of metals and metal products, in some respects the most important of all, increased 6.7 percent in the second half of 1947, 4.6 percent in the first half of 1948, and 9.7 percent in the second half of 1948. In January 1949 alone, metals and metal products went up another 2.4 percent, and the index for all wholesale prices other than farm products and food equaled the all-time peak. In the second half of 1948, the price of zinc increased 44.4 percent and of lead 22.9 percent. In some of these vital industrial areas, new wage negotiations may touch off still more price increases outrunning the wage increases. These continuing price increases, although selective, are at vital spots where they influence the whole economy. An unchecked upward trend of these prices, when farm prices have been falling and other prices softening, may lead to even more serious maladjustments than when almost all prices were rising together. Residential construction, for example, showed a severe drop in 1948 because of outpricing of the market; and we cannot afford to wait until the same thing happens in other vital areas which would lead to serious unemployment and cut-backs in production.

(4) The fourth maladjustment in the current economic situation is that consumer expenditures or demand have dropped from 76 percent of total output in 1929, and 75 percent in 1939, to only 70 percent in 1948. In contrast, gross private domestic investment has risen from 10 percent of total output in 1939 to 15.4 percent in 1948, the latter percentage being even higher than in 1929. Correspondingly, compensation of employees as a share of total national income has dropped from 65.9 percent in 1939 to 61.5 percent in 1948, thus moving close to the undesirably low 58.1 percent of 1929; while business and professional income and corporate profits as a share of total national income are much higher than in 1929 and even more above the 1939 level. Readjustment in the current ratios, which cannot be sustained

permanently, is essential if we are to maintain full demand for an increasing output of about 3 percent per year without a large and continuing increase in Government expenditures.

(5) The fifth maladjustment in the current economic situation is that the aggregate of corporate profits has been running higher than needed to maintain current or even somewhat increased levels of business investment. Between 1947 and 1948, corporate profits after taxes increased by 2.7 billion dollars, and undistributed profits increased by 2 billion dollars, while there was a decline of 2 billion dollars in corporate uses of funds. Although many individual businesses, particularly small business, find it hard to obtain equity capital, the larger corporations in general have been financing an abnormally high portion of their operations from internal sources. Corporate dividend payments as a whole were only 36.5 percent of profits after taxes in 1948, contrasted with 69 percent in 1929 and 76 percent in 1939.

(6) The sixth maladjustment in the current economic situation is that some basic industries are not increasing their capacities sufficiently to attain the production levels required for the steady growth of a maximum employment economy. Instead, they are gearing their capacities to the assumption that in the future as in the past there will be very sharp fluctuations in the business cycle. This assumption of recession or depression, in turn, tends to increase the likelihood of the very evil which it is designed to insure against. Some marginal producers or small businesses need financial assistance to increase production. But the road to more production in the main is not higher prices and profits today based upon the fear of sharply falling prices and profits later on, but instead a rounded policy which adjusts prices and profits and capacities to a long period of stability and growth.

While these maladjustments are serious and fundamental, they may not turn the economy sharply downward in 1949, for some of them are patent but others only latent up to the present time. Even if that be so, they are heavy with danger for the years ahead. The easiest time to correct these maladjustments is before a crisis appears, and the hardest time would be later on when neglect produces the crisis. This, above all, we have learned from experience.

The general economic outlook for 1949 is still bright. By optimism plus action, it can remain bright. By optimism that disregards the danger signals, or by pessimism or panicky fear that deems it too late to do anything, the bright outlook can be converted into a gloomy one.

PROGRAM FOR STABILITY AND GROWTH

I earnestly hope that the foregoing analysis of the current and prospective economic situation, and of the nature of the problems we face, will be of some assistance to this committee and to the Congress in evaluating and enacting a program for economic stability and growth.

Such a program has been transmitted to the Congress and is now before you in the economic report of the President of January 7, 1949. Nothing that has happened in the month since then, if the analysis which I have just presented to you possesses merit, has, in my judgment as an economist, altered the essential validity and urgency of this program in its entirety.

I shall not here discuss this program in detail, because my colleague on the Council of Economic Advisers, Dr. John D. Clark, will carry that responsibility.

But, in rounding out and concluding my statement, I should like to make a few general remarks, relating the outlines of the President's program to the economic analysis which I have already presented.

In the opening passage of his 1949 economic report, the President has this to say:

> Let us all remember that our unparalleled prosperity has not been maintained by chance, and that we can lose it if we leave the future to chance. Courageous and positive action has contributed to our progress, and some of the most serious difficulties still confronting us exist because our thought and action have not been sufficiently clear and vigorous.
>
> As we work together in 1949 to combat the remaining dangers of postwar inflation, we should bear always in mind that our purpose is at the same time to build strong bulwarks against deflation and depression, and thus to consolidate our past gains and move forward to new levels of sustained prosperity for all.

Certainly, objective analysis of the economic situation reveals how succinctly and precisely the President has stated the comprehensive nature of our task.

In his economic report, the President has also set forth six guides to economic policy, each of which I should like to correlate briefly with conclusions which emerge from economic analysis.

The first guide to economic policy set forth by the President reads in part as follows:

> Maximum employment for 1949 means that nearly 1,000,000 additional job opportunities should be provided for the growing labor force. Maximum production means that our increased labor force and modernized plant should strive for a 3 to 4 percent increase in total output. Maximum purchasing power means that the sum total of market demand by Government, business, and consumers, domestic and foreign, should be proportionate to our productive capacity. It must not be more or we shall suffer inflation. It must not be less or we shall suffer unemployment and underutilization of our resources.

These words of the President, so consonant with the spirit of the Employment Act, emphasize that decreasing demand and a slackening of production or employment are not the answer for inflation or for any of the problems of our dynamic American economy. The essential law of our economic life and of the world in which we live is that we must press always forward or we shall fall behind. In this connection, we should draw a sharp distinction between the "economic outlook," as that term is commonly understood, and the goals for "needed levels" of maximum employment, production, and purchasing power which the Employment Act requires us to strive for. If maladjustments in the economy arising from neglect should cause the outlook to become less bright, that would be no reason to abandon the objectives which the Employment Act sets or to lower our goals. On the contrary, that would simply mean that we should work even harder to achieve these goals instead of expecting to accomplish them without effort.

The President's second guide to economic policy reads in part as follows:

> We should think and work with a reasonably long look ahead, not keeping our eyes just on the problems of the moment. Our immediate tasks must be placed in the perspective of our long-range national objectives. While we must deal promptly with the problem of inflation, we must not unduly hold back undertakings that are needed to preserve and develop our employment opportunities and our productivity in later years. Policies needed to develop our resources and

to prevent depression in the long run must be reconciled with policies needed to curb inflation in the short run.

The merit of this principle is reinforced more and more as we study more carefully the history of our economic development and the details of our current economic situation. No great nation can put its short-range economic problems and its long-range economic problems in separate and insulated compartments; if it attempts to do so, it is merely being short-sighted and improvident. Sometimes there may be some conflict between these two types of problems, and in that event a balance must be struck between them. But analysis of the current economic situation strongly suggests the conclusion that the things we need to do to fight inflation are remarkably consistent with the things we need to do for long-range stability and growth. This is true because the proper cure for a disease cannot be inconsistent with the objective of getting well, and inflation is a disease which we fear mainly because it threatens our prospects for sustained economic health and growth.

The seeming inconsistencies between a short-run attack upon inflationary dangers and a long-run approach to stability and growth arise mainly through failing to face up to the problem of resource use or national priorities of need in a maximum employment economy. Of course, in a maximum employment economy, if for example we need more preparedness or resource development or housing or aid to education, we cannot at the same time devote as much manpower and materials to other things as if we did not have these imperative needs. But it only confuses this problem to be satisfied with saying that we should not undertake to satisfy these imperative needs now because they contribute to inflation. So long as we have maximum employment and maximum utilization of our resources, there will always be competing demands all of which cannot be satisfied at the same time; and this is an infinitely happier situation than when we do not have these competing demands for manpower and materials because the economy is sluggish or in the throes of a depression. Let us then manfully grapple with this problem instead of obscuring it: Which of our national needs come first? What must we do to make sure that these needs are met? How far can we meet these needs, even when we recognize their urgency, and how fast can we meet them?

It is no answer to say that we should hold treatment of these needs in abeyance until the economy starts to run down hill, and then engage in resource development and housing programs and educational improvements only to fill in or prime the pump after the economy becomes sick. For how can we satisfy ourselves with the proposition that we will be able to afford to do these things when our economy is in trouble but cannot afford to do them when our economy is rich and prosperous?

It is true, within limits, that storing up shelves of projects to be undertaken in the event of a depression may be a wise precaution. But let us not confuse fire insurance with fire prevention. We need to put increasing effort into blending these basic developmental programs into a rounded and integrated program for the sustained health and growth of our whole economy, instead of adopting the economic Maginot Line philosophy that prepared fixed defenses alone can win the war against unemployment and business decline.

The same principles, in essence, apply to the problem of expansion of certain private plant capacities. The need should not be measured against the traditional business cycle, but rather in terms of the objectives and commitments set forth in the Employment Act—maximum levels of activity at all times.

The President's third guide to economic policy reads in part as follows:

> In order to have a yardstick for appraising strength and weaknesses in our economy and the adequacy of Government programs, we need concrete objectives for economic growth, and particularly standards for a better balance between production and consumption, income and investment, and prices, profits, and wages which will be conducive to sustained economic progress.

In the economic analysis which I have already undertaken, major emphasis has been placed upon this problem of economic balance. It has been indicated where the economy is getting out of balance, and what needs to be done to bring it into better balance. This has a direct and most significant bearing upon each and every one of the policies that this committee and the Congress will be considering.

The President's fourth guide to economic policy reads as follows:

> We are dedicated to the principle that economic stability and economic justice are compatible ends. The fact that our total purchasing power is now at record levels cannot blind us to the equally important fact that the incomes of many people have not risen apace with the cost of living and that they have become the victims of inflation. A prosperity that is too uneven in the distribution of its fruits cannot last.

This is not merely the statement of an ethical or social principle. If the results of economic analysis have any meaning, it is a statement of one of the most basic of all economic truths, and national economic policies should be guided accordingly.

The President's fifth guide to economic policy reads in part as follows:

> We must fulfill the requirements of our essential programs—national defense, international reconstruction, and domestic improvements and welfare—even if doing so may require the temporary exercise of selective controls in our economy. We want the greatest amount of economic freedom that is consistent with the security and welfare of the people; but we do not want to sacrifice that security and welfare because of narrow and selfish concepts as to the acceptable limits of Government action.

This, of course, reduces to a matter of policy judgment the question of when and to what extent controls should be authorized. Speaking only as an economist, the analysis which I have made of the economic situation impels me to the conclusion that the President's recommendations on this subject rest squarely upon what is now happening within our economy and are fitted to meet the dangers in these events.

The President's sixth and final guide to economic policy is as follows:

> The vigorous commitment by the Government to an anti-inflation policy should not obscure the fact that the Government is equally committed to an antidepression policy. In fact, curbing inflation is the first step toward preventing depression. And in times like the present, when the economic situation has mixed elements, the Government needs both anti-inflationary weapons and anti-deflationary weapons so that it will be ready for either contingency. It may even be necessary to employ both types of measures concurrently in some combination, for some prices or incomes could rise too rapidly while others could be falling dangerously.

The main import of my statement bearing upon the economic situation has been to disclose the complete relevance and soundness of this guide laid down by the President. Events during the month of January 1949 add impressive weight to what transpired before. The economic report of the President on January 7 was almost an exact appraisal of the difficulties which have begun to augment since then:

After setting forth these economic guides, the President's economic report proposes a specific program founded upon economic observations and analysis. In brief, the President's program includes a tax increase of a size and character to balance the budget, provide surplus for debt retirement, and at the same time be consistent with desirable levels of business income for optimum investment. It proposes credit policies to deal more effectively with inflationary elements. It proposes studies and specific measures to meet forthrightly the problem of capacity expansion required for sustained maximum production; and it proposes allocation powers to deal with critical materials in short supply. It proposes selective price and related wage controls, as well as improved rent control and the extension of export controls, all realistically adjusted to the current economic situation and outlook as revealed by careful, comprehensive, and objective analysis. It also proposes more effective governmental supervision over speculative trading on the commodity exchanges.

To protect the victims of inflation, the President's economic report recommends increases in the benefits under the old age and survivors' insurance system, broadening of the Fair Labor Standards Act and lifting of the minimum wage to at least 75 cents an hour, and improvement in the public assistance program. To promote balanced economic growth, the economic report outlines a rounded program related specifically to natural resource development, agricultural adjustment, international economic problems, housing, urban redevelopment and community facilities, education, health, and insurance against unemployment, disability, and old age.

As I have said, my colleague Dr. Clark will undertake a more detailed discussion of some of the policies recommended by the President, and after that the representatives of the more specialized departments and agencies will be heard in their various fields. My assigned task has been to present the underlying economic analysis, and this task is now completed save for any questions or requests that the committee may have in mind.

I should like to end with this final thought, contained in the words of the President in his economic report:

> This is a period in which our ability to master our affairs in our own way will be rigorously tested. Abundant resources and rapidly advancing technology are both a blessing and a responsibility. Our strength lies, however, less in these resources themsvles than in our will to use them effectively. This task requires adapting our private and Government institutions to changing circumstances.
>
> We are committed to working out our economic problems in a way that combines economic and social progress with democratic self-responsibility. This is the spirit in which the Employment Act of 1946 was conceived and in which we shall attempt to live up to its high purpose.

I thank you.

The CHAIRMAN. We are very much obliged to you.

Are there any questions to be addressed to this witness now?

Mr. RICH. I would like to ask Mr. Keyserling one question, if I may. Do you think the profits being made now by industry show the real, true value of the condition of business, or do you think that they might be inflated profits?

Mr. KEYSERLING. Answering you very briefly, of course business income is now measured by a dollar of lowered value, but so are other forms of income. When you take account of this, it still appears that profits have risen perhaps out of line with other incomes in the last year or two.

One evidence of this is that the ratio of corporate profits after taxes to net worth was about twice as high in 1948 as it was in 1929, which was the boom year.

Another evidence is that profits have increased even more rapidly than sales, which indicates that they have increased more rapidly than per unit costs.

Another evidence is the fact that business has financed an extraordinarily high part of its investment program from retained earnings.

Mr. RICH. Take, for example, a manufacturing concern that we will say bought a machine for $10,000 10 years ago, and had charged off enough to eliminate the cost of the machine this year; then they have to put a new one in which, instead of costing $10,000 costs $20,000; then they have to inventory the $20,000. The manufacturer figures the machine is not worth $20,000, yet he has to put it on his books the same as all other commodities which he inventories that have to be at cost or market, whichever system he chooses to use. Therefore, he is using it on the high prices of commodities and hence he has a highly inflated inventory. Therefore, the profits he is making do not show the picture, in my judgment, that would be shown by a man who does not carry a heavy inventory in buildings and machinery. He has a highly inflated profit as the years go on under the expanding prices that we have had.

The CHAIRMAN. May I say, Mr. Keyserling, that during the last month of the year, in December, under the chairmanship of Senator Flanders, an extensive hearing was held by this committee on that very question. There is a lot of detailed information in the records of those hearings. They are now in proof form at the Government Printing Office and I am advised they will be available for members of the committee very shortly.

Mr. RICH. I thought since Mr. Keyserling is an economist and seems to be able to tell us about all these things, that I could get his opinion.

Mr. KEYSERLING. Congressman Rich, we have a problem of limited time here. I wish we could talk this over at greater length.

Mr. RICH. Probably you and I can get together sometime for further discussion.

Mr. KEYSERLING. Certainly, just as soon as you can look at the figures contained in these charts and tables I will be very happy to sit down with you any time and comb them with a fine tooth comb.

The CHAIRMAN. Thank you very much, Mr. Keyserling.

Dr. Clark.

STATEMENT OF JOHN D. CLARK, COUNCIL OF ECONOMIC ADVISERS

Mr. CLARK. Mr. Chairman and gentlemen of the committee, my responsibility is to discuss the economic program submitted by the President in the economic report, based upon the Economic Review of the Council of Economic Advisers, which was published as a part of the annual economic report.

In order to determine what kind of policy should be adopted to fend off threatening dangers, in this instance the dangers being inflationary, it is necessary to know what are the kinds of inflationary forces which are and which have been at work. They are very unusual. Nowhere has there ever been any experience with the situation with which we have had to deal since the war. Usually we say that inflation is related to the rapid increase in buying power in dollar terms and is the result of the great increase in money supply.

The kind that is sensational is that which was experienced by so many of the European countries after the First World War, when the government turned the printing presses loose to turn out currency with which to pay their current expenses. In several European countries, and particularly Germany, it did lead to a complete collapse of the monetary system. Immediately before that collapse in Germany, a German student, who was in one of my classes, told me that 1,000,000 marks represented one streetcar fare.

Such an inflation can be stopped, of course, short of that point of complete collapse, and it was stopped in France and in Italy.

Now, we haven't had anything like that, and are not threatened with it, but we have been struggling with a situation in the last 2 or 3 years which is the outcome of monetary inflation which took place during the war period when deficit financing by the Government led to the very large increase in bank deposits which, in our modern civilization, represent money, and in currency. All this has been brought before your committee so often that I am not going to retrace the facts of that situation.

But during the war period, the usual result of such monetary inflation was forestalled by control of prices and distribution of goods. This was so successful that the price line on one of the charts presented to you yesterday remained almost level throughout the period.

So the inevitable impact of this great monetary inflation during the period of the war was postponed to a later period, namely, that when decontrol of prices would permit market demand to play its part in determining market price.

Many of us believe that those controls should have been maintained long enough to permit civilian production to increase far beyond the point reached when the controls were removed. Production not having been increased to that extent when the controls were removed, that is, to the extent which would permit a stabilization of prices because the supply would be large enough to meet the increased demand represented by this accumulated buying power, the result was a rapid increase in prices in the last half of 1946.

When the first economic report of the President was being prepared in December 1946, that increase in price seemed to have abated and the situation was approaching, it seemed, a fairly stable position. In the first economic report the position taken by the President upon the recommendation of the Council was that we had a prospect for a very high degree of business activity, subject only to a minor threat from price advances, minor enough perhaps to permit the situation to be taken care of by simple caution on the part of all parties in the economic system.

In making that judgment we ran counter to the opinion of most business analysts, both within and without the Government, who were overwhelmingly of the opinion that we faced a depression or recession early in 1947.

Our expectation was disappointed in the late winter when new price advances began, and led us, in March, to advise the President that a serious situation of an inflationary type was being created, which required more earnest action. His response was a series of public statements presenting this danger to the American people, and urging as vigorously as possible that business bring about price reductions, which seemed to be possible, considering the profit situation; that labor be restrained in their demands with respect to wages; and that stability be gained through voluntary action.

At that time there was considerable ridicule expressed about what was called an effort to talk down prices, much of the criticism coming from those who, 6 months later, when the inflationary situation became very dangerous and called for positive action by government, combated the proposals of the President upon the ground that everything could be taken care of by the voluntary action which he had asked for early in 1947.

The CHAIRMAN. May I interrupt to say that that injunction to business and to labor was not made alone by the President. It was also made by this committee in the report which Senator Taft filed at the conclusion of our considerations last year.

Mr. CLARK. In March 1947 we had reached the same point in elapsed time after the end of hostilities, and in the percentage of rise in wholesale prices since the war, which we had reached in 1920, at the moment of the collapse of that postwar boom and the beginning of a very serious depression.

Since we are always disposed to look to historical precedent in order to furnish a guide to policy, we could not but be concerned, and the business world generally showed the same concern, as to whether we might not in March 1947 be at the turning point, because we had been at the turning point in 1920 under similar conditions.

The effort to bring about voluntary restraint of price increases and of wage increases throughout 1947 was of dubious success at least. The situation changed very rapidly in September of that year when a very rapid expansion of bank credit brought into our situation for the first time real monetary inflation.

This led the Council on October 1, 1947, to present the situation to the President as one calling for positive Government action to hold down the inflationary movement.

That report caused the President to include in the call issued a few days later for the special session of Congress, the matter of restraint of inflation as one of two principal subjects to be dealt with in the session beginning early in November, the other being the foreign-aid proposal.

The program submitted by the President to the special session of Congress was based upon the recommendations of the Council. That program in about the same form has been renewed repeatedly by him since that time.

It could not be otherwise, assuming that the same problem existed, because there was nothing spectacular or novel about the proposed program. The steps we suggested are orthodox in economic thinking. We pulled no rabbits out of the hat and did not suggest anything new. We merely asked that there be consideration of policies which have had the support of economic theory throughout the period when this kind of subject has been under consideration by economists.

Mr. RICH. May I ask this question, Dr. Clark?

Mr. CLARK. Certainly.

Mr. RICH. Is that in the mind of the administration now, that is, the worries that you had in September?

Mr. CLARK. Not in September.

Mr. RICH. In October?

Mr. CLARK. Nor in October. At that time the matter was brought to a climax by the appearance of monetary inflation through the rapid expansion of bank credit and we do not have it and have not had it during 1948. I will tell you just what we think we have had.

The character of policies to avoid the danger of inflation was described in the first public report made by the Council, which was upon the foreign-aid program. It was issued at the end of October 1947 and described generally the character of action that should be taken. You will find it is then represented in the message of the President to the Congress a few days later.

The situation changed thereafter in that the expansion of bank credit was halted. The American Bankers' Association and their officers are entitled to great credit for that event. They worked diligently, sending a task force around the country, urging the bankers to restrain credit expansion. That undoubtedly had considerable effect upon the management policies of bankers.

In January 1948 the second Economic Report of the President was published, and again it repeated the request for the anti-inflation program.

Then for the only time in the nine quarterly periods when the Council has been required to interpret the situation and to advise the President of its character, the Council found itself in agreement with business analysts generally. That is the only time that has happened. Everybody was agreed early in January 1948 that we had a serious inflationary situation, which only goes to prove how precarious is economic forecasting, because that was on the very eve of a collapse of commodity markets of the kind which we would expect to mark the crisis in an inflationary movement, and the beginning of a serious deflationary trend.

The collapse in grain prices, beginning in the last week of January, was of a size which we would expect to have serious chain reactions in any other period. It was comparable to the break in agricultural prices in 1920, which did play a very important part in bringing about that collapse.

It did not have that result this time, for reasons which are now generally accepted, particularly the existence of the Government farm-price-support policy. That policy not only protected the farmers against any utter catastrophe such as occurred in 1920 but, because it was known to all in the business world, it gave assurance to other businessmen that this was not going to be the beginning of a collapse in the agricultural sector. It was not going to destroy the buying power of the farmers and bring about disastrous credit collapses and foreclosures.

That reassurance to businessmen was enough, under conditions a year ago, to prevent that reaction upon sentiment of business, which in 1920 had given spiraling effect to the deflationary factors in agriculture and had carried them over into the general field of business.

On the contrary, businessmen felt that the general condition of the economy, the very high level of income available to consumers, gave assurance of a very strong demand for goods.

Business quickly rallied and began to place orders, to make new capital investments, and to do those things which must be continued if we are to have a strong economy.

It is that factor in the economy which the economist has to struggle with in trying to determine the trend in the coming months; that factor of business sentiment, whether businessmen feel that conditions in the future are such as to offer opportunities for profit or whether they are going to suffer a decline in demand and a resulting loss of profit. Because if they begin to feel that the latter is the prospect they begin to think of their inventories and how to cut them down. They reduce orders or cancel them entirely. They quickly create a pressure upon manufacturers who in turn are forced to modify their plans and to reduce their operations. The recessionary movement can proceed very rapidly and very destructively.

The economist is a poor man to have to try to estimate business sentiment as it may be developing. Yet, if we are to interpret the trend of the economy we are forced to undertake that task of estimating what business sentiment is apt to be.

The change in the character of the inflationary pressure which took place a year ago is that the monetary inflation was halted. There have not been increases in deposits or in outstanding currency. Yet, we find prices continuing to move upward generally. Throughout 1948 in every quarter of the year, we found industrial prices moving upward.

We found in the gross national product, in national income, in personal income, a course of enlargement which is the mark of inflation unless you can find that there has been an increase in production.

During 1948 there was no increase in production. The industrial production index in the second half of the year is the same as for the first half of the year as shown in the following table:

TABLE I.—*Industrial production index*

[Data from table C-13 of Appendix to The Annual Economic Review, January 1949, by the Council of Economic Advisers, with revisions as of February 1949, p. 111]

[1935-39=100; seasonally adjusted]

Period	Index	Period	Index
1947—October	191	1948—August	191
November	192	September	192
December	192	October	195
1948—January	193	November	194
February	194	December	192
March	191	1947—First half	187
April	188	Second half	186
May	192	1948—First half	192
June	192	Second half	192
July	186		

Source: Board of Governors of the Federal Reserve System.

So if we look at the figures for national income and the like, we do not have to make any revision in the raw figures on account of changes in the volume of goods available on the market. That volume remained fairly constant.

If you will turn to the economic report, on page 99, in the first column, gross national product, at the bottom half of the table you will find the figures for each quarter in 1947 and 1948. Observe, please, that in 1947 the quarterly figures are used. The first three quarters were just about level and the fourth quarter—and mind you, it was on the first day of the fourth quarter when we advised the President that forces had appeared which were going to lead to inflation—there was a very large advance from 227 to 243. That is in billions of dollars.

In the first quarter of 1948 it had quieted somewhat, just a small increase. But then the upward movement was resumed. It went to 250 in the second quarter, to 254.9 in the third quarter, to 260.8 in the fourth quarter. That, gentlemen, is the index of an inflationary movement. It means that buying power is being brought into existence in dollar terms. As I have said, there was no increase in production.

Mr. RICH. What do you mean by "gross national product"?

Mr. CLARK. Gross national product is the total expenditures of all types in the economy.

Mr. RICH. You mean there the expenditure of funds for commodities?

Mr. CLARK. For all purposes, Government expenditures, and every other kind are included there.

A more familiar table, Congressman Rich, might be the national-income figure, which is on page 101 of the report. Would you turn to that?

Mr. RICH. When I think of gross national product, I think of goods being produced.

Mr. CLARK. And services.

Mr. RICH. Yes; but I think of it as goods; products. I am not thinking of it in terms of dollars and services as much as I am in products.

Mr. CLARK. The only way to measure it well is in dollars. We always use the dollar figures.

On page 101 is shown, "National income," which is a more familiar term to you. That is given in the first column.

If you will follow that for the four quarters of 1947 and 1948, you will find that exactly the same kind of process was under way, in the 2 years, in the matter of national income, which is shown by the table on national products.

Then, if you will turn over to the next table on page 102 of personal income you will again find that the same trend is shown in about the same ratios. That is bound to be true, since the three are very closely related.

We start with the national product. We eliminate from that the resources that have been used up in the production of these goods and services. That gives us the national income. The national income we break up into the various areas of distribution and one of those is personal income.

(The tables referred to are summarized below.)

TABLE II.—*Gross national product, national income, and personal income*

[Data from tables C-1, p. 99; C-3, p. 101; and C-4, p. 102 of appendix to the Annual Economic Review, January 1949, by the Council of Economic Advisers, with revisions as of February 1949]

[Billions of dollars, seasonally adjusted annual rates]

Period	Gross national product	National income	Personal income
1947—First quarter	226.4	197.3	190.9
Second quarter	228.3	199.3	189.6
Third quarter	227.9	200.6	196.7
Fourth quarter	243.8	212.8	203.1
1948—First quarter	244.9	213.9	207.0
Second quarter	250.2	222.3	210.8
Third quarter	254.9	228.2	216.3
Fourth quarter	260.8	233.2	219.6

Source: Department of Commerce.

Mr. RICH. I should infer by looking at those three which you suggest, if you take the year 1948, that there was an increase in each one of those figures each quarter. Therefore, production would be increased; would it not?

Mr. CLARK. It was not.

Mr. RICH. How do you account for that?

Mr. CLARK. I account for that by a process which is the process of inflation. The increase in personal income was due not to the turning out of more goods, but to the increase in wages and profits. The increase in national income was due not to an increase in goods and services produced, but to the increase in personal income and to the increase in business profits; higher prices, including the price we call wages, accounted for both. When business profits increase on the same volume of business, the only explanation is either higher prices or lower costs. We do not have any indication of lower costs.

Mr. RICH. Then, as I judge from your discussion of this, we are still going into a period of inflation?

Mr. CLARK. We entered 1949 with a very definite inflationary movement under way.

Mr. RICH. Then, what would be your opinion of the trend from the 1st of January to date?

Mr. CLARK. During January, the important changes that have taken place are changes in prices of consumer goods which affect the cost of living. Now, that is of tremendous importance, of course, to the family. It has been very much smaller than the impression received from reading commercial advertising of great reductions, but it has occurred. It is important to the family. But for the purpose of economic analysis of the trend of the economy, its significance lies in the fact whether it leads to a change in the cost of production.

Living costs will change the cost of production only as they may affect wages and the attitude of labor with respect to wages. It does not have any other effect in changing the cost of production.

I do not think in this short time I should enter into an effort to try to estimate what will be the attitude of labor toward further wage increases, or what will be the attitude of business toward granting wage increases. But we must recognize that there we have one of the most important factors in determining what will be the actual trend.

Mr. RICH. Then, as I gather it, the more we manufacture and the more competition we have, the greater opportunity we are going to have for lower profits and lower prices?

Mr. CLARK. Certainly.

Mr. RICH. If we have this increase in production and we are getting to the saturation point where the public is not going to use all the things we manufacture, we will be getting greater reductions in prices, because if we do not get it from the commodity itself we are going to get it from a reduction in profits. The manufacturer is going to take less profits and he is going to sell his merchandise because he wants to keep his plant in operation, and he wants to keep his people busy. He is going to take less profit in order to continue to manufacture.

Mr. CLARK. If your assumptions are correct—and I am not sure you are presenting them as assumptions——

Mr. RICH. I am just trying to point this out as I see the picture personally. I asked those questions of Mr. Keyserling but he does not agree with me. I think you and I are getting nearer to the idea that as we go ahead now we are going to get cheaper prices, if we do not get to the point where we have to reduce employment. If we reduce employment, our income is going to be so much less; naturally we have to be careful about that.

Mr. CLARK. The trend you see is not the one I would describe, because I differ in some assumptions.

First, there is no increase in production. Production has been remaining almost constant throughout 1948.

Mr. RICH. I know a lot of manufacturers. I know they all increased their production last year. All I know of who are in business increased their production last year.

I am in business, and we increased our production.

Mr. CLARK. Oh, yes, last year over 1947.

Mr. RICH. Yes.

Mr. CLARK. But throughout 1948 the level of production remained almost steady. That is the condition we had when we entered 1949.

Mr. RICH. We did it without increasing our equipment or increasing our plant. Labor just performed that much more service and they made that much more money. They were eager and anxious to get in and produce, and I was glad that they could do it.

Mr. CLARK. But that situation does not appear in the industrial production index of the Federal Reserve Board, which is the only one we have, and everybody relies on it.

Mr. RICH. That is where an economist and I differ.

In discussing this with manufacturers, I find they all produced more in 1948 than they did in 1947 or 1946. It was probably the greatest year they ever had in production.

Mr. CLARK. It was.

Mr. RICH. I cannot understand why you men claim that we got a reduction in manufactured articles.

Mr. CLARK. No, not a reduction. What I said was that there was an increase in 1948 over 1947, and 1947 was larger than 1946. But that increase was the result of a trend throughout 1947, which brought production at the end of 1947 and the beginning of 1948 to a point that has remained almost steady throughout the year.

We have not had increasing production during 1948, although we have had variations as between months, of course.

The second point is this: I see no reason to base economic analysis upon the assumption that market demand is declining in any important sense. The buying power of the American people in dollar terms, as shown by these tables we have just been looking at, is now at the highest point in history. Personal income and disposable income, which is personal income after taxes, are at the highest point in history.

I cannot believe that that money is not going to be spent. I cannot believe that the 80 percent of the American families with incomes below $5,000 are not so short of goods which they want, of services which they want, that they will not make full use of their buying power in 1949. And if they do, we will have that demand for goods at the present rate of production which we were experiencing last year.

The softening which we see in this period you also found a year ago and 2 years ago in many indexes at the same period of the year. That was not a seasonal matter, as related to the weather, or anything like that, but it was not a coincidence. It was due to the fact that in the 100 days between the early part of December and the 15th day of March, the Government takes out of buying power of the people 48 percent of all that they pay in income taxes and all the corporations pay in income taxes.

In 1947, the Government surplus in that period amounted to several billions. Last year, as I think Mr. Eccles repeatedly explained to your committee, the Government surplus was running at the rate of $12,000,000,000 a year during that period.

Mr. RICH. Notwithstanding the fact that we reduced taxes last year.

Mr. CLARK. That was before you reduced the taxes.

Notwithstanding the tax reduction, we are having exactly the same process now, although at a reduced rate. In this 100 days in which the Government collects 48 percent of the income and corporate taxes for the whole year, we are piling up a Government surplus. We are taking money out of the stream of buying power and that is having the strongest anti-inflationary effect of any program which the Government now has the power to put into effect.

Mr. RICH. Is that the reason the Administration is recommending the spending of funds now in order that we could have a deficit?

Mr. CLARK. Certainly not.

Mr. HERTER. Mr. Chairman, might I ask one question?

The CHAIRMAN. Congressman Herter.

Mr. HERTER. It is a very general question.

In connection with most of the charts that have been shown here, the dollar of today is compared with the dollar of 1939. I assume that is an arbitrary date, but we will take it for the sake of convenience. But in all of your economic thinking, and the unhappy position you find yourself in from time to time of having to project things ahead, you must have some idea as to the point at which you would like to see the dollar stabilized from the point of view of purchasing power and commodities. You are not thinking of returning to the 1939 level, are you?

Mr. CLARK. Not at all. That could only be accomplished at the price of a terrible depression.

Mr. HERTER. So the principal objective in what you are recommending is a leveling off process somewhere along the line on the basis of an index, whatever it may be, very materially higher than that of 1939?

Mr. CLARK. Yes, and it could not be far below that of today or it would again result in an undesirable depression.

Mr. HERTER. But what I am getting at is this: From the point of view of the imbalance between, let us say, metal prices and agricultural prices, your objective is to bring one up and the other down, is that right?

You would like to see farm prices higher than they are today and you would like to see metal prices lower than they are today?

Mr. CLARK. Yes. That is the objective, only in the sense that we would like to have it happen. I have no program to offer which would act directly upon the one and work in the opposite manner upon the other so as to accomplish it. The application of more general programs to influence general economic conditions would, we hope, move them generally into that better balance. They would not be specifically aimed at a particular group of commodities, and you could be certain you were going to attain the balance.

Mr. HERTER. Your testimony touched for the first time upon labor costs being a factor in this entire picture.

Mr. CLARK. Very much so.

Mr. HERTER. Again, when you are thinking in terms of stability, which I take it we are discussing here, you must have very definite ideas from that point of view. If you say production cannot be increased by increasing wages today, but that we have reached a saturation point, so to speak, from the point of view of production until we get better technological information or better materials to work with, you would feel that they should have the effect of leveling off in the wage factor, and perhaps a reduction in the net profit division in order to level off this picture?

Mr. CLARK. That is the only way I see to get a leveling off of the final prices.

Mr. HERTER. Would you record yourself as being against a fourth-round wage increase at the present time?

Mr. CLARK. No. I don't know from what standpoint you are asking the question. I would say if I were a labor leader, seeing the profit situation, seeing that prices have been continuing to advance and that no effective action has been taken to give any assurance to labor that they will not again advance, and I considered that my strategic position was strong enough to permit me to win wage increases which would at least compensate for the increases in the cost of living which have taken place since the last wage contracts were made, I would make a tremendous drive for those wage increases.

Mr. HERTER. In other words, you would try to get that out of the earning surplus of the manufacturer today, that wage increase? It has to come from somewhere, doesn't it? You would not take it out of the consumer's pockets. The only place it can come from is from the profits being earned today by the large corporations.

Mr. CLARK. I don't suppose that labor has to give any more attention to the social results of its price demands than business gives. So I don't know, if I were a labor leader, that I would be particularly concerned with how it is accomplished. I would want to get my standard of living reestablished on the basis that I attained a year ago.

Mr. HERTER. I quite agree with you. I am merely talking about the inflationary trend of this.

Mr. CLARK. It is inflationary, and that is just the difference in inflationary forces that has taken place since early in 1947 when we had monetary inflation which was driving prices up. We do not have monetary inflation now, we did not have it during 1948, yet prices went up, national income went up, and personal income went up. Why? Because we found that there had been set under way a rolling process. Each sector, one after the other, in the economy got higher returns. Wages went up. Costs went up. Business increased prices. The cost of living went up and wages went up again.

We started a circular movement and nobody was stepping in to bring it to an end, either voluntarily or through Government action.

Mr. RICH. You are recommending that the same thing continue?

Mr. CLARK. Not at all. We are recommending that there be this program offered by the President in order to bring this process to a halt.

Mr. RICH. But if you want to bring it to a halt—how do you bring anything to a halt?

Mr. CLARK. There are two ways, and the program is of two kinds: First, certain fiscal measures and monetary measures. Secondly, certain direct Government controls.

The fiscal and monetary measures are the orthodox type of devices that influence the whole economy. They therefore cannot be directed to particular spots. They will not operate in exactly the way and at the exact points you want them to operate. They are diffused, they cover everything. They will bring some undesired results.

The President has repeatedly said that you cannot have an anti-inflationary program without hurting people. The very purpose of an anti-inflationary program is to prevent people from doing things which they want to do, and which from their standpoint is is desirable for them to do.

There is no use fooling ourselves into thinking that you can have a comfortable, pleasant, anti-inflationary program except one of personal saving.

Mr. RICH. You spoke about the increases in commodity prices. Steel seemed to be the one that was mostly on the increase now, as I understood it; that is, steel and steel products.

If steel and steel products are now at probably the highest price they have ever been, and still going higher—I understand the agreements made by labor unions expire the 1st of April; that is, with reference to steel and automobiles—would you now recommend that labor come out and ask for higher prices for labor, or that you do something to cut down the profits of a manufacturer of steel? And how are you going to stabilize the economy if you permit that to go any higher? Just take that industry in particular. If you permit it to go higher and they get increased wages, which eventually lead to higher prices, how will you ever stop the spiral we are in now, especially in steel and automobiles?

Mr. CLARK. If you are going to have increased costs which result from increased wages, you have got to expect that you will get increased prices at some points, and you have not stopped the spiral. If you have no method whereby you can break the circle at some point, you are going to have continuous inflation—until the time comes, Mr. Congressman, when we have a collapse, as we had in 1920, a collapse when all of a sudden the situation had gotten so many imbalances in it that business sentiment changes. It changes overnight—and that might be tomorrow, I don't know——

Mr. RICH. You don't want that again; do you?

Mr. CLARK. Of course not, and it is in order to avoid that happening that we recommend action now.

Mr. RICH. All right, then. You are one of three of the President's chief advisers on this. Now let us get up to the 1st of April with steel high—and Mr. Keyserling said it was going higher—then they come in and ask for an increase in wages in the steel industry. That is the cause affecting the commodities with high prices.

Would you recommend to the Chief Executive that labor get an increased round of wages in the steel industry?

Mr. CLARK. We have no economic system in which the policy of labor, their demands for wages, is under any control of the administration. Why should the administration undertake to put pressure upon labor when it is putting no pressure upon profits?

Mr. RICH. Would you put pressure on profits to keep that steel from getting any higher? Put it on profits, put it on labor, put it on some place, or are you going to let it go on?

Mr. CLARK. Yes. That is the first point in the President's anti-inflation program, to put pressure upon profits in order to reduce to some extent the demand of business for goods and services to be used in capital investment. He has recommended a $4,000,000,000 increase in taxes imposed principally upon business profits.

Mr. RICH. Why not put the demands on increased prices and compel them to hold them down? If you are going to regulate everything else, why not regulate steel? Let's get down to that and see if we cannot regulate the price of steel.

Mr. CLARK. You are not proposing regulating prices; are you?

Mr. RICH. You are trying to regulate the price of agricultural products. Would it be the wise thing to regulate the price of steel?

Mr. CLARK. There is a recommendation that the Congress authorize the President, if the occasion arises, to regulate specific prices because there are certain commodities—and we first pointed this out in our foreign-aid report in October 1947—there are certain commodities of key importance which have such an influence upon economic developments that if prices are rising in those commodities it brings about chain reaction throughout the whole business world. Steel, of course, is the most important of those commodities.

Mr. RICH. You have got to do either one of two things. You advisers to the President have to say, "All right, let's go for another round of wage increase," or "let's go for a round of holding the prices down." Now, what are you going to do; what are you going to recommend?

Mr. CLARK. The President's program recommends first the use of these fiscal and monetary policies with which you are familiar and in which we have a lot of confidence; the power of which is so great that everybody warns you that you must not use them because they might be too great in their effect. We recommend that they do be used.

First of all, as to fiscal policy, that there be an increase in taxes and that the increase be largely imposed upon business or corporate profits.

Secondly, that there be authority given to the Federal Reserve System to exercise that power of credit control which it has been able to use very imperfectly on account of the need to support the Government bond market.

Beyond that, we suggest certain specific Government actions in the way of allocation powers, the control of stock-market speculation, commodity market speculation, and in the control of exports and imports.

Finally, that there be authority to actually impose specific price controls at certain critical points, accompanied by a proposal that there also be authority to require the suspension of price advances, applying to price advances exactly the same principle which the Congress has applied to labor in connection with its effort to advance its price.

Mr. RICH. Isn't it a fact that the steel industry today pays 40 percent of its earnings out for taxes?

Mr. CLARK. It is certainly 38 percent.

Mr. RICH. Then they pay dividends to their stockholders. Then they expand their plants and improve them to try to meet working conditions today. Isn't it a fact that the majority of them have gone to the banks to try to borrow money to continue their operations? Isn't it a fact that they have all gone out and borrowed money?

Now, if you take more away from them in the way of taxes, how are they going to operate? For how much do they have to go to the banks, and for how long will the banks loan them the money to operate if they do not have the cash on hand?

Mr. CLARK. Since they have already reduced their percentage of distribution in dividends as low, I think, as management would dare to go, I haven't any doubt but that the result of a decrease in profits by taxation would be a decline in new investment by them until they decide to raise outside capital.

Mr. RICH. I am just asking this because you are an economist, and you ought to know everything I don't know.

Do you believe that the operation of the steel plant is an easy thing today, that everything is rosy and that all they need do is just keep running? Is that the idea the majority of the people have as to the operation of the steel industry?

Mr. CLARK. I have been a businessman for a long time, Mr. Congressman. I am sure that is not the way that a business manager in steel looks upon his job.

Mr. CLARK. Mr. Chairman, I have been glad to confine my statement to the hour because I hope this first opportunity for the members of the Council to discuss these problems with the Joint Committee will be followed by many others when we might have an opportunity to expand on the subject.

The CHAIRMAN. May I ask whether your view as expressed in this exchange between yourself and Congressman Rich doesn't boil down to something like this: That, unless the Government acts to restrain this rolling process of which you have spoken, the process which is sometimes called the spiraling process, there will be no means of stopping it?

Mr. CLARK. Except that——

Mr. RICH. I am thinking that, but not out loud. If you don't stop it, or take some means to stop it, we are just going on and on.

Mr. CLARK. No.

Mr. RICH. You are going to get either one of two things. You are going to get a depression or something is going to go bust. You just mark my words on that.

Mr. CLARK. If it goes on and on and on, we are bound to get a depression, and that is the way it ends.

The CHAIRMAN. May I say this has been a very interesting session, because we have quite evidently developed a convert to the President's program from an altogether unexpected source; namely, the Congressman from Pennsylvania.

Mr. RICH. Well, if the congressmen were one of his chief advisers, we wouldn't be doing the things we are doing now, I will tell you that.

Mr. CLARK. May I say one thing to you, Mr. Congressman, before you leave?

You asked a question yesterday which was a rhetorical one and which perhaps you thought could only have one answer. I think it was you who asked if there was anybody who was in favor of unemployment.

Mr. RICH. Yes.

Mr. CLARK. We have had presented to us repeatedly in our conferences with representatives of business that very proposal: That the best thing that could happen would be to have a larger degree of unemployment in order that there might be at the factory gate each morning a list of jobhunters—what is happening in their kitchens I don't know—because that would make labor more eager and more productive.

Mr. RICH. I want to say to you that I am in business and employ labor. My greatest concern is to know what to do to keep our people busy. That is the greatest concern of our business today; to keep our people busy, because we want them 300 days in the year, as long as we live. That has been our object all through life, and I hope we will continue to do that.

I think any business running today ought to think more of its labor than it does of its machines and its capital. If we all worked that way, we would solve a lot of problems that cannot be solved by law or by trying to force people to do this and to do that.

The CHAIRMAN. Again I am prompted to applaud the Congressman from Pennsylvania.

Before you leave, let me ask one or two more questions.

Will you please state for the record how the Council operates in obtaining the information upon which it bases its report?

Mr. CLARK. The Council, by its own choice, as well as by the direction of the Congress, is not a fact-gathering agency, but an analytical group. All of the information we get we have to secure, for the most part, from the very competent professional groups in the various departments of the Government who regularly collect and process business data.

The CHAIRMAN. Do you consult representatives of various economic groups in the country?

Mr. CLARK. We have many meetings with groups representing labor, representing business, representing agriculture, and representing the consumers.

The CHAIRMAN. Then you do not sit in an ivory tower and reach these conclusions without contact with the people who are actively engaged in various segments of the economy?

Mr. CLARK. By no means. In fact, I think the corridors in our halls are wearing down from the number of people who find it is easy to come to us to present their views about business affairs.

The CHAIRMAN. The committee will stand in recess until tomorrow morning at 10 o'clock, at which time Secretary Snyder will be the witness. We hope that we may be able to hear both Secretary Sawyer and Secretary Snyder tomorrow.

The committee is now in recess.

(Whereupon, at 12:35 p. m., the hearing adjourned until 10 a. m. of the following day, Thursday, February 10, 1949.)

JANUARY 1949 ECONOMIC REPORT OF THE PRESIDENT

THURSDAY, FEBRUARY 10, 1949

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

The committee met, pursuant to adjournment, at 10:30 a. m., in the caucus room, Old House Office Building, Senator Joseph C. O'Mahoney (chairman) presiding.

Present: Senators O'Mahoney (chairman) and Myers; Representatives Wolcott, Patman, Herter, Huber, and Buchanan.

The CHAIRMAN. The committee will come to order.

We have the pleasure this morning of receiving the testimony of the Secretary of the Treasury, Mr. Synder. You are prepared to proceed, Mr. Secretary?

Secretary SNYDER. Mr. Chairman, I have a prepared statement that I would like to read into the record, with your permission.

The CHAIRMAN. That will be quite satisfactory.

STATEMENT BY HON. JOHN W. SNYDER, SECRETARY OF THE TREASURY

Secretary SNYDER. Mr. Chairman and members of the committee, I appreciate your invitation to appear before this committee to discuss the state of the finances of the Government of the United States.

As you know, the Secretary of the Treasury since the creation of the Department, has been submitting to the Congress at its opening session each year an annual report on the state of the finances of the Federal Government for the preceding fiscal year. I submitted such a report for the fiscal year 1948 a few weeks ago. I should like at this time to present what might be termed an interim report, and to discuss in some detail the outlook for the Federal fiscal position for the calendar year 1949.

In the two and a half years that I have been in the Treasury, my first objective has been the sound financial position of the United States Government. This period has been a particularly critical one in our economic life. It has covered in major part the reconversion to a peacetime economy, the restocking of war-depleted inventories, the easing of accumulated shortages, and, to a considerable extent, the transition back to an economy of buyers' markets and normal competition. The speed of reconversion is a tribute to American management, technical skill and good will on the part of labor, management, and the consuming public.

The contrast with the experiences after World War I is sharp. That war was followed by a period of rapid inflation, speculation in commodities and inventories, followed by a sharp crisis and depression.

The collapse of the speculative boom after World War I also broke the market for Government bonds, and in this way helped to undermine confidence in the stability of our economy.

This time, we have been able to avoid these disasters. Our Nation today is in a far stronger financial position. There is no evidence of more than normal speculative holdings of commodities and in the stock market there has not been cause for concern.

I was very happy, however, Senator, to see that Secretary Brannan has asked for the facts in connection with the fluctuations in the commodity market in the last few days.

The CHAIRMAN. In his testimony before the Committee on Agriculture yesterday, in the Senate, Secretary Brannan announced that he had directed the Commodity Credit agency in his Department to call upon all of the traders in the commodity market, particularly in the grain market, to determine whether or not there was excessive short position. It raises the old question which we discussed a year ago when the recommendation was made to control speculative activities in the commodity market, as to what price the public as a whole should be expected to pay in order to maintain a wide-open futures market.

Secretary SNYDER. I asked the Agriculture Department yesterday if this statement I have just made coincided with their position, and was told that it did, that there was no divergence of feeling; that the Secretary did not know there had been any speculative action attendant upon the action of the market, but he wanted to know the facts in the case.

Inventories in most lines have been kept low by cautious inventory policies, and by continuing shortages of many types of goods.

Economic stability at the present high levels of employment and production depends to a great degree on continued confidence in the Government's credit.

The importance of confidence in the financial soundness of national governments, as a powerful economic factor, is clearly evident among the countries of the world today, when even moderate differences in national credit confidence are plainly reflected in differences in the rate of economic progress.

The objective of sustaining the sound financial position of the United States Government has involved two separate lines of action. The first has been to develop a sound fiscal policy, which must be based on a revenue system that will not only meet the cost of prescribed Government functions, but which will also yield a surplus for a gradual retirement of the public debt.

The second line of action has been to manage our public debt in such a way as not only to assure confidence in the government's credit, but also to promote economic stability.

The accumulation of a large public debt is inevitable in wartime and the cost of the last war was so great that the public debt of the United States reached unprecedented levels. Fortunately, the economy of this country expanded during the war period so that this huge public debt did not constitute too great a burden on the national income of the people. Nevertheless it represents a serious annual cost, and the existence of a large debt requires careful management so that it can contribute to economic stability rather than stimulate speculation on the one hand, or precipitate financial stringency on the other.

When I came to the Treasury in June 1946, I felt that stability in the markets for Government securities would encourage business confidence and would aid materially in promoting our industrial development.

Therefore, in cooperation with the Federal Reserve System, the Treasury has sought to maintain the stability of the bond market in both directions. It has been our objective to keep bond prices from going up too rapidly or going down too sharply. In the spring of 1947, we took steps to arrest a boom in Government bonds. When conditions were reversed and selling pressure on the Government bond market developed, we changed our practice and purchased bonds. In recent months, there has again been upward pressure on the bond market and we are again selling to stabilize prices. Such actions are important not merely from the standpoint of Government finance and the role of Government debt in the monetary system, they are important for the whole level of the security markets, since the prices of other bonds are, to a large degree, influenced by the prices of United States securities.

Our aim has been to use fiscal policy as a stabilizer to the economy of the Nation. While this is important at all times it is imperative at the present time when the United States is undertaking such an important role in promoting international economic cooperation and reconstruction.

The law vests responsibility for the management of the public debt in the Secretary of the Treasury, who must, with the approval of the President, make the decisions of policy involved. Therefore, I wish to discuss the Treasury's debt policy—particularly the budget position of the Government as it affects the cash position of the Treasury, and the effect of our policy actions on the various classes of investors. To facilitate the presentation, there are a number of charts to which I will refer from time to time to make some of the points clearer.

The basic factor influencing the Treasury's financing outlook is the budget picture.

Chart 1 covers the budget situation for 1949 and 1950, and makes a comparison with previous years. As you know, the budget forecasts a deficit for 1949 and 1950, despite the fact that economic activity is high and is likely to continue so for some time.

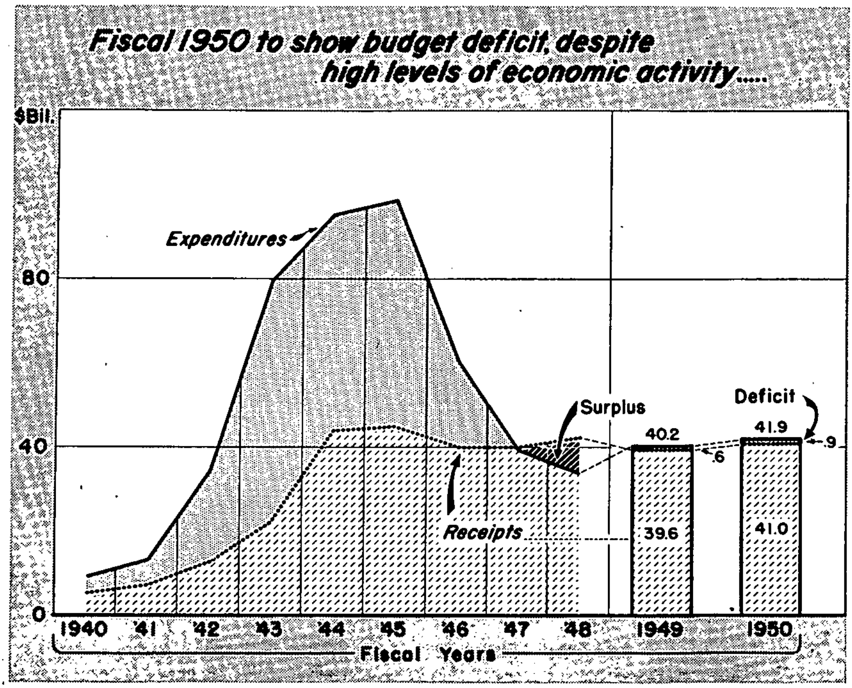
Expenditures reached a peak of $99,000,000,000 for 1945, dropped to a low of $34,000,000,000 in 1948, and are estimated in the President's budget at $40,200,000,000 for 1949 and $41,900,000,000 for 1950.

Receipts rose to a peak of $45,000,000,000 in 1945, and are estimated at $39,600,000,000 for 1949 and $41,000,000,000 for 1950. Both the receipt and expenditure figures are on the new basis of Federal financial reporting, whereby tax refunds are deducted from the total revenues during the year, instead of being included in both the revenue and expenditure totals.

The budget surplus or deficit of the Federal Government is represented by the difference between the receipt and the expenditure figures on the chart. As you know, a budget deficit was incurred during each year from 1931 up through 1946. In 1947 there was a surplus of three-quarters of a billion dollars. In 1948 there was a surplus of over $8,000,000,000. The President's budget indicates that because of tax reduction, and in the absence of new tax legislation, deficits will occur in both 1949 and 1950—in the amounts of approximately $600,000,000 and $900,000,000, respectively.

The CHAIRMAN. May I interrupt you at that point, Mr. Secretary, to ask upon what basis these estimates are made. I have heard it said from time to time that the estimates of receipts have been in some cases too low and that the estimates of expenditures, on the other hand, have sometimes been too high.

CHART 1



Secretary SNYDER. Well, we have based our estimate of revenues for the fiscal year 1950, and for the final estimates for the fiscal year 1949, on an annual personal income of $215,000,000,000, which has been about the level that has been reported by Commerce, up until the report this morning.

We have estimated the same employment and production to extend through the fiscal year 1950.

Of course, the chairman recognizes that we are making a projection for 18 or more months in advance and that we have to take advantage of all the available information we have, which we feel is the most reliable basis on which to estimate that far into the future.

The CHAIRMAN. I wanted to find out the mechanics employed in reaching these estimates. Who makes these estimates?

Secretary SNYDER. Well, the estimates are made through consultation with various departments who accumulate these figures and estimates in the various areas, Agriculture, Labor, Commerce, and so on. They are finally compiled in the Treasury office.

The CHAIRMAN. Are they scientifically gathered, that is, the basic data?

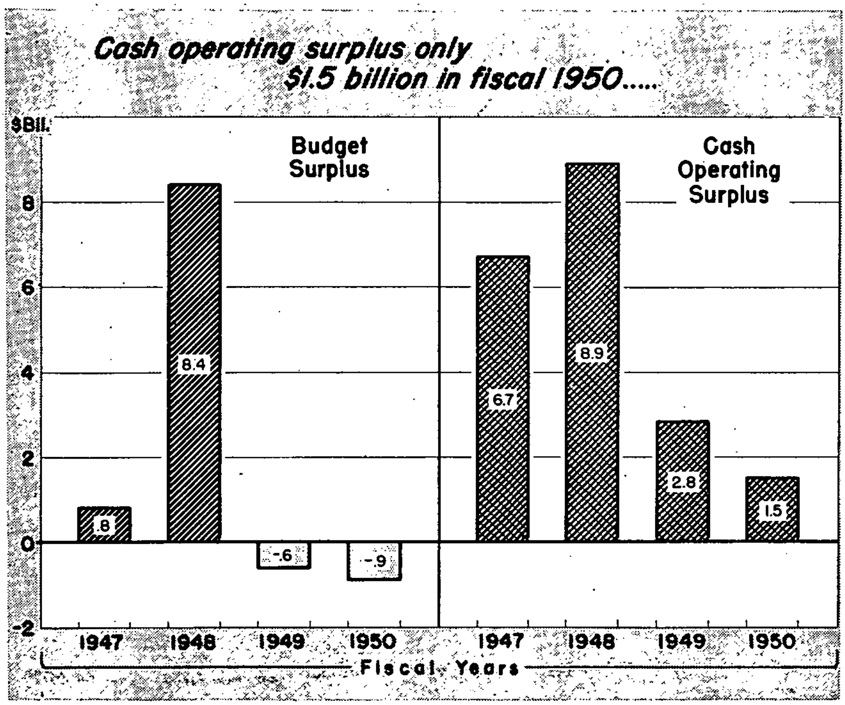
Secretary SNYDER. Well, we think so, sir. They are the result of a continuing study.

The CHAIRMAN. They are done by members of the permanent staff of the Treasury?

Secretary SNYDER. That is correct.

The President said in his budget message that it was not sound public policy for the Government to operate at a deficit in times of high

CHART 2



prosperity. I have, as you know, always taken this view; and I feel that I cannot emphasize its importance too strongly. It is vitally important that the Federal Government have a substantial surplus in periods of prosperity to permit a reduction in the public debt. I feel it to be essential that a tax program, as suggested by the President, be enacted by the Congress as soon as possible.

The development of tax legislation, as you know, is within the jurisdiction of the House Ways and Means Committee and the Senate Finance Committee. The Treasury has been working with these committees. The objective of the administration is to increase revenues by 4,000,000,000; and the need for these additional revenues for the Federal Government is imperative. We must have a surplus during times of prosperity with which to reduce the debt; for if we do not, we shall never be able to reduce the debt in the manner which I feel is necessary and desirable.

In considering the Treasury's financing outlook, it is necessary to examine the budget figures with a view toward determining their effect on the Treasury's cash balance. The Treasury cash balance is not only affected by the budget surplus or deficit, but also by additional items which bring cash into the Treasury. The cash operating surplus is typically higher than the budget surplus, as shown in chart 2. This is primarily because of the money flowing into trust accounts which is then invested in Government securities.

The cash operating surplus stood at $6,700,000,000 in 1947, and $8,900,000,000 in 1948. It will drop to $2,800,000,000 in 1949, and to $1,500,000,000 in 1950. There are a number of items in the reconciliation between the budget surplus and the cash operating surplus for the fiscal years 1947 to 1950; these are shown in the following table:

TABLE I.—*Detail on budget surplus and cash operating surplus*

[In billions of dollars]

	Fiscal years			
	1947	1948	1949	1950
Budget surplus	.8	8.4	−.6	−.9
Trust fund investments	3.4	3.1	2.7	2.0
Savings bond interest accruals	.5	.5	.6	.5
Notes issued to Monetary Fund and Bank	.3	−.9	−.1	−.1
Armed forces leave bonds issued	1.8	−1.2	−.2	−.1
Items in process of collection	.5	−.5	.4	
All other	−.6	−.5		.1
Cash operating surplus	6.7	8.9	2.8	1.5

Source: Office of the Secretary of the Treasury.

The top line of this table, which shows the budget surplus, corresponds to the bars on the left-hand side of the preceding chart. The bottom line of this table, showing the cash-operating surplus, corresponds to the right-hand side of the preceding chart. In the center of the table, we have set forth the major items which have to be considered in reconciling the two concepts.

The most important item on this table for 1949 and 1950 is "trust fund investments". This represents the money flowing into the trust funds. The Treasury invests this money in Government securities. The amount involved is approximately $3,000,000,000 for the fiscal years 1947, 1948, and 1949.

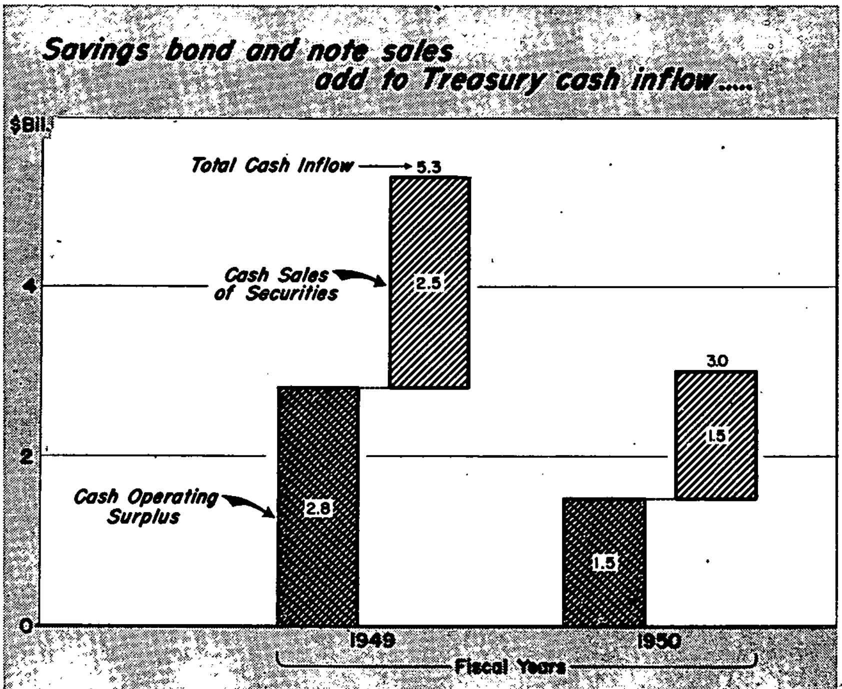
For 1950, the figure is $2,000,000,000. It would have been higher except for the fact that there is likely to be a large outflow during the fiscal year 1950 from one of the trust funds, the national service life insurance fund. This is a result of a cash dividend of about $2,000,000,000 to be paid to veterans.

Among the other reconciliation items, are the savings bond interest accruals, which are a budget expenditure but which require cash from the Treasury only when savings bond are redeemed for cash, or mature.

Also in the reconciliation are items referring to the notes issued to the Monetary Fund and International Bank, and the bonds issued in connection with the Armed Forces Leave Act. In both cases, the items were budget charges when the notes and bonds were issued. They affect the cash balance only on occasion of their redemption. There were large redemptions in 1948. Redemptions in 1949 and 1950 are expected to be relatively small.

There are some other minor items in reconciling the two concepts; but I have discussed the principal ones. The net of the situation is that there will be a cash surplus during the fiscal years 1949 and 1950, notwithstanding the fact that there is a budget deficit during those years.

CHART 3



This net addition to cash will not permit us, however, actually to reduce the public debt—which, as I mentioned a few minutes ago, is of most importance at this time. This cash will represent increases in the Government's liabilities, on one account or another. That is, we issue public-debt obligations to our trust funds when money is paid into them; and our liability on the savings bonds outstanding grows as their value increases through interest accruals. The cash operating surplus comes about, therefore, primarily because the Government's liability is increasing through a series of public-debt programs already in operation.

Besides the cash operating surplus, the Government receives money from the sale of savings bonds and notes. In chart 3 the amount estimated to be received is added for 1949 and 1950.

You are all familiar with the savings-bond program. It has been a program of tremendous importance and significance for many years. Receipts from cash sales from savings bonds and notes will amount to $2,500,000,000 in 1949 and $1,500,000,000 in 1950; and these amounts, when added to the cash operating surplus, represent the aggregate amount of cash inflow which the Treasury will have available.

Mr. PATMAN. Do you try to induce people to take advantage of the opportunities of postal savings? In other words, do you encourage people to invest in postal savings?

Secretary SNYDER. In the Treasury we encourage people to save money. We happen to have a savings bond to offer to them as part of that program, but the whole approach we make to the public is to save money for saving's sake, for thrift, for security, and for opportunity.

Mr. PATMAN. You don't actually mention postal savings, do you?

Secretary SNYDER. Well, I think that is pretty well taken care of by the Post Office Department in selling their product, in helping us carry out the thrift idea.

Mr. PATMAN. I think if the regulations were changed just a little bit, you could increase your postal savings deposits a lot.

Secretary SNYDER. I beg your pardon?

Mr. PATMAN. If you were to change your regulations in a small way you could increase your postal savings. A lot of people, I believe, would put their money into postal savings who would not invest in any other way. There is a lot of trouble to do that. They have to go to a lot of trouble; they have to stand in line for long hours. Sometimes people have to stay away from work in order to deposit their savings in the post offices. I wish you would give consideration to that. Of course, that is a Post Office Department matter, but at the same time you have the over-all responsibility of inducing people to save their money.

Secretary SNYDER. That is the main tenor of our program, thrift. So if you save in one sector or the other the long-run effect is the same.

I should like to mention at this point that the reduction in the amounts likely to be received from the cash sales of savings bonds and notes in 1949 and 1950 does not represent any change in the promotion aspects of the program during these two years. The difference represents the amount received from the special offering of F and G bonds to institutional investors, which was made during the first part of July 1948 and which is a part of the figures for the fiscal year 1949.

Special offerings are made to facilitate the investment of funds by some of the large institutional purchasers of Government securities when conditions warrant; and it is too early to determine whether there will be a need for an offering of this type during the next fiscal year.

In order to summarize the cash position for the calendar year 1949, I should like to direct attention for a moment to table II which segregates the cash inflow into the Treasury for the fiscal years 1949 and 1950 by shorter time periods.

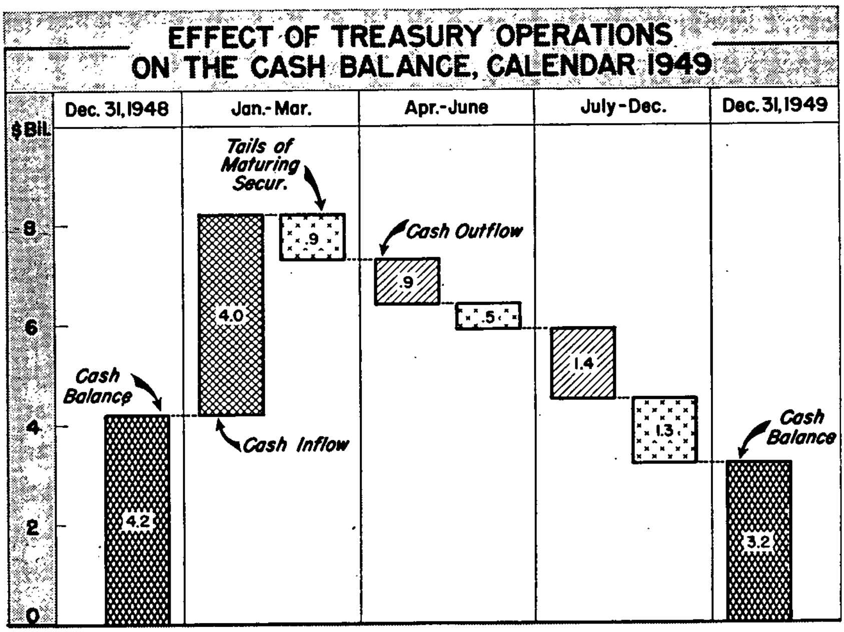
TABLE II.—*Cash inflow by selected periods, fiscal years 1949–50*

[In billions of dollars]

Fiscal 1949	5.3
July–September	2.7
October–December	−.5
January–March	4.0
April–June	−.9
Fiscal 1950	3.0
July–December	−1.4
January–June	4.4

Source: Office of the Secretary of the Treasury.

CHART 4



In the July–September quarter of the fiscal year 1949, the Treasury had a cash inflow of $2,700,000,000.

In the October–December quarter of the fiscal year, there was a cash outflow of one-half a billion dollars.

In the January–March quarter of this fiscal year—that is, the quarter in which we are now operating—the Treasury will have a cash inflow of approximately $4,000,000,000.

In the April–June quarter, there will be a cash outflow of $900,000,000; and in the 6 months July–December, which is the first part of the fiscal year 1950, there will be a cash outflow of $1,400,000,000.

We have classified the cash inflow by periods shorter than the fiscal year, so that I could describe for you the fiscal situation in the calendar year 1949, a period which overlaps the two fiscal years for which estimates are in the budget.

Chart 4 may be helpful in this connection. It shows the effect of the Treasury operations on our cash balance during the calendar year 1949. The Treasury's cash balance was $4,200,000,000 on December 31, 1948. To this will be added the $4,000,000,000 cash inflow, which will occur during the current quarter. During the remainder of this calendar year, there will be a cash outflow. Also, the tail ends of maturing securities will have to be paid off during the calendar year. These transactions will reduce the balance to $3,200,000,000 by December 31, 1949.

The tail ends of maturing securities to which I refer represent the relatively small amounts of each maturing issue which are turned in for cash redemption instead of exchange when a maturing issue is refunded into a new series of Treasury obligations. Our experience is that only a small percentage of a maturing issue is held out for cash redemption; and our estimates assume a continuation of the present trend.

This picture of how the various operations affect the cash balance during the calendar year 1949 is one that I have before me daily as I consider the various policy decisions which have to be made in connection with the management of the public debt. If everything works out exactly as we now estimate, the balance would run down to $3,200,000,000 by next December 31. There are, however, a number of factors which could have an important influence on the picture, which have not been taken account of.

There is, first, the possibility that expenditures might turn out to be higher than the budget. For example, there is the possibility of expenditures for the security of the North Atlantic area. The President mentioned this possibility in his budget message, but he did not include any amount in his budget because he wasn't sure what the amount is likely to be. If Congress should permit such expenditures during the calendar year 1949, they would have the effect of reducing the December 31 cash balance figure of $3,200,000,000 by a commensurate amount.

There is also, as you know, the possibility that revenues might vary from the amount shown in the President's budget. Revenues have been estimated on the assumption of high business activity and full employment. If unemployment should develop during the year and business should drop to a lower level than we now enjoy, revenues would be smaller. If, on the other hand, the business levels should advance, revenues would be higher.

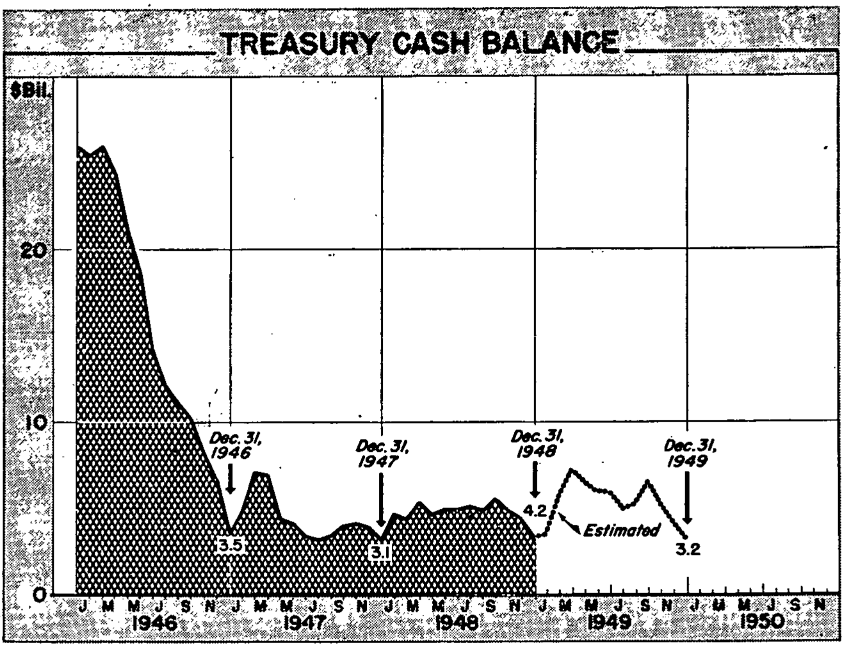
New tax legislation may also affect the cash balance during the last part of the calendar year 1949. The effect would depend upon the type of tax legislation enacted, however. Many types of taxes applicable to 1949 would not be paid into the Treasury until the first part of the calendar year 1950. They would have no substantial effect on the cash balance picture during the calendar year.

Another factor affecting our cash position is the possibility that the dividend to be paid by the national service life insurance fund in the fall may be delayed in part by the many mechanical difficulties connected with the operation. There are some 16,000,000 policies involved; and it may be that payments may run behind schedule and not be completed by the end of 1949. If this should happen, the cash balance would be higher temporarily by a commensurate amount.

With all these factors in mind, however, and on the basis of the necessary assumptions, this is about as realistic a projection as we can make for operating purposes at this time of the Treasury's cash outlook.

The movement of the cash balance from $4,200,000,000 on December 31, 1948, to $3,200,000,000 on December 31, 1949, will involve some sharp rises and falls, as shown in chart 5. This will be in a manner similar to that experienced in previous years. The cash balance will probably reach a peak in March, but the level will drop rapidly.

CHART 5



A cash balance figure of $3,200,000,000 on December 31, 1949, would be about as low as we should prudently drop the Treasury cash balance at the end of a year when the annual expenditure budget was running in the neighborhood of $40,000,000,000. Please note that we have been discussing cash balances and not surplus balances.

In addition to taking care of our cash requirements, the Treasury will have a large amount of refunding to do as issues mature. I should now like to spend a moment on the important Treasury maturities during the next few years.

The CHAIRMAN. May I interrupt to ask you, Mr. Secretary, to make a brief explanation on the record of the difference between a cash balance and a surplus balance.

Secretary SNYDER. Yes, sir. The budget surplus balance means the excess of revenue, as projected in the budget, over budget expenditures. At the first of the year we make a projection of estimates. At the end of the year we actually have the balance of receipts over expenditures that have actually occurred, the actual income of revenue and the actual outgo of expenditures.

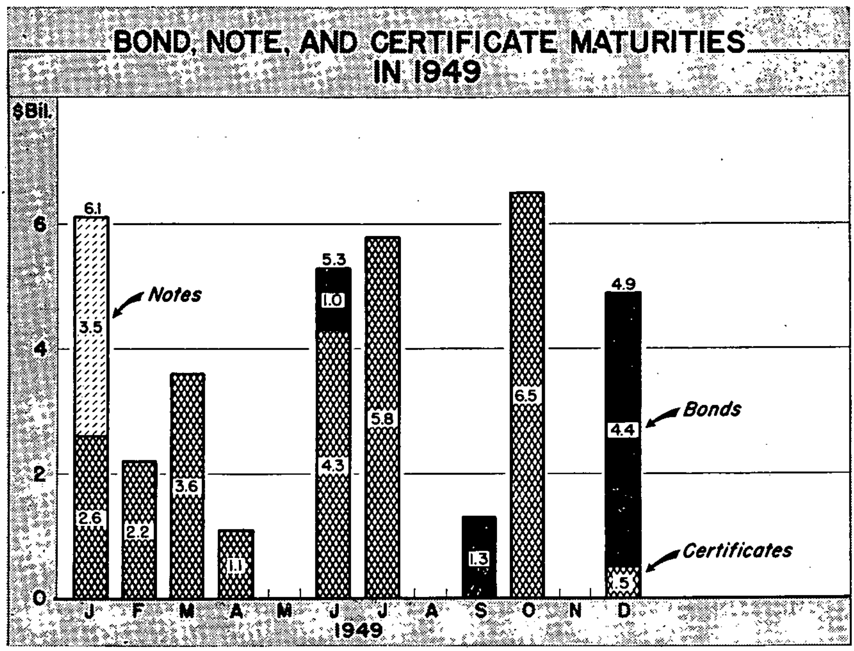
If, at the end of the fiscal year, the revenue has been greater than the expenditures, we have a surplus balance. If the expenditures have been actually greater than the revenues we have a deficit budget balance.

On the other hand, we can show a cash balance through the year for operating purposes which does not reflect as a budget surplus balance, because we can delay the time in which we apply the cash amounts in the trust funds to the purchase of securities for those funds.

Therefore, we have a running cash balance for operating the Government which is not necessarily a surplus balance. Does that make it clear, sir?

The CHAIRMAN. I think it does.

CHART 6



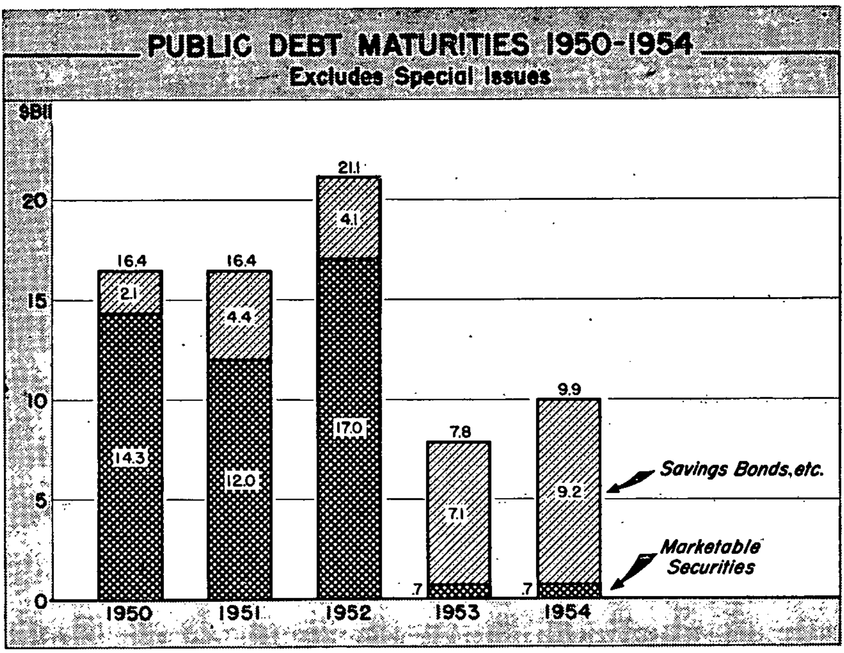
Secretary SNYDER. Chart 6 covers the bond, note, and certificate maturities in 1949. They total $37,000,000,000. In addition, there are $12,000,000,000 of Treasury bills outstanding which mature at the rate of approximately $900,000,000 a week. Because it is unlikely that there will be any significant volume of debt reduction during the year 1949 on these maturities—except for the tail ends of maturing securities not turned in for refunding—the entire $49,000,000,000 on net balance is likely to be refunded into securities maturing in the future; and the maturities which are already scheduled for 1950 and subsequent years, as shown in chart 7, will thereby be increased by the amount carried over from 1949.

The Treasury will thus have, as is evident, a substantial refunding problem this year, next year, and for many years to come. It will be expanded in the early 1950's by the maturity of the wartime issues of savings bonds. A positive refunding program on that account will have to be undertaken in 1951 and thereafter.

The decision on each issue as it matures is, as you know, a specialized problem, and will have to be handled separately; but this projection gives you a general outline of our position.

The maturities that I have been discussing are at the short end of the Federal debt structure. Most of the issues involved are owned by banks for the investment of their deposits and by industrial, commercial, and mercantile corporations for the investment of their short-term balances. Our financing activities and debt management operations are conducted with the objective of providing the various

CHART 7



investor classes with the types of securities and the maturities which best suit their particular needs. This helps us in our objective of spreading the ownership of the debt as broadly as possible.

Some reflection of the extent to which this goal has been accomplished is indicated in table III. Two-thirds of the Federal debt, that is some $167,000,000,000, is now held outside of the banking system. Over a quarter of the public debt, some $68,000,000,000, is held by individuals alone. Insurance companies hold 21½ billion dollars of Federal securities, mutual savings banks have 11½ billion dollars, and corporations other than banks and insurance companies hold $13,000,000,000. Government investment accounts—largely individuals' savings which are reinvested in the form of social security and military insurance funds—account for 37½ billion dollars of the debt. State and local governments own $8,000,000,000 and nonprofit institutions and miscellaneous investors another 7½ billion dollars. The remaining $86,000,000,000 is held in the banking system—that is, commercial banks and Federal Reserve banks.

TABLE III.—*Estimated ownership of the Federal debt Dec. 31, 1948*

[In billions of dollars]

1. Held by nonbank investors:	
Individuals	68
Insurance companies	21½
Mutual savings banks	11½
Corporations	13
Government investment accounts	37½
State and local governments	8
Miscellaneous investors [1]	7½
Total held by nonbank investors	167
2. Held by the banking system	86
3. Total debt outstanding	253

[1] Includes savings and loan associations, nonprofit institutions, dealers and brokers, and investments of foreign balances and international accounts in this country.

Source: Office of the Secretary of the Treasury.

The CHAIRMAN. Do you know what the total amount of Government bonds held by the life insurance companies is at the present time?

Secretary SNYDER. Oh, yes; we have that. It is shown in chart 9, Mr. Chairman. That amounts to $15,000,000,000 for the 49 companies which account for 90 percent of the industry.

The CHAIRMAN. These charts show the investment in Government bonds of 49 insurance companies during the period 1946 to 1948, of mutual savings banks during the same period, of savings and loan associations during the same period. Do you give a description of those in your testimony?

Secretary SNYDER. No; we do not go into that in detail but we would be glad to develop any part of it that you would like to have.

The CHAIRMAN. I think it might be advantageous if the record would show the total held by each of those classes. If you will read from the charts into the record that will satisfy the point.

Secretary SNYDER. This is in table III. It gives a pretty good break-down of it. The estimated ownership of the Federal debt on December 31, 1948, held by nonbank investors; individuals, 68 billion dollars; insurance companies, 21½ billion dollars.

The CHAIRMAN. That is all insurance companies?

Secretary SNYDER. All insurance companies. Would you like to have that broken down?

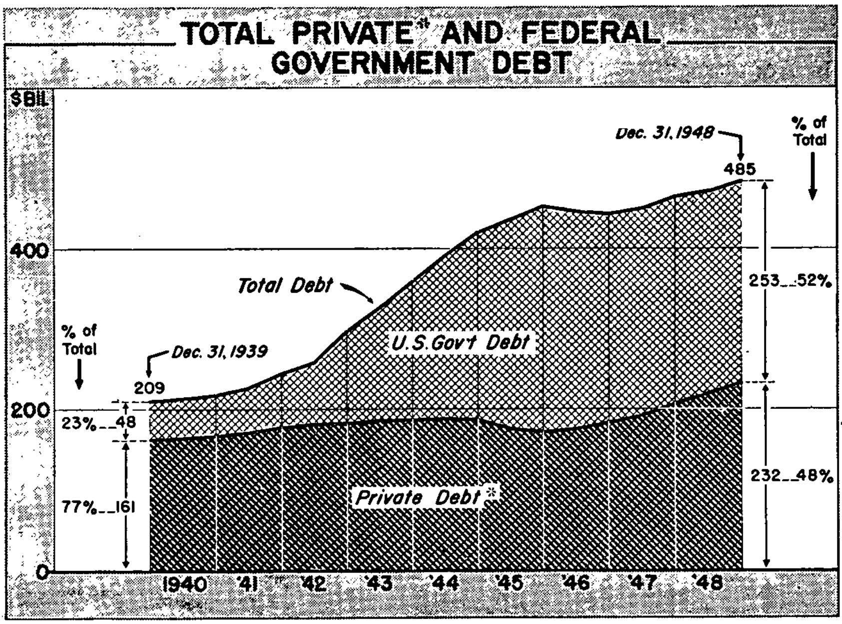
The CHAIRMAN. No; that is all right. I did not notice that was in the table. The whole table will be put in the record—it will not be necessary for you to read it.

Secretary SNYDER. The Federal debt at $253,000,000,000 represents more than one-half of the total debt of the country at the present time, as shown in chart 8. Before the war the Federal debt was less than a quarter of the total debt of the country. As the result of the tremendous growth in the Federal debt during the war the Federal debt has taken a new place of importance in our economy. Accordingly, anything that happens to the Federal debt is an important factor with respect to the whole credit picture of the country.

Mr. WOLCOTT. In that connection, Mr. Secretary, with reference to the private debt shown on chart 8, does that include municipal debt?

Secretary SNYDER. Yes, sir. The private debt includes all other debt and the grand total there is the total of all debt outstanding.

CHART 8



The CHAIRMAN. That chart clearly shows, then, that the United States Government debt is 52 percent of the total debt in the United States at this time, including private, State, and local governments?

Secretary SNYDER. That is correct. If you will notice the asterisk after private, it states down at the bottom "includes State and local and nonguaranteed Federal agency debt," as well as all other private debts. Does that clear that point up?

The CHAIRMAN. Yes. We just wanted to get it clear in the record. Thank you.

Secretary SNYDER. I was very glad to do that and we hope that by introducing these charts and tables it will help and act as a reference.

The CHAIRMAN. It was just a matter of emphasis.

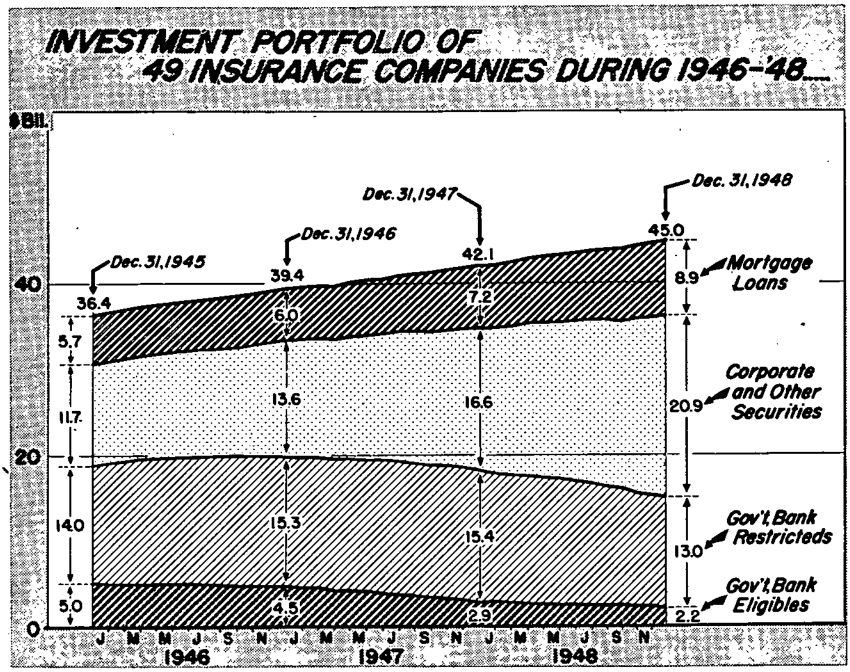
Secretary SNYDER. Thank you.

On the other hand, whatever happens with respect to the Nation's private debt and the position of the various investor classes is rather intimately connected with the management of the public debt, too.

We, of necessity, must keep close watch on the various developments in the financial world, and I should like to discuss some of them as they affect the position of the important investor classes.

One important class of investors in Government securities is insurance companies. Life insurance companies have been liquidating a small proportion of their Government security holdings since the end of the war as new investment opportunities unfolded, as shown on Chart 9.

CHART 9



Present holdings of 49 leading companies, which hold 90 percent of life insurance assets in the country, have declined from $19,000,000,000 to $15,000,000,000 since the end of 1945. During this period, these same companies were, on the other hand, expanding their holdings of corporate securities and their holdings of mortgage loans. Expansion along these lines was to be expected as insurance companies entered actively in providing funds for postwar development of private industry.

Mutual savings banks also sold some Government securities in 1948 in the process of meeting private demands for capital, as shown in chart 10, but they still hold more Federal securities now than they did at the end of the war. In fact, mutual savings banks have 50 percent more of their funds invested in Federal securities than in all other types of loans and securities combined.

CHART 10

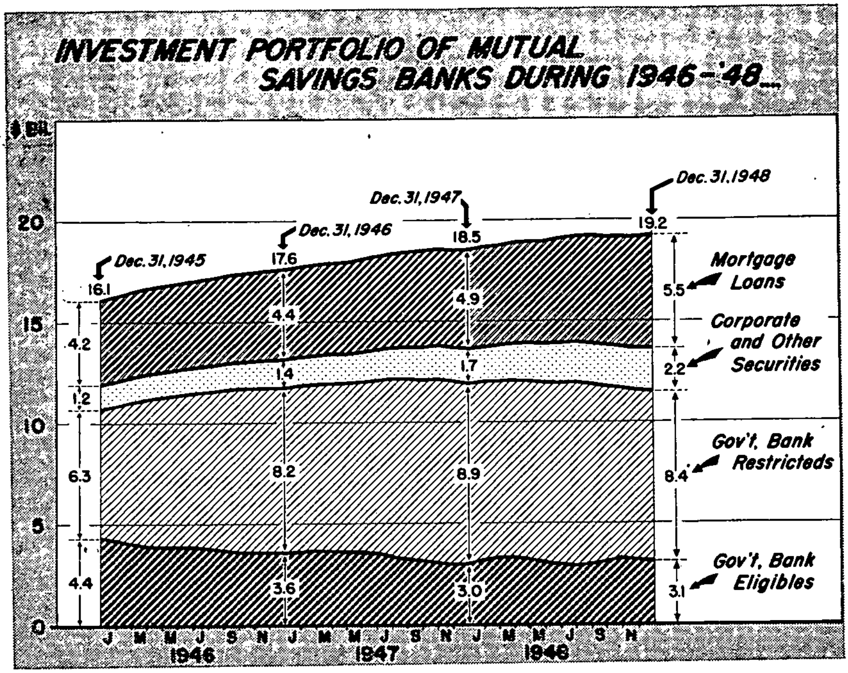
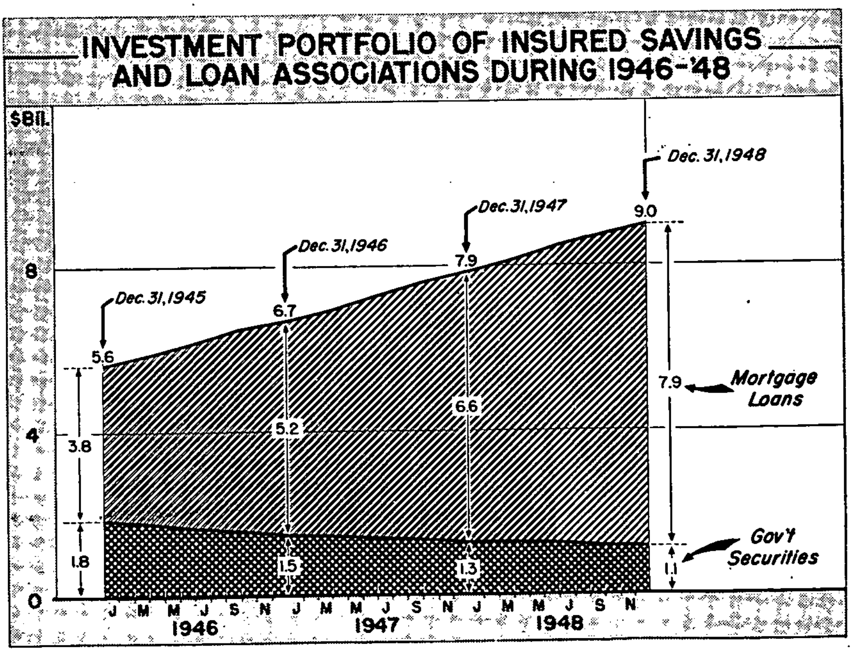


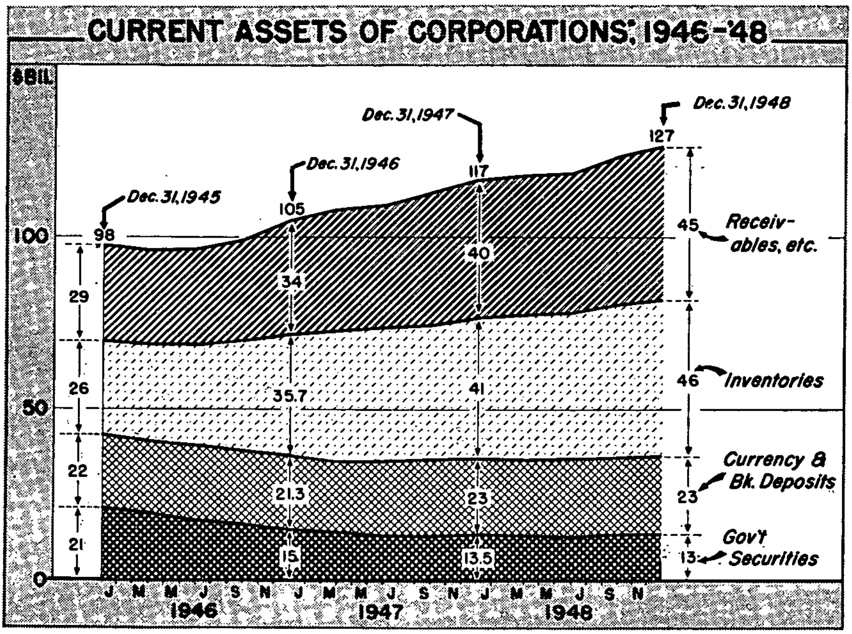
CHART 11



Holdings of Government securities by insured savings and loan associations have shown some decline since the end of the war as residential mortgages expanded, as shown in chart 11. As contrasted with insurance companies and savings banks, however, most of the decline took place in 1946 and 1947, rather than in 1948. A large part of these holdings are in long-term bank-restricted bonds. It is interesting to note that the holdings of these associations are still in excess of 1 billion dollars, as compared to holdings of only about 50 million dollars before the war.

During 1946, corporations other than banks and insurance companies liquidated about 6 billion dollars of Federal securities in order to facilitate their early postwar expansion, as is shown in chart 12. Since the end of 1946 there has been little change in the holdings of

CHART 12



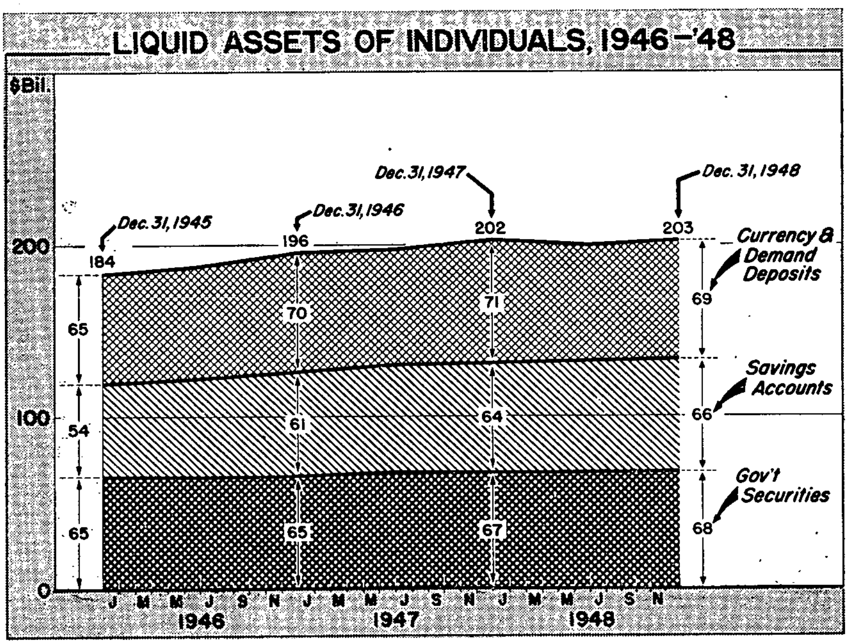
Government securities by these corporations. Corporate holdings of currency and bank deposits show an unusually stable level throughout the last 3 years. At the same time other current assets of corporations, principally inventories and receivables, have shown a significant increase.

Holdings of Federal securities by individuals are now at an all-time high of 68 billion dollars. The fact that individuals' holdings have actually increased since the end of the war, as shown in chart 13, represents a trend that most of us would have guessed incorrectly 3 years ago. Savings bonds alone account for two-thirds of individual holdings of Federal securities. The savings bond picture is most encouraging. More than 32 billion dollars of E bonds alone are outstanding—an amount you will be interested to know is more than 1 billion dollars higher than at the end of our last wartime drive.

Savings accounts have also increased during the last 3 years. Currency and checking accounts, after early postwar increases, have recently shown some slight decline.

Our debt management activities since the end of the war have been directed toward the objective of increasing nonbank holdings of the public debt. We were able to pay off part of the debt, as you know; partly from cash balances available at the end of the war and partly from the budget surplus during the past 2 fiscal years. In managing these debt pay-offs, we have been successful in concentrating them entirely on the bank-held portion of the debt, as shown in chart 14.

CHART 13



The debt has declined from a peak of 280 billion dollars, on February 28, 1946, to a current level of 253 billion dollars. This is a decline of 27 billion dollars. At the same time, there has been a decline of 31 billion dollars in holdings of Federal securities by the banking system—a decline greater than the reduction in the total debt.

The CHAIRMAN. And when you speak of the banking system, you are excluding the life-insurance companies?

Secretary SNYDER. Yes, sir.

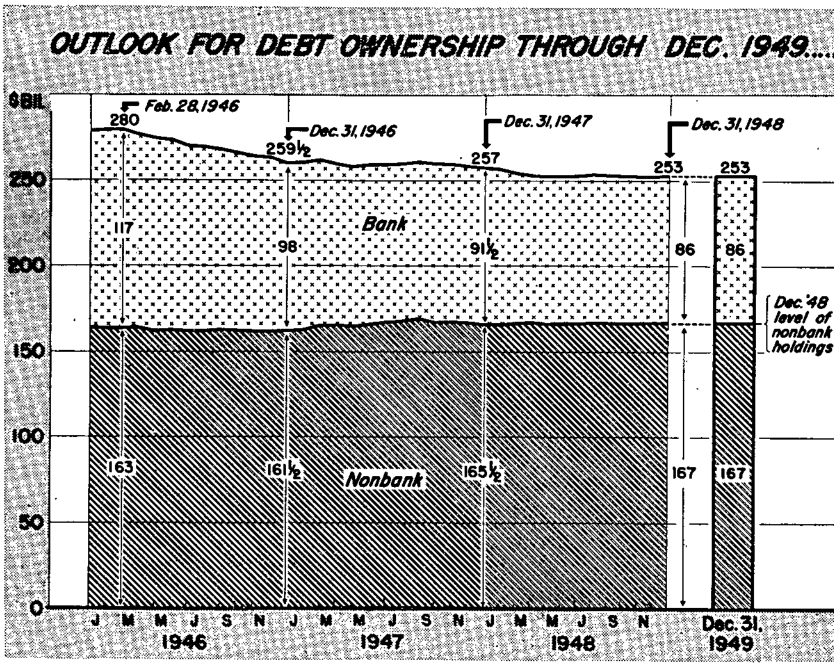
The CHAIRMAN. So that the reduction of four billions by the 49 life-insurance companies to which you referred is an additional reduction to the four billion mentioned here?

Secretary SNYDER. Not necessarily. That might have been transferred into other portfolios. We are taking the over-all figures there, Senator, so that the actual bank-held debt reduction is shown by the difference between those two figures, the 31 billion and the 27 billion. That shows the actual taking out of the bank-held portfolios of that much money. That is, we took out—actually took out—31 billions of dollars from the banking system. But what I was trying to show you was that we had been able to transfer into savings bonds, and into other holdings four billion dollars more than we took out by the surplus operation.

The CHAIRMAN. Thank you.

Secretary SNYDER. The reduction in the bank-held debt for the period up through December 31, 1948, is attributable entirely to a reduction in the holdings of Government securities by the commercial

CHART 14



banks of the country. Holdings by the Federal Reserve banks were, on net balance, practically unchanged between February 1946, the peak of the debt, and December 31, 1948. Since December 31, 1948, Federal Reserve holdings of Government securities have declined.

The Government's debt-management policy since the end of the war, it is obvious, has not resulted in an expansion of Federal Reserve holdings of Government securities. All purchases of long-term bonds have been more than offset by the liquidation of short-term issues.

As bank-held debt declined in the period since the end of the war, nonbank holdings expanded in the aggregate, notwithstanding the sale of some Government securities by some of the investor classes. Government security holdings by individuals increased. This was also true of fire, casualty, and marine insurance companies, and of the trust and investment funds of State and local governments. Another important reason why nonbank ownership has increased has been the continued investment of the savings of individuals accumulating in Federal Government social insurance funds.

The bar at the right-hand side of the chart 14 sets forth my estimate of where the public debt will stand at the end of the calendar year 1949. The level is the same as it was on December 31, 1948, and is arrived at on the basis of the budget, which forecasts a deficit for the fiscal year 1949 and another deficit for the fiscal year 1950. The main thing wrong with that bar, as shown in the chart, is that it is too high. It should be lower, and the only way that it could be lowered is for the Government to achieve a surplus of receipts over expenditures during this calendar year. The President has stated that new taxes will be needed, and must be enacted if the surplus is to be achieved. I strongly urge this course of action.

The CHAIRMAN. Congressman Herter.

Mr. HERTER. Mr. Secretary, in the testimony that Mr. Keyserling gave, he indicated that one of the imbalances in our economic structure was the excess earnings of corporations, excess in the sense that corporate earnings showed on his charts a four hundred-odd-percent increase, whereas other increases of a comparable nature appearing on the chart were very much lower than that.

Obviously there are only three ways in which those excess earnings could be reduced, either by lowering prices, by increasing wages, or by siphoning off more in the form of taxes.

It was very clear from his testimony that he seemed to feel the prices should be lowered; as he called them, the monopolistic prices of these corporations should be lowered, which naturally would lower their earnings.

It was also intimated by Mr. Clark yesterday that labor had a perfect right, in the face of these earnings, to demand higher wages.

You have a very vital interest in drawing on those earnings yourself. In fact, at one of the earlier hearings I introduced a computation made by Mr. Stamm, I think, showing the results of your projections here if the earnings of the corporations were cut in half today and only reached a 200-percent level over and above the 1939 period.

What is your own feeling with respect to that situation in connection with all of these projections that you made?

Secretary SNYDER. I do not quite understand your question.

Mr. HERTER. Apparently, from the Administration itself, the economic advisers to the President, there is a suggestion that the corporate earnings be reduced by lower prices to the consumer or possibly by increased wages to the laboring forces. If that were done it would very vitally affect your picture from the point of view of what you have outlined here—it would very vitally affect it.

Secretary SNYDER. I feel that in the period we are going through right now, both the demand for corporate profits and the demand for wages—both management and labor are going to have to be temperate in their demands. We feel definitely that corporate profits have been exceptionally high in the last year. We have got to give due consideration to that in these adjustments.

Of course if we cut back on the corporate profits, as you have said, we certainly cut back on our revenue.

On the other hand, if we cut back on the individual income, we cut back on the revenue, so we have to take both of those in balance. From the Treasury's standpoint, I think we have to appeal to a temperate approach by both management and labor during this period.

Mr. HERTER. But all of your projections, as you presented them here this morning, are based on continued high earnings by the corporations, are they not?

Secretary SNYDER. On high employment and high production, that is correct.

Mr. HERTER. High earnings by corporations?

Secretary SNYDER. Yes. We are extending the same level of national income, individual income.

Mr. HERTER. A very material proportion of your revenue comes from the individual income tax and the corporate tax, does it not?

Secretary SNYDER. The individual income tax contributes the greatest portion of our revenue, and I think corporate tax is next.

Mr. HERTER. As I recall it, it is around 21 or 22 billion from the individual and around 11 or 12 billion from corporations?

Secretary SNYDER. That is about right, about twice as much from the individuals as from corporations.

Mr. HERTER. And if your corporate income were cut in two, your returns would be cut in two, would they not?

Secretary SNYDER. That is a natural conclusion.

Mr. HERTER. I am merely assuming from the governmental point of view that you are assuming that in the fiscal years 1949 and 1950, the corporate revenues, as profit which you can tax, will remain the same.

The testimony we have received today has been that the production has leveled off very definitely in the year 1948 with no increase in production of the actual volume of goods, but some increase in dollar volume—not in actual volume. From that point of view, a reduction in dollar volume would very materially affect our revenues.

Secretary SNYDER. I think you are emphasizing the importance for some additional tax legislation. If we are going to have a reduction, then we may possibly have to ask for more of what is there.

Mr. HERTER. That is just what I am driving at. You would like to see those profits remain high so that you could take a cut from those profits for the Treasury.

Secretary SNYDER. We would certainly like to see our national individual income level stay high, of course, but we do want a leveling out of the cost of living, because that has been spiraling upwards and has been the basic cause of inflationary pressures.

The CHAIRMAN. May I interrupt to say that I assume your position is that you would like to have profits remain high, but you would not like to see profits remain high and go higher at the expense of a declining purchasing power among the masses of the people.

As I understood the testimony presented to us yesterday, it was not that Dr. Clark advocated increased wages, but that, in the absence of some correction of the disparity between profits and prices upon the one hand, and wages upon the other, if he were a labor leader, he would consider it to be his duty to urge increased wages. His whole argument, as I understood it, was directed toward the recommendation of Government action to prevent this widening of the gap between profits and prices upon the one hand, and the purchasing power of the masses of the people upon the other.

Do I correctly state your position, Dr. Clark?

Mr. CLARK. Yes, sir.

The CHAIRMAN. Are there any other questions?

Mr. HERTER. Just one other question. In connection with the open market purchasing of the Federal Reserve banks, you say that the Federal Reserve today holds in its portfolio approximately the same amount that it held at the peak of the debt. In other words, with reduction of the debt there has not been any reduction in the reserve holdings?

Secretary SNYDER. It is about at the same level today, sir, as it was at the end of the war.

Mr. HERTER. I think you stated here that in the last few weeks the bond market had been such that the Federal Reserve had been able to liquidate some of its holdings, it had been able to sell some of its holdings in its open market operations. Is that trend continuing?

Secretary SNYDER. It is right up to this minute. There are changes in the picture from day to day, but the general situation is that right now.

Mr. HERTER. You changed fairly recently, didn't you, the support price at which the Federal Reserve would peg the market?

Secretary SNYDER. That was some time in the past. We have not had to do much supporting for quite a long time, they have been off the support.

Mr. HERTER. That on the whole is a very good situation, is it not?

Secretary SNYDER. We think so in the Treasury.

Mr. HERTER. That is all.

The CHAIRMAN. Congressman Buchanan.

Mr. BUCHANAN. No questions.

The CHAIRMAN. Senator Myers.

Senator MYERS. Mr. Secretary, I take if from your testimony that there will be no reduction in the public debt during 1949 and 1950, since we will be operating with a deficit during those two years?

Secretary SNYDER. There can be no net reduction in the debt. There could well be an increase in the total of the debt if we have to do much deficit financing, because we would have to go out and borrow the money if it gets below the limits of our cash balance.

Senator MYERS. But your best estimate now is that there will be no reduction in the public debt during the years 1949 and 1950?

Secretary SNYDER. Based on the budget figures, we have arrived at that conclusion; yes.

Senator MYERS. Carrying out the Congressman's question, then, unless we had a surplus to apply to the public debt in the time of our greatest prosperity, do you think we will ever be able to reduce the public debt?

Secretary SNYDER. I think I practically said that right here, Senator.

Senator MYERS. I think you did.

Secretary SNYDER. I am in complete accord, because if we do not reduce it now, we certainly are not going to reduce it when we get into more difficult times.

Senator MYERS. If there is reason to reduce it now in times of our greatest prosperity, it certainly means that taxes must be imposed during that period of prosperity?

Secretary SNYDER. That is correct.

Senator MYERS. If corporate profits should fall, as the Congressman indicated they might, and if we followed out what may have been suggested by others, all the greater reason for reducing the public debt and all the greater reason for imposing taxes during a time of such prosperity.

Mr. HERTER. May I interrupt a moment at that point, Senator Myers?

Senator MYERS. Certainly.

Mr. HERTER. I think the Secretary would agree that from the point of view of reduction of debt, and from the point of view of the economy of the country as a whole, it would be a very much healthier thing if it could be done by a reduction of Government expenditures, rather than by increasing taxes.

Secretary SNYDER. I agree, if you could cut the expenditures of the Government—if you could; and I think Congress has been attempting that for the last two or three sessions, but they have not been able to find those areas for reduction up until this time. We thought we were making great progress until the international situation came into evidence and our defense program and our international undertakings required us to reverse that procedure.

As you know, the budget had dropped to 34 billions of dollars. If we had not had these complications internationally, we could have continued to reduce it or hold it, possibly, to that level.

But we have so many uncontrollable items in our budget today that when we talk about these vast cuts in the budget, in the Federal expenditures, we must analyze exactly what it is we are talking about.

I know as a businessman you would think if you had a $40,000,000,000 expenditure account that you could cut off 15 or 20 percent of it and still continue to operate. Well, that does not hold true in the Federal Government because you are not taking the 15 or 20 percent from the 40 billion. There are the veterans, the interest, the international field, and so on, many uncontrollable items which reduce the amount you are actually going to cut. But if you accept those figures as the budget figures—which looks as if it is the temper of Congress right now—then the reduction of 15 or 20 percent actually comes out of about 15 or 20 percent of the budget. So it makes it difficult to accomplish any such arithmetic.

So unless we look at the budget in an analytical way we are likely to think we can make great savings in cutting expenditures which we cannot actually make at this time. It is only by the solution of our international situation that we are going to have any great areas, for some time to come, in reduction of Federal expenditures.

Mr. HERTER. There are a good many proposals before the Congress for increasing expenditures, and a great many allowances have been made for new activities in the domestic field.

Secretary SNYDER. My projections have necessarily been made on the budget as presented to Congress in January.

The CHAIRMAN. Including the tax receipts?

Secretary SNYDER. The tax receipts.

The CHAIRMAN. By present law?

Secretary SNYDER. That is correct, sir. We did not take into consideration any additional tax revenue which Congress will pass, we hope.

Senator MYERS. Mr. Secretary, might I sum up part of your testimony, at least, in this way: You do not foresee any possibility of a reduction of the public debt during 1949 and 1950; further, you do not see any possibility of reducing the public debt even during the years beyond 1950, if we continue with our present military expenditures and our present expenditures for foreign aid?

Secretary SNYDER. Unless we have an increase in revenue.

Senator MYERS. And if we do not have that increase in revenue, and do not reduce the public debt, what, in your opinion, will be the ultimate effect upon our economy?

Secretary SNYDER. Well the ultimate effect, the long-range effect, if we ever have a dip in our level of national income, will be that the debt will be much higher than the national income. It is higher now, but it has been our endeavor through the reduction of the national debt and through continual improvement in national income, to bring those two closer together and, if possible, to bring the national-debt total below the individual income annual figure.

However, if we should have a falling off of the national income annual figure, and the debt remains high with the attendant cost of servicing, we will have a new problem.

Senator MYERS. Grave and serious difficulties?

Secretary SNYDER. We could continue to service it at the present levels with no difficulty if we could hold them indefinitely at our present national individual income.

Senator MYERS. If it should fall off, then it undoubtedly would be necessary to increase the public debt?

Secretary SNYDER. That could well happen if there was a material falling off.

Senator MYERS. And you believe that that would have serious consequences upon our entire economy?

Secretary SNYDER. If we had a drastic decline in the economy; yes.

Senator MYERS. And in order to avoid that in the near future, and in the distant future, you recommend an increase in taxes at the present time?

Secretary SNYDER. I have to look at the picture very coldly from the position and responsibility of managing the public debt. Therefore, I know that when the condition of our economy will enable us to make a reduction in the total of that debt, we are assisting our long-range stability in Government credit.

Therefore, I have to just take the figures as presented to me and urge a surplus of receipts over expenditures in order to be sure of a balanced budget and a reduction of the debt in these prosperous times.

Senator MYERS. In order to be sure of a stabilized economy over the long period?

Secretary SNYDER. That is right.

Senator MYERS. Thank you, sir.

The CHAIRMAN. Mr. Secretary, I note what is to me a very striking statement of fact in your prepared presentation. You say that the holdings of Federal securities by individuals are now at an all-time high of $68,000,000,000, and that more than $32,000,000,000 of E bonds are outstanding. That is more than at the end of our last wartime drive and indicates that the people of the country, small people—because they, I think, buy these E bonds principally—are investing more of their funds now in these securities than during the great patriotic impulses of the war.

Secretary SNYDER. Senator, it is very striking when you think that they are making those investments on a program that is almost entirely a voluntary sales program.

During the war we had a tremendous organization to sell savings bonds, and we had the emotion and excitement of the war. We had the condition of scarce materials and a scarcity of items to purchase. Therefore, you more easily put your money away in savings. But in contrast to that, with a growing supply of things to buy, and with a reduction to the minimum of the number of paid employees selling savings bonds and promoting the sale of them, we have actually increased—through the appeal to people for thrift—the amount outstanding by a billion dollars over the peak of the wartime total.

The CHAIRMAN. The investment of these new billions in such savings bonds to the extent that they are invested reduces the pressure or purchasing power upon the prices of commodities?

Secretary SNYDER. That is true, because they put that money away for some future purchasing power use.

The CHAIRMAN. You also point out that the Government bond holdings of the banking system have been reduced about $31,000,000,000. Your testimony also showed that the 49 largest life-insurance companies have reduced their Government holdings by about $4,000,000,000. Of course, the reduction of bond holdings in the banking system also has an operation, I suppose, to hold down credit, does it not?

Secretary SNYDER. It has a very important effect in the restraint on extension of credit; yes, sir.

The CHAIRMAN. But aside from that factor, the picture we have presented to us now is that the commercial institutions, the banks, and the insurance companies, hold a smaller proportion of the Government debt than formerly, while individuals hold a much larger proportion. That is correct, is it not?

Secretary SNYDER. That is correct.

The CHAIRMAN. That, I suppose, leads inevitably to the inference that Government should do everything in its power to make sure that Government credit, as you have described it in your statement, should be maintained?

Secretary SNYDER. That is correct, sir.

The CHAIRMAN. Now, let me ask a simple question, just for the purpose of getting it into the record in simple language: What do we mean by Government credit?

Secretary SNYDER. By Government credit we mean the feeling of assurance on the part of the general public that the integrity in the obligations of the Government will be maintained; that it will meet its obligations, the payment of bonds when they mature, the payment of debts as they accrue, and through the payment of interest on those obligations as they mature and accrue.

The CHAIRMAN. So, from the point of view of debt management and fiscal policy, the primary obligation of the Government of the

United States is to create and maintain the conditions by which the people of the country may expect these bonds to be paid?

Secretary SNYDER That is certainly correct, and not only the people of the United States, but in our position of leadership in the world, in order to maintain that position of financial leadership, we must maintain absolute confidence in our integrity.

The CHAIRMAN. Now, any policy, whether it be by wasteful spending or by the unnecessary sacrifice of Government receipts, which makes it difficult or impossible to maintain a budget surplus, impairs your effort to maintain the Government credit, does it not?

Secretary SNYDER. It certainly does.

The CHAIRMAN. I call your attention to the fact that after World War I the price of Government bonds fell off and the little people who were holding Government bonds at that time lost from 12 to 20 points in the value of their investment because they had to sell. Whereas, those who were in a position to hold until the restoration of sound conditions lost nothing by the transaction.

Your policy has been directed, has it not, toward the end of making it certain that nobody will lose, and certainly not the little fellows, on these bonds?

Secretary SNYDER. We have felt very definitely that it was important to maintain our two-and-a-half percent rate in the markets for Government bonds. That has been our endeavor.

The CHAIRMAN. Just before the session began, I handed you a copy of the chart I have had prepared on national income, Federal receipts, and Federal debt. I will ask Mr. Lehman to put that up on the easel.

(The chart referred to follows on page 172.)

SenatorMYERS. Might I interrupt there, Mr. Chairman?

The CHAIRMAN. Certainly.

Senator MYERS. It seems to me in listening to the chairman's questions, Mr. Secretary, that the best kind of collateral is honesty, decency, integrity, and reputation. That is the best kind of collateral. That the people of America have confidence in their Government is indicated by the fact that they have increased their holdings of E bonds. They are confident their Government is a government of honesty, integrity, and decency.

Secretary SNYDER. Senator, I think that is a good point. In some of the reading I go through every day—I cannot identify it, unfortunately—but I read this morning that someone said that another element the Congress ought to take into consideration in arriving at their estimates and figures, was confidence. I hope they will do that because I do not think confidence of the public in Government financing was ever higher than it is today. Our Federal bond market shows that. The general public has confidence.

Senator MYERS. And the increase in E bonds particularly indicates that?

Secretary SNYDER. Correct.

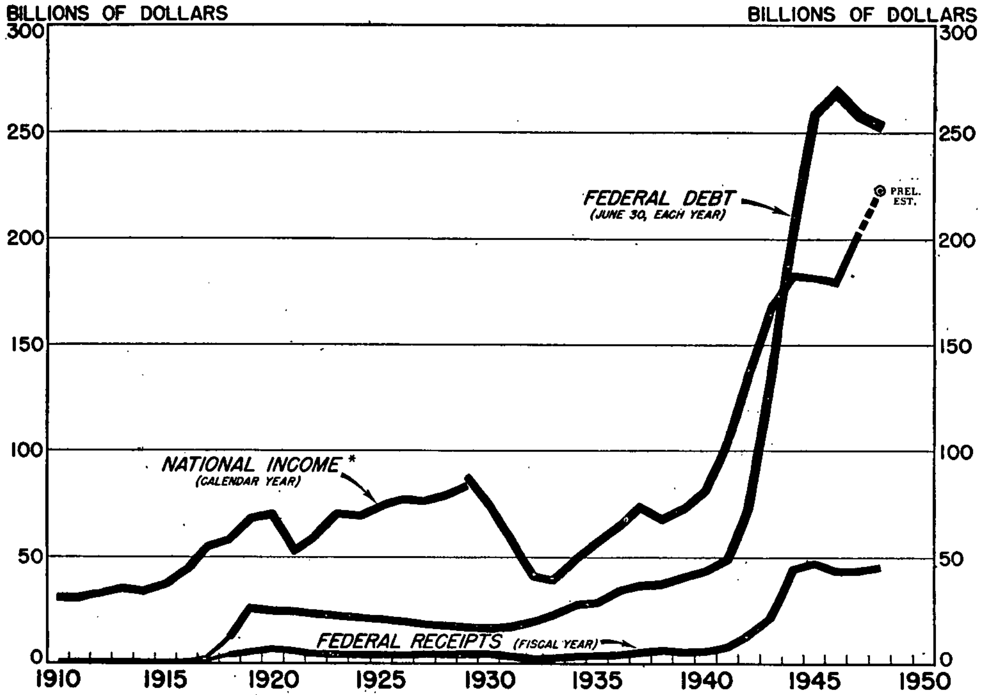
Senator MYERS. I did not mean to interrupt, Mr. Chairman.

Secretary SNYDER. It was a good point and I am glad you brought it out.

The CHAIRMAN. May I ask this question:

In computing the holdings by all individuals at $68,000,000,000, of which $32,000,000,000 represents E bonds alone, is that computation

NATIONAL INCOME, FEDERAL RECEIPTS, AND FEDERAL DEBT



* DATA PRIOR TO 1929 ARE IN THE PROCESS OF REVISION.

SOURCES OF DATA: NATIONAL INCOME, U. S. DEPARTMENT OF COMMERCE, OFFICE OF BUSINESS ECONOMICS; OTHER DATA, U. S. TREASURY DEPARTMENT.

CHART PREPARED BY U. S. DEPARTMENT OF COMMERCE, OFFICE OF BUSINESS ECONOMICS, DEC. 19, 1947. Revised 12/8/48. 47-552 made upon the basis of the face value of the bonds, or on the amount for which they were purchased?

Secretary SNYDER. The present cashable value. That is what goes into our statistics, don't you see.

Mr. HERTER. Mr. Chairman, that billion-dollar increase might be attributable entirely to accumulated interest, might it not, on the value of those bonds, rather than the larger number of individual bonds?

Secretary SNYDER. I would have to check into that figure to see whether that is correct. Some part of it is.

The CHAIRMAN. Well, is it or is it not a fact that you have more individual holders than before?

Secretary SNYDER. There are no statistics available on the number of holders.

The CHAIRMAN. If you do not have the statistics we could not get the information.

Secretary SNYDER. We do not have that, unfortunately. It would just add a heavy bookkeeping burden, and we are not quite sure whether it would be worth while or not.

The CHAIRMAN. You spoke a little while ago of the fact that this increase has been due to voluntary action by the bond purchasers.

Secretary SNYDER. I said voluntary action on the part of people selling them. People have been donating their services to get out and sell bonds, rather than having us pay them for that service.

The CHAIRMAN. You doubtless have some statistics available on the number of sales, year by year?

Secretary SNYDER. Yes. But we could not tell whether one person bought 8 or 10 bonds, or what. We know the number of pieces of securities that have been sold.

The CHAIRMAN. Suppose you put that statement in the record.

Secretary SNYDER. Yes, sir.

(The following information was later submitted for the record:)

In both 1947 and 1948 we sold more than 60,000,000 separate E bonds each year. This is less than in the war years, of course, but I think it is still a remarkable record.

The CHAIRMAN. Now, may I call your attention again to the chart. You have a copy of it, I think.

Secretary SNYDER. Yes, sir; I have one here.

The CHAIRMAN. That shows that the national debt, along about the year 1941 or 1942, became greater than the national income, by which of course is meant the income of all the people and all the businesses. Also, I call your attention to the fact that national income, according to this chart, has been rising ever since 1945. There was a short period of leveling off there.

There came to my attention this morning a release of the Department of Commerce, given out yesterday, the beginning of which follows:

Personal income rose in December to an annual rate of $220,800,000,000, bringing the full-year total of personal income for 1948 to $214,000,000,000, the Office of Business Economics, Department of Commerce, announced today. The 1948 total was $18,000,000,000 above the 1947 level.

The December rise in personal income was the result of increases in farm and nonfarm proprietors income, dividends, and transfer payments. Wage and salary receipts declined for the first time since the first quarter of the year.

Have you any comment to make upon the situation as depicted on this chart, particularly with relation to the Federal receipts?

Secretary SNYDER. This is a very interesting chart. It sort of touches on the subject matter I broached a moment ago. This shows very clearly that if in these prosperous times we do not bring that red line down to where it is approaching the national individual income, we are going to have some new problems if that first black line from the top which ends in a dotted fashion turns over—that line which represents the income of the individual, or payments to individuals—if that should turn sharply down, without our having taken care of a reduction of the red line, we are going to have new problems. That very graphically displays it.

The CHAIRMAN. If, as your testimony shows this morning, the estimates of the Treasury Department on the basis of the present receipts of the Federal Government are correct, and we are obliged by reason of the unavoidable expenditures on the part of the Government during the next fiscal year to reduce the expenditures, and we therefore run into a deficit as you have projected it, will it not make it extremely difficult for us ever to bring those two lines together?

Secretary SNYDER. I feel so, definitely, and have stated so on many occasions.

The CHAIRMAN. I understand it, therefore, to be your object, as Secretary of the Treasury, to propose such recommendations to Congress as are likely to bring these two lines together, that is to say to reduce the national debt to a more reasonable proportion of the national income?

Secretary SNYDER. Yes, sir.

The CHAIRMAN. If that is not done, what happens?

Secretary SNYDER. Well, it is only too obvious to us what will happen. We will run into the difficult question of financing our future maturities and refundings.

The CHAIRMAN. Thank you very much, Mr. Snyder.

Secretary SNYDER. Please let me thank you for your very kind hearing of my testimony.

(The release of the Department of Commerce referred to above is as follows:)

UNITED STATES DEPARTMENT OF COMMERCE

Washington, D. C.

Immediate Release OBE-201

Wednesday, February 9, 1949

Personal income rose in December to an annual rate of $220,800,000,000, bringing the full-year total of personal income for 1948 to $214,000,000,000, the Office of Business Economics, Department of Commerce, announced today.

The 1948 total was $18,000,000,000 above the 1947 level.

The December rise in personal income was the result of increases in farm and nonfarm proprietors income, dividends, and transfer payments. Wage and salary receipts declined for the first time since the first quarter of the year.

The personal income estimates include wage and salary receipts, the net incomes of proprietorships and partnerships (farm and nonfarm), dividends and interest, net rents received by landlords, and other types of individual income. The annual rate data represent the seasonally adjusted dollar totals for each month multiplied by 12 to facilitate comparisons with previous annual totals.

The net income of farm proprietors rose in December as a greater than seasonal volume of crops was marketed or placed under government loan. Net income of farm proprietors in 1948 amounted to 18.2 billion dollars compared with 15.7 billion dollars in 1947.

The December increase in nonfarm proprietors income reflected chiefly a rise in retail trade and high construction activity. For the year as a whole nonfarm proprietors income rose to 25.2 billion dollars compared with 23.2 billion dollars in 1947.

Transfer payments increased in December as unemployment insurance payments rose following the decline in wage and salary receipts. Transfer payments, which consist chiefly of social insurance and unemployment insurance benefits and veterans payments, was the only income aggregate to decline from 1947. In 1948 transfer payments were 11.1 billion dollars compared to 11.7 billion dollars in 1947.

During the last 5 months of 1948 the level of private pay rolls has been fairly steady, although wage and salary receipts fell off slightly in December as factory employment declined and the rise in trade employment was less than seasonal. Pay rolls in 1948 advanced by 12.2 billion dollars to a total of 134.4 billion dollars with manufacturing and trade accounting for slightly over half of the rise. Construction pay rolls and communication and public utility pay rolls showed the largest relative increases.

In summarizing the movement of personal income during 1948 the Department of Commerce noted that personal income declined in the early months of 1948 due to severe weather conditions, industrial disputes, and a sharp decline in farm prices. This downward movement was reversed in the second quarter and the upward movement was sharply accelerated in the third quarter of the year when third round wage increases were reflected in the pay-roll totals. Personal income tended upward in the last quarter of the year, although the rate of increase had leveled off.

For the year as a whole personal income was slightly over 9 percent above the 1947 total. The December 1948 level was 6 percent above that for December 1947.

The following table presents estimates of personal income for November and December 1948, the same months of 1947 and for the years 1947 and 1948. Revised monthly data for the period January-October 1948 will appear in the statistical section of the Department's February issue of the Survey of Current Business, scheduled for release about February 21.

Monthly personal income in the United States

[Seasonally adjusted annual rates in billions of dollars]

	December 1948	November 1948	December 1947	November 1947	Full year	
					1948 [1]	1947
Total personal income	220.8	219.9	207.7	201.4	213.6	195.2
Wage and salary receipts, total	137.3	138.0	127.4	125.5	132.3	120.1
Total employer disbursements	139.5	140.1	129.4	127.3	134.4	122.2
Commodity-producing industries [2]	63.2	63.8	59.2	57.4	60.6	54.6
Distributive industries [2]	39.7	39.7	37.4	37.1	38.9	35.0
Service industries [2]	16.5	16.6	15.2	15.2	16.1	15.1
Government	20.1	20.0	17.6	17.6	18.7	17.4
Less employee contributions for social insurance	2.2	2.1	2.0	1.8	2.1	2.1
Other labor income	2.1	2.1	1.9	1.9	2.0	1.8
Proprietors' and rental income	52.2	51.4	51.3	47.1	50.9	46.0
Personal interest income and dividends	18.4	18.1	16.2	16.1	17.3	15.6
Total transfer payments [3]	10.8	10.3	10.9	10.8	11.1	11.7
Total nonagricultural income [4]	197.1	196.3	184.2	181.4	190.5	174.9
Total agricultural income	23.7	23.6	23.5	20.0	23.1	20.3

[1] Full year total for 1948 incorporates revisions of previously published monthly totals. Revised monthly data for January-October 1948 appear in the statistical section of February 1949 Survey of Current Business.

[2] "Commodity-producing industries" consists of agriculture, forestry and fisheries, mining, contract construction, and manufacturing. "Distributive industries" consist of wholesale and retail trade, transportation, and communications and public utilities. "Service industries" comprises finance, insurance, and real estate and services.

[3] Consists mainly of payments to veterans, and social insurance and unemployment compensation payments.

[4] Equals personal income exclusive of net income of unincorporated farm enterprises, farm wages, agricultural net rents, agricultural net interest, and net dividends paid by agricultural corporations.

The CHAIRMAN. Secretary Sawyer.

Mr. Secretary, we are glad to have you before the committee, and we are ready to receive your statement.

STATEMENT OF HON. CHARLES SAWYER, SECRETARY OF COMMERCE [1]

Secretary SAWYER. Thank you, Mr. Chairman.

I propose first to set forth the basic facts concerning the supply and distribution of a few important materials, and then to discuss briefly our present powers over the distribution of goods. This will serve as a factual basis for the consideration of the proposals which the President made in his economic report.

Steel is of basic importance in our economy not only directly, as one of our largest industries, but also indirectly, as the supplier of a basic material required by virtually every other industry.

The capacity of the American steel industry, which is given in table 1, has been growing steadily over many years, with the exception of a brief decline immediately after VJ-day as a result of the abandonment of obsolete facilities which had been used beyond their economic life. From a figure of less than 60,000,000 ingot tons a year in 1919, capacity increased to about 70,000,000 tons in 1929, to more than 80,000,000 tons in 1939, and to 95,000,000 tons in 1945. Ingot capacity at the start of 1948 was 93,900,000 tons and is estmated at 95,800,000 tons as of January 1, 1949, by the American Iron and Steel Institute.

The extent to which available steel capacity has been used in the past has been basically affected by changes in general industrial activity. In 1932, when ingot capacity was 76,500,000 tons, production was only 15,100,000 tons, or roughly about 20 percent of capacity. In 1948, ingot production amounted to 88,200,000 tons, very close to the 93,900,000 ton capacity at the beginning of the year.

Senator MYERS. May I interrupt, Mr. Secretary. I understand it is almost impossible to get production in line with theoretical capacity, is that true?

Secretary SAWYER. I would not say it is impossible.

Senator MYERS. I heard that in 1948 production was 88,000,000 tons, although capacity was 93,000,000. I suppose there was a demand for even an amount in excess of 93,000,000.

Secretary SAWYER. As a matter of fact, even in January of this year production ran ahead of capacity, strange as that may seem. The point I make is that the production and capacity lines do not always go parallel.

Senator MYERS. Usually production is below capacity, is that not true?

Secretary SAWYER. Yes; it usually is, although it many times has been theoretically above capacity.

The magnitude of the American steel industry may be judged by comparing our production with the total production of the rest of the world, estimated at about 84,000,000 tons at the present time, and at around 93,000,000 tons in 1937.

Table I also shows the shipments of finished steel annually. As might be expected, this varies from year to year in about the same

[1] The tables and charts referred to follow Secretary Sawyer's statement.

way as ingot production. Table II shows the types of steel products shipped in recent years.

On chart 1 we have shown graphically the total of finished steel produced, and the respective shares taken by domestic industries and foreign buyers. The total amount of steel available for domestic use in 1948 was about 5,000,000 tons higher than in 1947.

Steel capacity and production, both of ingot and of finished products, are expected to increase in the future. Ingot capacity, which increased from 93.9 million on January 1, 1948, to about 95.8 million on January 1 of this year, is expected to increase to about 98 million by next January 1. If operations are maintained at about 97 percent of capacity, ingot output should rise from the 88.2 million tons produced in 1948 to about 93 million tons in 1949 and to over 95 million tons in 1950. We understand the steel industry hopes to achieve this rate and we believe it is possible under the most favorable conditions. Under these circumstances finished steel production, which was about 66 million tons in 1948, would increase in 1949 to about 69 million tons and to about 70.5 million tons in 1950.

These estimates are based on steady production, without unusual delays or difficulties resulting from material shortages, lack of fuel, or from other factors which might prevent the fullest and most efficient operation. In the case of scrap it seems probable that the flow will be adequate, in view of the success of our recent efforts to increase the supply. However, the situation is not as clear with respect to the supply of some of the other raw materials needed to make steel.

In spite of the past increases in production, it is clear that there is still a substantial unfilled demand for steel. We can clearly judge from the complaints reaching us that many firms, particularly small firms, are having great difficulty in getting the kinds of steel they need. To these firms, the question of an over-all shortage or surplus of ingots or of steel products is of less significance than their own requirements for particular products.

The number of these complaints, and the variety of the industries from which they have come, lead clearly to the conclusion that the shortage of steel is widespread. The steel industry, recognizing this, is increasing its capacity and its output, as I have indicated. It is also increasing with relatively greater speed its production of the tightest items.

The extent to which this expected increase in supply, and the improvement in product distribution, will satisfy the present demand cannot be predicted with any degree of precision. In the first place, the calculation of demand in a peacetime free economy, the total demand being the sum of thousands of individual independent pressures, is not and cannot be a precise operation. More important, however, we do not have power to collect the kind and quantity of information we would need in order to make the best judgment possible as to the probable supply and demand.

Looking at the immediate future, we can say that if the anticipated increase in production is realized, the steel situation will be eased materially, even though the expected improvement will not make it possible to meet all projected domestic and export demands in 1949. It is certain that there will continue to be shortages in many individual items, such as sheet, strip, plate, and pipe.

Building materials are important to all expanding industries, which are in need of new plants and other facilities. Building materials are even more important to the housing industry, in view of the effect of the supply and cost of materials on the production of an expanding volume of much needed housing. Table VI gives the indexes of production for selected building materials, the 1939 monthly average taken as 100.

Despite the increased requirements of building materials for housing and other construction, the supply situation for most items eased considerably in 1948 as output climbed to new record levels. The composite index of building-materials production, complied by the Department of Commerce, indicates that production has increased steadily since 1945. Output in the year 1948 was about 5 percent higher than in 1947, and about 47 percent higher than in 1939. In October 1948, the usual seasonal peak, the composite index reached a new high level, about 64 percent above the 1939 average.

Export restrictions have been liberalized, but the volume of building materials exported continues to be small. Even where exports during the past year were larger than in 1947, however, the increase in production was so large that the share of the supply exported was generally smaller than in 1947.

Tables VII and VIII show the supply of cement, cast-iron soil pipe, nails, gypsum, and lumber. All of these materials show substantial increases in output since 1946.

The sharp increase in the production of building materials since the end of the war has made possible a rapid increase in construction.

Chart 2 shows the general trends of public and private construction since 1942.

It is estimated that the physical volume of new construction in the United States in 1948 was 14 percent higher than in 1947 and 32 percent above 1939, though still considerably below the peak levels reached in 1942 and the mid-1920's. Approximately 925,000 new permanent nonfarm dwellings were started in 1948, about 75,000 above the preceding year. Following the peak of nearly 100,000 dwelling units started in May, housing placed under construction lagged and continued to decline during the remainder of the year. This was in contrast to 1947, when the peak of 94,000 units was reached in October.

Senator MYERS. Mr. Secretary, I wonder if you have any explanation as to why construction lagged and continued to decline during the remainder of 1948.

Secretary SAWYER. I do not feel competent, really, to give a considered opinion on that. It was due partly, I think, to shortages, partly to prices, but where the emphasis should be put I would not know.

Senator MYERS. I was wondering if prices may have entered into it.

Secretary SAWYER. There is undoubtedly that factor in it. Houses were built and priced at levels at which the ordinary man, especially the veteran, could not meet.

Senator MYERS. And of course sales fell, quite naturally. They did not reach for those great goals, and naturally production fell when they were having difficulty selling some of those properties.

Secretary SAWYER. That is right.

Senator MYERS. Thank you.

Secretary SAWYER. Current estimates indicate that the total physical volume of construction in 1949 will be at about the same level as in 1948, although the volume of residential construction is expected to decline somewhat to about the 1947 level. This propsective decline in housing construction, coupled with expanded output of building materials, should further improve the supply situation for materials used primarily in residential building. On the other hand, for some materials, such as cement, used primarily in nonresidential construction, supply problems may become more difficult in the early part of the year ahead.

Table V shows new construction activity during each month of 1948, and totals for 1946, 1947, and 1948. The expansion, in terms of dollars, was substantial. During the last year, the rate of increase was particularly noticeable in schools, churches and hospitals, while the largest dollar increase was in private residential construction. The construction of these facilities to take care of increases and shifts in population has long been delayed.

The United States is entirely dependent on imports for its supply of primary tin. Most of our supply normally comes from southeast Asia where production is slowly recovering from the devastation and dislocation caused by the war. Production in the Far East was about 85,000 tons in 1948, a considerable improvement over the output of less than 50,000 tons in 1947, but still far below the 157,000 tons produced in the peak year of 1941.

World tin production for 1948 is estimated at about 150,000 tons. Some gain is expected in 1949, when production may reach 170,000 tons. This compares with production of 113,000 tons in 1947 and about 207,000 tons in 1937 as shown in table 10.

In order to assure the distribution of the limited world supply on an equitable basis, pig tin is allocated by an international cooperative body, the Combined Tin Committee, which allots the exportable pig tin surpluses of producing countries. This arrangement assures all of the consuming nations, including the United States, a fair share of the available supplies of an essential raw material. In 1947 and 1948, the United States received somewhat more than one-half of the total allocations made by the Combined Tin Committee.

Although the supply of tin available to the United States from these sources has increased steadily since the end of the war, it is still far short of demand. In 1947, primary tin supply totaled 64,195 long tons, while consumption was held down by use restrictions to a total of about 63,000 tons. Primary tin supply for the year 1948 totaled about 83,000 tons—table XII. It is estimated that restrictions in that year limited consumption to about the same level as in 1947.

On the basis of supply considerations alone, it might have been possible to fulfill almost all demands for domestic consumption in 1948 without restriction. Because of the needs of the strategic stockpiling program, however, it has been necessary to hold domestic consumption thus far this year to little more than the 1947 level. The excess of new supplies over consumption has accrued as an increase in the stocks held by the Reconstruction Finance Corporation, and steps have been taken to transfer excess stocks to the strategic stock pile.

Stock-piling objectives must constitute a prime consideration in the determination of future policy regarding tin controls. The experience of World War II proved the necessity of accumulating in this country in peacetime reasonably adequate stocks of materials which must be imported from distant sources. Available supplies of tin are not expected in the near future to be sufficient to meet unrestricted levels of domestic demand without seriously interfering with the attainment of stock-piling goals.

Present tin controls permit a gradual and orderly expansion of the strategic stock pile while minimizing the impact of shortages on the economy.

The United States, as before the war, requires heavy imports of nitrogen fertilizer to meet domestic demands. Partly for reasons of international exchange requirements, and partly because of differences in the forms of fertilizer materials available, the United States also exports nitrogen fertilizer. On balance, however, this country is a net importer of the material.

Because of the continuing world shortage of nitrogen fertilizer, it is under export-import allocation by the International Emergency Food Committee. Allocations for import into the United States for the fertilizer year 1948–49 have been established at 199,000 short tons of nitrogen content—about 11,000 tons more than the preceding year. The United States export allocation for 1948–49 is about the same as the year before, approximately 61,000 tons.

The supply of nitrogen fertilizer available to the domestic economy from domestic sources is also expected to be larger in the current fertilizer year than in 1947–48. Domestic production, exclusive of that in United States Army Ordnance plants, is expected to be about 50,000 tons higher this year. Furthermore, under Public Law 606, approved on June 4, 1948, the Army plants must supply one-half of the export program for nonoccupied areas abroad. Formerly, the entire output of these plants was reserved for civilian use in western Germany, Japan, and South Korea. In addition, Public Law 793, approved on June 28, 1948, requires that the Army make 10 percent of its anhydrous ammonia output available for commercial production of fertilizer for domestic use; the effect of this provision will be to add roughly another 25,000 tons to the domestic supply of nitrogen fertilizer in 1948–49.

Table XIII shows the domestic production and apparent consumption of nitrogen from 1919, and the amounts imported and exported; and table XIV, the recent distribution of nitrogen.

Despite the substantial increases in the over-all supply of nitrogen which are expected, particularly for domestic consumers, the present shortages will continue for some time.

Aluminum has recently become extremely scarce, largely as a result of power shortage, about which Secretary Krug will testify later. Tables XVI and XVII show the recent production and prices. I shall not discuss the subject of aluminum at length, and refer to it principally as an example of the rapidly changing conditions which we are facing and which we must be prepared to meet.

Copper, lead, and zinc are other examples of basic raw materials currently in short supply. All three are widely used in our industrial activity. Consumption of these materials since the war has been generally supported by reductions both in Government surplus remaining from the war and in private industry stocks, which have about reached minimum safe operating levels. In addition to the supplies needed to meet the widespread use of copper, lead and zinc in industry, substantial quantities will be required to meet the strategic stock-pile program. The country cannot meet from its own production the demands for these three metals generated by a full employment economy and will necessarily be dependent on foreign sources for an appreciable portion of its needs. The basic problem in the case of each of these metals is the shortage of ores, about which testimony will be presented to the committee later. Recent data on production, imports, consumption, and price for these commodities are presented in tables XVIII through XXIII.

The situation with respect to machinery and equipment differs greatly in various segments of the industry. Some types of equipment are extremely scarce, such as the large generating equipment needed for power production. Other kinds of machinery are in ample supply.

The freight-car situation is one with which we have been concerned for some time. We have been assisting in increasing production through a voluntary plan under Public Law 395. Table XXIV shows the total supply of freight cars, the orders, deliveries, the number on order at the end of the year and the number exported. The situation is improving steadily, and I might say, tremendously, though a substantial backlog of orders remains.

We are also assisting under Public Law 395 in increasing production of other types of equipment, such as tank and oil field production equipment and mining machinery.

Tables are attached showing sales and production of machinery and equipment and changes in the price indexes for several general categories of equipment.

Under the Second Decontrol Act of 1947, as extended by Public Law 606, Eightieth Congress, we have broad powers over tin and tin products and over antimony; we have power to restrict imports of a few materials under international allocation; we have power to grant priorities for exports of nitrogenous fertilizer materials, exports of materials needed to increase the production abroad of materials which are critically needed in this country, and exports important to our foreign policy, and we have power to exercise controls over the use of rail transportation equipment and facilities. These powers run only to June 30, 1949.

Under section 6 of the act of June 2, 1940, with which you are familiar, we have power to control exports.

Under Public Law 793, we have power to allocate to domestic fertilizer producers a share of the War Department's production of anhydrous ammonia.

Under the Rubber Act of 1948 we are able to exercise controls over rubber, to insure the continued operation of the synthetic rubber industry.

Under the Selective Service Act of 1948, the Government has power to grant priorities in connection with procurement by the armed services and by the Atomic Energy Commission.

Under the voluntary agreement program, carried out under Public Law 395, with which you are familiar, we have authority to make voluntary arrangements for the allocation of scarce materials for the benefit of programs important to the domestic economy, the national security, and our foreign policy.

Our existing powers, however, are limited to a few materials and a few purposes.

The basic objective which must be sought is the promotion of an adequate supply and production of materials needed to sustain our economy. Only if our supplies are adequate today, and 5, 10, and 20 years from today, can our economy operate at maximum employment, production, and purchasing power. Furthermore, only if our stock piles are adequate in peacetime can we be protected against excessive dependence upon foreign sources for materials vital to the functioning of our economy in times of emergency. It is not too soon to guard against the time when many of our resources may be depleted to the danger point. In many cases this point has already been reached.

In order to achieve the best results in our objective of promoting supply and production of any material, we must have adequate information about the supply of the material and the demand for it. We must know where and how it is produced, what the opportunities are for increasing production, what it is used for, and how much will be needed in the near and in the more distant future, and what substitutes are available.

Without such information, industry is handicapped in making its plans, and the Government is handicapped in its efforts to encourage and assist industry in increasing supply and production. I believe that the ability of the Government to assist industry in forming its plans would be greatly increased if we were in a position to collect and analyze for the use of industry and the public generally complete, accurate, and current information about industrial operations and trends.

The Department of Commerce, through the Bureau of Standards, is contributing substantially through the research it undertakes, both directly and through private industry. The Department of the Interior, through the Bureau of Mines and the Geological Survey, contributes to the increase of knowledge about our mineral resources and their development. Government loans and other financial assistance have played a significant part in the development of our natural resources and in the promotion of our economic development, for example, in the synthetic rubber industry. These are only examples of the kinds of things which the Government has been able to do for the benefit of our economy.

I believe that the Government's powers to assist in carrying out any expansion of supply or production which may be found necessary should also be strengthened and tied in specifically with the objective of promoting maximum employment and production and the national security. It is only prudent self-interest to continue and increase our efforts to promote adequate supply and production of important materials, in order to insure our future prosperity and our national security.

The President's program is designed to accomplish this purpose with a minimum of interference with the national economy.

It is necessary to bear in mind that there are many confusing and contradictory elements in the present situation. There are some sizable surpluses. There are some acute shortages. Many materials and products are in a precarious balance. Both at home and abroad conditions are uncertain, and supply-demand trends are equally uncertain.

Abroad, we have embarked upon a great project to assist Europe to recover its economic and political stability, with all the resulting benefits this may bring to the economic and political stability of the world. This project has started well, and has already brought substantial benefits. However, world stability has not yet been attained.

At home, our production and our consumption have been at the highest rates in history. More Americans have been working usefully than ever before, and more Americans have been sharing in the benefits of that production than ever before. Our American system must be given full credit for this magnificent effort. However, we cannot relax our efforts. The best assurance of world stability is the continuance of the growth and prosperity of the United States. We must make every effort to achieve this goal.

(The charts and tables referred to above are as follows:)

TABLE I.—*United States steel ingot capacity and production; total shipments, exports and domestic consumption of finished steel products*

[Millions of short tons]

Year	Ingot		Finished steel products			Year	Ingot		Finished steel products		
	Capacity [1]	Production [1]	Total shipments [2]	Exports	Domestic consumption [3]		Capacity [1]	Production [1]	Total shipments [2]	Exports	Domestic consumption [3]
1919	54.5	37.7	26.7	4.5	22.2	1934	77.7	29.1	20.0	1.0	19.1
1920	55.4	45.8	34.4	5.0	29.5	1935	78.1	38.0	25.4	1.0	24.6
1921	56.9	21.5	15.7	2.3	13.4	1936	77.8	53.2	35.8	1.3	34.8
1922	58.2	38.7	28.1	2.1	26.1	1937	77.6	56.4	39.7	2.9	37.1
1923	58.4	48.7	35.4	2.1	33.4	1938	79.6	31.6	22.4	1.8	20.8
1924	59.1	41.2	29.9	1.8	28.3	1939	81.2	52.5	36.6	2.5	34.3
1925	60.9	49.4	35.5	1.8	34.1	1940	81.0	66.6	48.1	7.9	40.2
1926	62.5	52.6	37.8	2.2	36.1	1941	83.6	82.4	61.8	6.4	55.4
1927	65.0	49.0	35.0	2.0	33.5	1942	88.0	85.5	61.5	7.0	54.5
1928	66.6	56.4	40.1	2.5	38.2	1943	89.7	88.4	63.1	7.0	56.1
1929	69.2	61.4	43.7	2.6	41.6	1944	93.1	89.2	63.9	5.8	58.2
1930	70.6	44.3	31.4	1.7	30.0	1945	94.9	79.4	57.2	4.8	52.5
1931	74.9	28.5	20.4	.9	19.8	1946	91.4	66.3	49.0	4.7	44.3
1932	76.5	15.1	11.1	.4	10.9	1947	90.9	84.6	63.4	6.4	56.9
1933	76.4	25.6	17.8	.6	17.4	1948	93.9	88.2	66.3	4.2	62.2

1 Does not include steel for castings; capacity on Jan. 1 of stated year; 1919–25 adjusted to exclude long idle capacity.
2 Adjusted for coverage and on basis of reported production of hot-rolled iron and steel products.
3 Apparent consumption: Adjusted shipments plus imports minus exports.

Source: Ingot capacity, 1919–25, Report to the President of the United States on the adequacy of the Steel Industry for National Defense, by Gano Dunn, Feb. 22, 1941; 1926–48, American Iron and Steel Institute. All other actual data, American Iron and Steel Institute and United States Bureau of the Census.

TABLE II.—*United States shipments of steel products and iron and steel castings*

[Thousands of short tons]

	1939	1946	1947	1948 [3]
Ingots, blooms, billets, tube rounds, skelp, etc.	1,532	2,177	3,128	3,200
Structural shapes and piling	2,716	3,680	4,760	4,500
Plates	2,794	4,152	6,345	6,900
Rails and track accessories	1,873	2,706	3,262	3,000
Bars	5,914	9,196	11,170	11,400
Pipe and tubes	3,506	4,655	6,118	6,900
Wire rods, wire, and wire products	3,214	3,904	4,841	4,900
Tin and terneplate	2,561	2,834	3,711	3,900
Sheets and strip	10,611	15,046	19,180	20,500
Wheels and axles	[1] 234	[2] 389	542	500
Total steel-mill products	34,955	48,775	63,057	65,700
Iron and steel castings	8,409	12,454	15,058	15,500

1 Includes 9,724 tons of "all other products."
2 Includes 6,266 tons of "all other products."
3 Estimate based on 11 months.

Source: American Iron and Steel Institute and U. S. Bureau of the Census.

CHART 1

UNITED STATES PRODUCTION AND EXPORTS OF STEEL

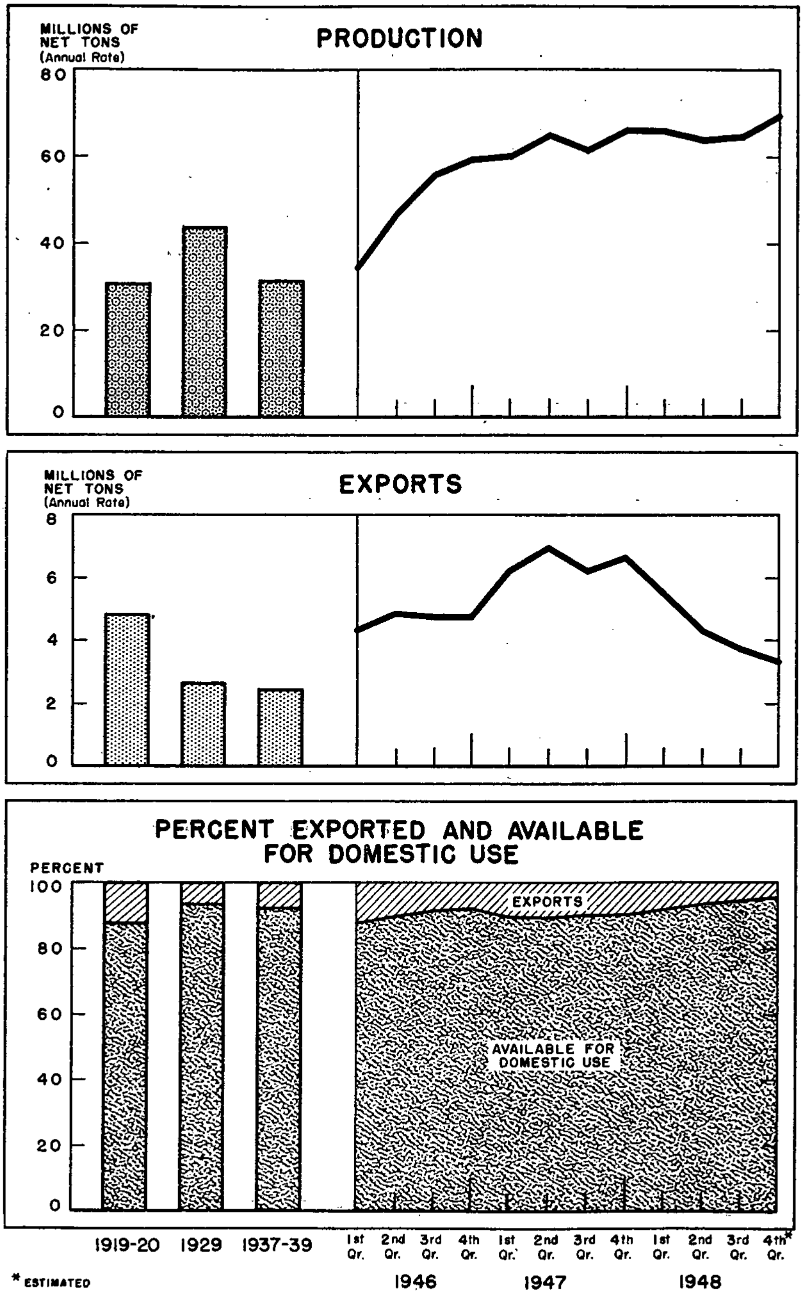


TABLE III.—*Distribution of finished steel, by consuming industries, 1923–48*

[In thousands of net tons]

Year	Total		Agriculture		Aircraft		Automotive		Construction and maintenance		Containers		Furniture and furnishings	
	Tons	*Percent*	*Tons*	*Percent*	*Tons*	*Percent*	*Tons*	*Percent*	*Tons*	*Percent*	*Tons*	*Percent*	*Tons*	*Percent*
1923	37,270	100.0	1,506	4.1	(1)	(1)	4,684	12.6	5,527	14.8	1,350	3.6	(2)	(2)
1924	31,457	100.0	988	3.1	(1)	(1)	3,339	10.6	5,376	17.1	1,355	4.3	(2)	(2)
1925	37,394	100.0	1,264	3.4	(1)	(1)	5,472	14.6	6,203	16.6	1,598	4.3	(2)	(2)
1926	39,756	100.0	2,020	5.1	(1)	(1)	6,144	15.4	7,027	17.7	1,509	3.8	(2)	(2)
1927	36,825	100.0	1,987	5.4	(1)	(1)	5,482	14.9	7,781	21.1	1,577	4.3	(2)	(2)
1928	42,182	100.0	2,978	7.1	(1)	(1)	7,799	18.5	7,907	18.7	1,813	4.3	565	1.3
1929	45,998	100.0	3,061	6.7	(1)	(1)	7,353	16.0	8,643	18.8	1,912	4.1	700	1.5
1930	33,054	100.0	1,709	5.2	(1)	(1)	4,935	14.9	7,355	22.2	1,871	5.7	643	1.9
1931	21,477	100.0	1,349	6.3	(1)	(1)	3,527	16.4	4,589	21.4	1,585	7.4	412	1.9
1932	11,705	100.0	605	5.2	(1)	(1)	2,088	17.9	2,693	23.0	1,161	9.9	187	1.6
1933	18,743	100.0	1,109	5.9	(1)	(1)	3,953	21.1	2,961	15.8	1,970	10.5	580	3.1
1934	21,246	100.0	1,233	5.8	(1)	(1)	4,593	21.6	3,556	16.7	1,744	8.2	666	3.1
1935	26,840	100.0	1,976	7.4	(1)	(1)	6,738	25.1	4,315	16.1	2,284	8.5	1,266	4.7
1936	37,858	100.0	2,238	5.9	(1)	(1)	7,517	19.8	6,468	17.1	2,750	7.3	1,583	4.2
1937	41,178	100.0	2,335	5.7	(1)	(1)	7,814	18.9	6,038	14.7	3,219	7.8	1,494	3.6
1938	23,569	100.0	1,110	4.7	(1)	(1)	4,053	17.2	4,398	18.7	2,137	9.1	868	3.7
1939	39,068	100.0	1,421	3.6	(1)	(1)	5,906	15.1	6,100	15.6	2,978	7.6	1,182	3.0
1940	48,660	100.0	1,630	3.3	51	0.1	7,965	16.4	6,936	14.3	3,068	6.3	(2)	(2)
1941	62,324	100.0	1,683	2.7	561	.9	9,847	15.8	10,221	16.4	4,612	7.4	(2)	(2)
1942	62,446	100.0	1,166	1.9	------	----	[4] 3,598	5.8	10,715	17.3	4,071	6.4	(2)	(2)
1943	63,400	100.0	1,462	2.3	------	----	[4] 3,460	5.4	6,640	10.4	4,301	6.8	(2)	(2)
1944	63,846	100.0	1,950	3.1	------	----	[4] 4,762	7.4	6,240	9.8	3,878	6.1	(2)	(2)
1945	56,946	100.0	2,426	4.3	------	----	[4] 5,521	9.7	8,353	14.7	4,333	7.6	(2)	(2)
1946	48,776	100.0	2,100	4.3	32	.1	7,379	15.1	8,130	16.7	4,749	9.7	(2)	(2)
1947	63,057	100.0	2,422	3.8	44	.1	10,292	16.3	10,039	15.9	5,596	8.9	(2)	(2)
1948 [5]	65,700	100.0	2,700	4.1	39	.1	11,044	16.8	13,048	19.8	5,788	8.8	(2)	(2)

Year	Machinery and tools		Oil, gas, water, mining		Pressing forming, stamping		Railroads		Shipbuilding		Exports		All others	
	Tons	*Percent*	*Tons*	*Percent*	*Tons*	*Percent*	*Tons*	*Percent*	*Tons*	*Percent*	*Tons*	*Percent*	*Tons*	*Percent*
1923	1,168	3.1	3,923	10.5	(3)	(3)	9,435	25.3	326	0.9	2,280	6.1	7,071	19.0
1924	1,127	3.6	2,880	9.2	(3)	(3)	8,059	25.6	259	.8	2,008	6.4	6,066	19.3
1925	1,514	4.0	3,192	8.5	(3)	(3)	8,746	23.4	341	.9	1,983	5.3	7,081	19.0
1926	1,273	3.2	3,973	10.0	(3)	(3)	8,574	21.5	344	.9	2,692	6.8	6,200	15.6
1927	1,170	3.2	3,256	8.8	(3)	(3)	6,980	19.0	445	1.2	2,382	6.5	5,765	15.6
1928	1,806	4.3	3,191	7.6	(3)	(3)	6,853	16.2	202	.5	2,757	6.5	6,311	15.0
1929	2,028	4.4	4,117	8.9	(3)	(3)	8,163	17.8	346	.8	2,495	5.4	7,180	15.6
1930	1,342	4.1	3,240	9.8	(3)	(3)	5,241	15.9	371	1.1	1,574	4.8	4,773	14.4
1931	791	3.7	1,722	8.0	(3)	(3)	3,035	14.1	224	1.0	940	4.4	3,303	15.4
1932	441	3.8	718	6.1	(3)	(3)	1,176	10.0	102	.9	436	3.7	2,098	17.9
1933	782	4.2	1,141	6.1	(3)	(3)	1,475	7.9	115	.6	747	4.0	3,910	20.8
1934	825	3.9	1,437	6.8	(3)	(3)	2,544	12.0	233	1.1	1,208	5.7	3,207	15.1
1935	1,091	4.1	1,608	6.0	(3)	(3)	1,961	7.3	207	.8	1,191	4.4	4,203	15.6
1936	1,680	4.4	2,684	7.1	(3)	(3)	4,082	10.8	288	.8	1,568	4.1	7,000	18.5
1937	1,804	4.4	3,034	7.4	(3)	(3)	4,686	11.4	391	.9	3,915	9.5	6,448	15.7
1938	831	3.5	1,820	7.7	(3)	(3)	1,444	6.1	390	1.7	2,422	10.2	4,096	17.4
1939	1,460	3.7	1,842	4.7	660	1.7	3,250	8.3	518	1.3	2,817	7.2	10,933	28.2
1940	2,330	4.8	1,900	3.9	2,296	4.7	4,019	8.3	1,000	2.1	8,720	17.9	8,745	17.9
1941	3,366	5.4	2,929	4.7	3,677	5.9	5,983	9.6	2,929	4.7	6,045	9.7	10,470	16.8
1942	2,852	4.6	1,586	2.5	2,783	4.4	4,400	7.1	10,370	16.6	10,800	17.3	10,104	16.1
1943	3,275	5.2	1,903	3.0	2,839	4.5	5,172	8.1	13,318	21.0	8,500	14.0	12,180	19.3
1944	3,270	5.1	2,464	3.9	1,935	3.0	6,134	9.6	12,011	18.8	5,108	8.0	16,094	25.4
1945	4,739	8.3	2,670	4.7	3,800	6.7	5,268	9.2	3,374	5.9	3,793	6.7	12,669	22.2
1946	4,438	9.1	2,480	5.1	3,127	6.4	4,764	9.8	320	.6	3,378	6.9	7,879	16.2
1947	5,648	8.9	3,833	6.1	3,770	6.0	5,999	9.5	373	.6	4,639	7.4	10,402	16.5
1948 [5]	5,565	8.5	2,714	4.1	4,244	6.5	6,189	9.4	638	1.0	3,607	5.5	10,124	15.4

[1] Negligible or not available, and included in "All others".
[2] Included in "All others", 1923–27; in "Pressing, forming, and stamping", 1940–48.
[3] Included partly in "Furniture and furnishings" and partly in "All others."
[4] Tonnage and percent are total for aircraft and automotive, not shown separately.
[5] Preliminary.

NOTE.—1923–43 are on basis of production of hot rolled iron and steel products; 1944–48 are on basis of finished steel shipments.

Source: United States Steel TNEC Papers, vol. I, Economic and Related Studies, 1940, pp. 328–329 and annual numbers of the Iron Age.

TABLE IV.—*Comparison of steel product prices for selected periods*

[Prices in cents per pound, unless otherwise specified; f. o. b. Pittsburgh]

	1939 average	June 1946	December 1947	April 1948	December 1948	December 1948 as percent of			
						1939 average	June 1946	December 1947	April 1948
Carbon steel:									
Forging ingots	(1)	[2] 33.92	[2] 41.07	[2] 46.00	[2] 50.00	(1)	147.4	121.7	108.7
Blooms, billets, slabs, forging quality	[2] 35.71	[2] 41.96	[2] 49.11	[2] 54.00	[2] 61.00	170.8	145.4	124.2	113.0
Blooms, billets, slabs, rerolling quality	[2] 30.36	[2] 34.82	[2] 40.18	[2] 45.00	[2] 52.00	171.3	149.3	129.4	115.5
Skelp	1.90	2.05	2.60	2.90	3.25	171.0	158.5	125.0	112.1
Hot rolled bars, merchant	2.19	2.50	2.90	2.90	3.45	157.5	138.0	119.0	119.0
Concrete reinforcing bars (new billet)	[3] 2.15	2.35	2.75	2.75	3.35	155.8	142.5	121.8	121.8
Cold finished bars	2.67	3.10	3.55	3.55	3.98	149.1	128.4	112.1	112.1
Structural shapes	2.10	2.35	2.80	2.80	3.28	156.2	139.6	117.1	117.1
Sheet piling	2.40	2.65	3.30	3.30	4.05	168.8	152.8	122.7	122.7
Plates	2.10	2.50	2.95	2.95	3.50	166.7	140.0	118.6	118.6
Standard rails	1.79	2.17	2.75	2.75	3.20	178.8	147.5	116.4	116.4
Light rails	1.79	2.46	3.10	3.10	3.55	198.3	144.3	114.5	114.5
Tie plates	2.15	2.55	3.05	3.65	4.05	188.4	158.8	132.8	111.0
Hot rolled sheets	2.06	2.42	2.80	2.80	3.28	159.2	135.3	117.1	117.1
Cold rolled sheets	3.10	3.27	3.55	3.55	4.00	129.0	122.1	112.7	112.7
Hot rolled strip	2.06	2.35	2.80	2.80	3.28	159.2	139.6	117.1	117.1
Cold rolled strip	2.86	3.05	3.55	3.55	4.00	139.9	131.1	112.7	112.7
Tinplate; cokes (1.50 pounds)	[4] 5.00	[4] 5.00	[4] 5.75	[4] 6.80	[4, 5] 6.80	136.0	136.0	118.3	100.0
Tinplate; electrolytic (0.50 pound)	(6)	4.50	[4] 5.05	[4] 6.00	[2, 7] 6.00	(6)	133.3	118.8	100.0
Standard pipe, buttweld, black, 2-inch	3.15	3.45	4.25	4.60	5.10	161.9	147.8	120.0	110.9
Standard pipe, buttweld, galvanized, 2-inch	3.95	4.55	5.70	6.20	7.30	184.8	160.4	128.1	117.7
Bright wire	2.60	3.05	3.55	3.55	4.33	166.5	142.0	122.0	122.0
Alloy steel:									
Ingots	(1)	[2] 43.47	[2] 50.00	[2] 50.00	51.00	(1)	117.3	102.0	102.0
Blooms, billets, slabs	[2] 50.00	[2] 52.17	[2] 58.93	[2] 58.93	[2] 63.00	126.0	120.7	106.9	106.9
Hot rolled bars	[3] 2.70	2.92	3.30	3.30	3.75	138.9	128.4	113.6	113.6
Plates	(1)	3.79	3.80	3.80	4.40	(1)	116.1	115.8	115.8

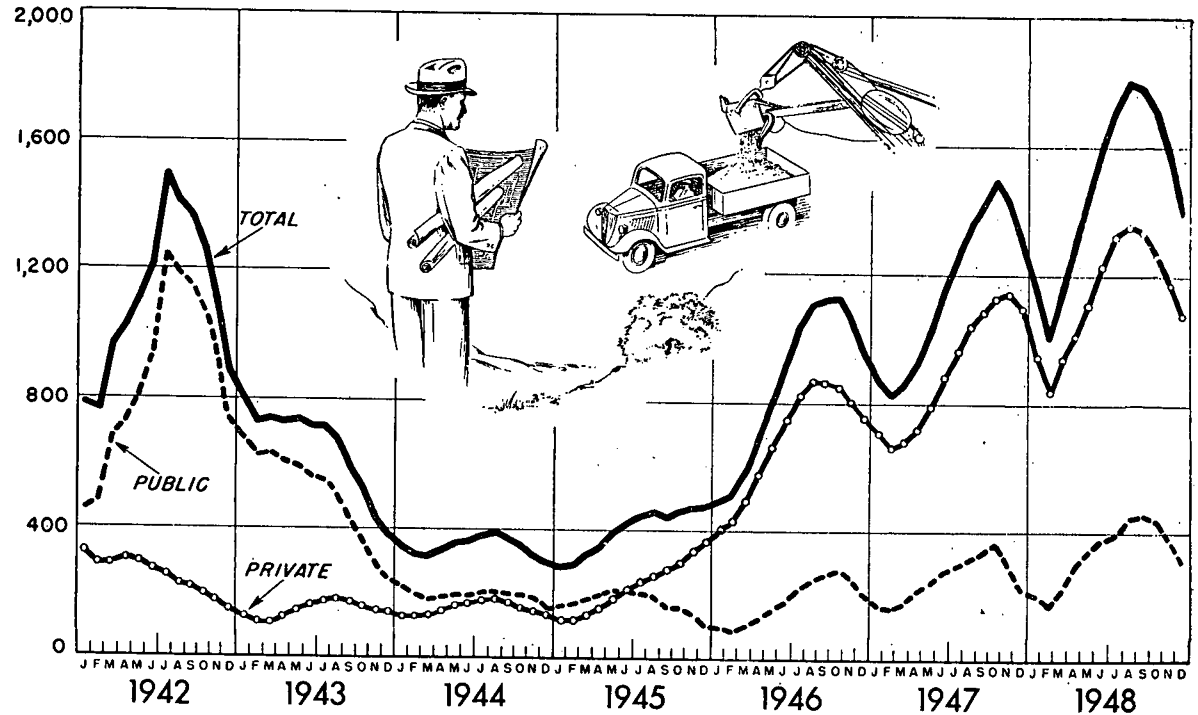
[1] Not available.
[2] Dollars per short ton.
[3] December price.
[4] Dollars per base box.
[5] Price increased to 7.75 on Jan. 1, 1949.
[6] Not produced in 1939.
[7] Price increased to 6.70 on Jan. 1, 1949.

Source: The Iron Age.

New Construction Activity
(In Current Prices, 1942-1948)

DEPARTMENT OF COMMERCE
CONSTRUCTION DIVISION

MILLIONS OF DOLLARS



SOURCES: Departments of Commerce and Labor.

48-178.

TABLE V.—*New construction activity, continental United States* [1]

[Millions of dollars]

Type of construction	1948 January	1948 February	1948 March	1948 April	1948 May	1948 June	1948 July	1948 August	1948 September	1948 October	1948 November	1948 December	1948 Total	1947 total	1946 total
Total new construction	1,157	1,009	1,166	1,311	1,461	1,616	1,715	1,799	1,782	1,707	1,552	1,391	17,666	13,977	10,458
Total private	948	837	940	1,024	1,120	1,235	1,318	1,354	1,332	1,265	1,178	1,080	13,631	10,893	8,253
Residential (excluding farm)	500	400	475	525	585	635	680	695	685	650	600	550	6,980	5,260	3,183
Nonresidential building	273	265	266	264	277	305	324	332	334	333	330	312	3,615	3,131	3,346
Industrial	130	125	120	116	111	110	110	111	113	116	115	114	1,391	1,702	1,689
Warehouses, office, and loft buildings	24	22	22	23	25	28	29	34	35	36	38	38	354	216	309
Stores, restaurants, and garages	61	62	66	64	72	88	96	93	87	79	74	62	904	619	801
Other nonresidential building	58	56	58	61	69	79	89	94	99	102	103	98	966	594	547
Religious	13	12	13	14	16	18	21	23	26	27	28	28	239	118	72
Educational	16	15	15	16	17	19	22	24	25	26	25	24	244	164	115
Hospital and institutional	9	9	9	9	10	10	10	10	10	10	10	10	116	107	81
Remaining types [2]	20	20	21	22	26	32	36	37	38	39	40	36	367	205	279
Farm construction	14	14	23	37	50	62	81	82	63	39	22	13	500	450	350
Public utility	161	158	176	198	208	233	233	245	250	243	226	205	2,536	2,052	1,374
Railroad	24	21	23	25	26	30	33	36	36	34	32	30	350	318	258
Telephone and telegraph	45	48	54	63	60	63	55	57	61	60	55	55	676	510	305
Other public utility	92	89	99	110	122	140	145	152	153	149	139	120	1,510	1,224	811
Total public	209	172	226	287	341	381	397	445	450	442	374	311	4,035	3,084	2,205
Residential	9	6	5	6	5	5	5	5	5	4	3	3	61	182	369
Nonresidential building	53	49	65	71	77	79	88	96	102	106	108	106	1,000	505	325
Industrial	1	1	1	2	2	2	2	2	2	2	1	1	19	25	84
Educational	32	30	36	37	40	43	48	52	56	58	61	60	553	275	101
Hospital and institutional	7	7	10	13	15	15	18	22	23	24	25	25	204	81	85
Other nonresidential building	13	11	18	19	20	19	20	20	21	22	21	20	224	124	55
Military and naval	14	11	12	13	13	11	12	13	13	12	11	10	145	204	188
Highway	56	41	57	98	136	167	169	200	190	180	126	80	1,500	1,233	772
Sewer and water	27	25	33	38	39	40	41	41	44	47	43	40	458	331	194
Miscellaneous public service enterprises	8	6	9	9	11	10	10	9	10	10	8	6	106	117	87
Conservation and development	33	28	36	41	47	56	58	65	69	67	61	54	615	396	240
All other public	9	6	9	11	13	13	14	16	17	16	14	12	150	116	30

[1] Joint estimates of the Department of Commerce and the Department of Labor.

[2] Includes social and recreational, hotels, and miscellaneous.

TABLE VI.—*Annual indexes of production of selected construction materials, 1939–48*

[1939=100]

Material	Source of data	1939	1940	1941	1942	1943	1944	1945	1946	1947	1948 [1]
Composite		100.0	106.4	129.2	126.9	101.3	92.1	89.8	125.1	139.6	146.5
Lumber	H	100.0	108.4	127.1	126.4	119.2	114.5	97.8	121.9	127.4	128.4
Hardwood flooring	H	100.0	117.4	127.6	84.9	46.1	45.1	45.6	58.3	111.0	146.6
Brick	B	100.0	86.3	104.5	71.7	40.5	39.7	48.4	103.0	106.3	123.9
Cement	C	100.0	106.5	134.2	149.5	109.1	74.4	84.1	134.0	152.6	168.0
Wire nails [3]	E	100.0	96.2	113.2	122.5	114.4	91.1	86.5	89.6	118.6	127.3
Fabricated structural steel [3]	D	100.0	105.2	156.3	141.7	57.8	41.5	55.4	107.7	133.0	138.5
Concrete reinforcing bars [3]	E	100.0	112.6	144.9	144.5	37.5	49.7	65.9	93.9	114.3	120.7
Cast iron radiation	B	100.0	128.0	139.6	99.1	51.5	28.9	29.5	63.8	95.2	104.6
Rigid steel conduit and fittings [3]	G	100.0	109.8	223.2	183.3	71.5	72.7	96.5	149.7	195.0	212.8
Mechanical stockers [4]	B	100.0	148.3	186.6	92.5	26.5	38.6	125.2	184.7	65.0	85.1
Galvanized range boilers	B	100.0	102.7	102.4	61.5	103.3	93.5	93.6	113.2	78.0	62.0
Cast iron soil pipe and fittings	B	100.0	106.7	110.5	76.1	40.3	44.4	54.3	108.3	155.2	171.9
Softwood plywood	B	100.0	120.0	160.0	184.0	149.5	148.5	122.2	144.1	171.2	197.0
Gypsum board [3]	C	100.0	141.4	227.0	357.4	407.3	362.5	365.9	486.1	510.9	638.5
Gypsum lath [3]	C	100.0	127.5	162.2	84.3	55.5	55.1	52.7	101.1	146.7	221.1
Asphalt prepared roofing [3]	B	100.0	95.5	124.1	158.8	150.4	143.2	144.0	178.3	204.5	175.6
Asphalt siding—felts [3]	B	100.0	[2] 94.1	[2] 113.9	[2] 121.5	[2] 101.6	103.3	107.7	105.1	125.1	150.3
Warm air furnaces	BI	100.0	121.0	129.4	64.0	45.1	70.0	83.1	160.8	199.7	183.1
Structural clay tile	B	100.0	96.9	105.1	97.8	79.1	67.0	69.8	119.2	120.4	118.4
Clay sewer pipe	B	100.0	84.3	104.8	128.3	86.2	68.7	64.9	100.5	126.0	139.0

MONTHLY INDEXES OF PRODUCTION OF SELECTED CONSTRUCTION MATERIALS, 1946–48

[1939 monthly average=100]

Material	Source of data	January	February	March	April	May	June	July	August	September	October	November	December	Monthly average [7]
		1946												
Composite:														
Unadjusted		89.5	87.2	109.1	120.4	125.3	129.2	134.6	147.9	142.1	150.8	139.5	125.9	125.1
Adjusted for seasonal variation		104.9	105.9	115.7	121.5	118.8	121.2	127.0	131.3	132.9	136.9	141.7	143.4	125.1
Lumber	H	80.3	88.1	109.3	123.2	130.7	134.1	134.5	146.6	136.5	142.0	127.8	110.1	121.9
Hardwood flooring	H	49.3	46.4	50.4	49.9	52.7	45.2	53.0	59.3	69.6	77.2	72.8	73.5	58.3
Brick	B	72.6	74.1	89.8	98.2	94.7	95.7	122.3	127.2	119.5	129.4	115.5	96.7	103.0
Cement	C	94.6	90.8	111.1	124.2	118.7	142.2	151.4	159.1	161.5	161.1	150.5	142.9	134.0
Wire nails [3]	E	[2] 52.3	[2] 34.9	85.0	91.9	86.4	82.1	82.2	103.1	98.5	117.1	121.6	120.6	89.6
Fabricated structural steel [3]	D	89.6	53.2	85.7	102.1	103.7	105.7	116.8	131.3	118.3	137.3	131.1	118.4	107.7
Concrete reinforcing bars [3]	E	[2] 53.3	[2] 35.6	101.1	93.3	98.8	95.8	103.3	115.1	113.5	109.6	111.1	96.8	93.9
Cast iron radiation	B	42.1	38.9	47.1	51.4	67.2	63.1	63.9	76.7	72.3	90.6	87.4	65.1	63.8
Rigid steel conduit and fittings [3]	G	127.9	98.7	59.7	117.3	146.0	146.2	142.3	194.6	169.3	188.0	186.1	219.8	149.7
Mechanical stokers [4]	B	166.8	170.8	195.3	181.6	185.3	164.8	207.6	241.4	230.6	204.9	177.3	90.1	184.7
Galvanized range boilers	B	112.3	47.7	72.9	107.1	123.9	111.3	118.7	155.3	134.6	131.0	128.6	114.4	113.2
Cast iron soil pipe and fittings	B	88.7	82.6	90.3	92.9	101.3	85.2	96.5	115.5	124.2	151.6	141.0	130.3	108.3
Softwood plywood	B	128.3	117.4	130.8	144.2	154.2	145.7	114.9	152.0	155.1	179.5	155.6	146.2	144.1
Gypsum board [3]	C	405.8	341.6	443.8	438.0	423.4	432.1	519.7	572.3	534.3	613.1	581.0	528.5	486.1
Gypsum lath [3]	C	86.5	80.2	89.7	101.3	100.3	96.0	102.4	109.8	100.3	114.0	112.9	119.3	101.1
Asphalt prepared roofing [3]	B	160.4	142.7	164.5	181.1	181.7	177.3	183.2	193.9	185.0	198.5	187.2	183.9	178.3
Asphalt siding—felts [3]	B	101.8	90.3	97.8	99.9	102.2	105.9	105.3	115.8	109.9	119.9	109.7	102.1	105.1
Warm air furnaces	B	109.6	104.1	130.6	117.2	135.5	131.7	139.1	171.3	194.3	233.9	238.0	223.8	160.8
Structural clay tile	B	86.0	82.8	103.7	108.0	114.1	117.0	133.8	140.8	131.3	144.1	139.3	127.5	119.2
Clay sewer pipe	B	93.9	61.9	62.5	71.8	101.1	103.0	120.3	120.4	110.4	130.0	114.7	114.9	100.5
		1947												
Composite: [1]														
Unadjusted		124.6	124.0	132.7	138.2	141.2	139.7	142.8	147.6	149.1	159.0	139.6	165.5	139.6
Adjusted for seasonal variation		145.3	149.7	139.9	138.5	133.0	131.1	133.7	129.9	138.2	143.0	140.3	153.8	139.6
Lumber	H	105.6	114.8	123.7	129.1	139.1	131.0	137.1	136.9	135.9	138.8	121.7	115.3	127.4
Hardwood flooring	H	85.6	81.1	91.1	100.9	103.8	101.0	118.6	123.2	132.8	148.8	120.6	124.1	111.0
Brick	B	95.6	84.9	86.3	95.8	104.6	105.2	111.3	118.4	116.0	129.8	117.0	110.7	106.3
Cement	C	131.6	123.9	139.4	143.0	131.4	156.8	160.4	171.6	170.0	179.6	165.0	158.3	152.6

See footnotes at end of table, p. 190.

TABLE VI.—*Annual indexes of production of selected construction materials, 1939–48*—Continued

MONTHLY INDEXES OF PRODUCTION OF SELECTED CONSTRUCTION MATERIALS, 1946–48

Material	Source of data	1947—Continued												Monthly average [7]
		January	February	March	April	May	June	July	August	September	October	November [2]	December	
Wire nails [3]	BF	138.0	120.2	133.4	132.3	123.9	113.1	99.1	108.5	111.3	121.8	114.2	107.4	118.6
Fabricated structural steel [3]	D	117.2	113.4	114.8	131.2	129.1	126.6	141.6	131.6	136.9	163.4	145.8	144.1	133.0
Concrete reinforcing bars [3]	E	98.7	100.9	108.2	121.1	107.5	116.9	113.0	124.6	117.3	126.5	116.3	120.9	114.3
Cast-iron radiation	B	92.0	83.1	96.9	96.1	99.3	89.1	85.7	81.2	94.6	116.9	103.9	103.6	95.2
Rigid steel conduit and fittings [3]	G	165.8	170.0	182.1	191.3	200.7	201.4	188.7	179.0	214.2	214.5	202.4	229.5	195.0
Mechanical stokers [4]	B	50.8	27.4	42.7	48.2	62.6	69.4	84.1	107.2	116.7	97.2	44.1	29.6	65.0
Galvanized range boilers	B	104.3	79.6	93.6	90.1	85.1	74.8	67.2	75.9	67.1	75.1	59.0	64.2	78.0
Cast-iron soil pipe and fittings	B	168.7	159.0	167.1	175.5	165.8	159.0	131.3	140.3	142.9	166.8	136.5	149.0	155.2
Softwood plywood	B	168.1	155.5	167.7	176.6	171.0	168.4	129.2	167.3	176.5	204.2	173.6	180.6	171.2
Gypsum board [3]	C	578.1	508.0	484.7	516.8	487.6	496.4	513.9	496.4	467.2	502.2	531.4	557.7	510.9
Gypsum lath [3]	C	125.6	127.7	127.7	124.5	147.8	147.8	152.0	147.8	153.0	166.8	166.8	172.0	146.7
Asphalt prepared roofing [3]	B	204.8	186.3	204.2	213.4	209.8	204.1	196.8	199.4	206.9	233.4	195.0	199.3	204.5
Asphalt siding, felts [3]	B	109.7	108.0	119.8	123.3	119.0	121.3	117.3	124.6	137.7	150.9	132.1	136.5	125.1
Warm air furnaces	B	225.7	214.6	194.7	177.0	175.3	153.1	159.8	206.8	225.0	266.8	195.8	201.7	199.7
Structural clay tile	B	126.0	109.5	109.5	120.8	118.7	114.3	133.5	128.3	125.0	130.2	119.3	109.4	120.4
Clay sewer pipe	B	126.0	117.1	121.5	113.7	130.4	129.3	122.6	123.7	130.4	134.9	130.4	134.9	126.0
		1948												
Composite: [1]														
Unadjusted		131.5	121.5	140.3	143.0	146.3	152.5	153.1	163.8	159.9	164.1	147.0	n.a.	146.5
Adjusted for seasonal variation		154.0	147.3	148.5	143.9	138.7	142.5	143.9	144.7	148.7	148.1	148.3	n.a.	146.5
Lumber	H	113.5	103.5	126.1	126.7	128.9	136.4	143.2	150.8	139.4	140.6	122.2	109.3	128.4
Hardwood flooring	H	130.8	124.5	138.6	144.1	139.2	150.4	159.3	160.1	159.4	155.9	154.4	142.3	146.6
Brick	B	93.7	80.7	99.5	112.9	126.4	137.6	138.1	145.2	142.6	152.0	132.7	n.a.	123.9
Cement	C	142.7	130.9	142.3	157.4	174.1	174.3	183.8	186.1	182.6	189.9	180.9	170.8	168.0
Wire nails [3]	E	122.8	122.5	140.4	131.3	122.9	131.2	109.4	129.0	128.0	137.3	125.9	n.a.	127.3
Fabricated structural steel [3]	D	122.0	118.0	139.2	138.9	155.8	130.9	134.0	146.9	145.8	136.7	141.5	152.0	138.5
Concrete reinforcing bars [3]	E	109.7	110.7	130.8	116.3	129.2	120.9	126.2	114.0	121.8	135.1	112.9	n.a.	120.7
Cast iron radiation	B	107.1	102.4	117.4	94.5	103.1	104.5	82.0	105.7	109.1	121.7	103.4	n.a.	104.6
Rigid steel conduit and fittings [3]	G	189.3	206.0	210.2	223.4	203.2	205.8	209.1	174.4	203.5	222.9	250.6	254.8	212.8
Mechanical stokers [4]	B	31.9	51.2	60.4	54.0	74.9	92.6	100.0	125.5	163.2	126.7	56.0	n.a.	85.1
Galvanized range boilers [5]	B	66.3	74.3	85.4	68.7	56.2	54.4	41.6	70.5	53.7	58.6	52.6	n.a.	62.0
Cast iron soil pipe and fittings	B	156.5	153.2	171.9	157.4	155.5	175.2	134.5	169.7	183.9	196.8	197.1	209.7	171.9
Softwood plywood	B	191.3	188.0	222.9	197.8	181.6	180.2	146.9	208.9	217.9	222.8	209.1	n.a.	197.0
Gypsum board [3]	C	659.9	656.9	683.2	648.2	645.3	633.6	610.2	627.7	616.1	636.4	610.2	633.6	638.5
Gypsum lath [3]	C	185.8	176.3	197.4	217.4	228.0	222.7	237.5	254.4	236.4	239.6	229.0	229.0	221.1
Asphalt prepared roofing [3]	B	195.0	180.0	181.2	173.8	163.1	183.5	166.4	184.9	199.1	200.9	165.5	113.6	175.6
Asphalt siding—felts [3]	B	142.7	134.8	170.6	178.2	166.3	172.8	144.3	146.0	152.0	153.1	140.5	102.8	150.3
Warm air furnaces [6]	BI	173.9	124.6	127.6	164.5	149.6	176.8	147.2	220.9	241.6	275.0	214.7	n.a.	183.1
Structural clay tile	B	95.1	94.4	111.9	123.0	122.4	127.7	127.4	128.7	124.1	125.8	121.4	n.a.	118.4
Clay sewer pipe	B	132.7	123.7	146.0	137.1	133.8	142.7	131.5	143.8	143.8	151.6	142.7	n.a.	139.0

n.a. Not available.
[1] Subject to further revision to agree with more inclusive annual index series.
[2] Estimated by Construction Division.
[3] Shipments.
[4] Sales of classes 1, 2 and 3 only.
[5] Production data discontinued at the end of June. Data beginning with July are shipments.
[6] Bureau of the Census production series discontinued at the end of June; beginning with July, production data were furnished by the Office of Industry Cooperation, Department of Commerce. It is estimated the new series represents a coverage of 90-96 percent of the industry.
[7] Monthly average for 1948 preliminary. For about half the materials, represents average for the year; for remaining materials, represents average for first eleven months.

Source of data:
B. Bureau of the Census.
C. Bureau of Mines, Department of Interior.
D. American Institute of Steel Construction.
E. American Iron and Steel Institute.
G. Dun and Bradstreet, Inc.
H. National Lumber Manufacturers Association.
I. Office of Industry Cooperation, Department of Commerce (1948 only).

TABLE VII.—*Production or manufacturers' shipments of selected building materials, annually 1939 and 1946–48; monthly 1948*

Year	Portland cement production (MM barrels)	Manufacturers' shipments				
		Nails (M tons)	Gypsum board and lath			Cast iron soil pipe and fittings (M tons)
			Board (MM square feet)	Lath (MM square feet)	Total (MM square feet)	
1939	122	679	411	1,137	1,548	372
1946	164	637	1,998	1,149	3,147	409
1947	187	799	2,154	1,704	3,858	577
1948	205	[1] 850	[1] 2,624	[1] 2,514	[1] 5,138	640
1948—January	15	69	226	176	402	48
February	13	69	225	167	392	48
March	14	79	234	187	421	53
April	16	74	222	206	428	50
May	18	69	221	216	437	48
June	18	74	217	211	428	54
July	19	61	209	225	434	42
August	19	72	215	241	456	53
September	19	72	211	224	435	57
October	19	77	[1] 218	[1] 227	[1] 445	61
November	18	71	[1] 209	[1] 217	[1] 426	61
December	17	(2)	[1] 217	[1] 217	[1] 434	65

[1] Preliminary estimate.
[2] Not available.

Source: Portland cement, Bureau of Mines; nails, American Iron and Steel Institute; gypsum board and lath, Bureau of Mines for quarterly totals, with monthly distribution estimated by Construction Division; cast iron soil pipe and fittings, Bureau of the Census and American Iron and Steel Institute.

TABLE VIII.—*Lumber supply and consumption estimates* [1]

[Billions of board feet]

	1939	1946	1947	1948
Beginning stocks	19.0	4.0	6.0	8.4
New supply:				
Domestic production	25.1	34.2	36.0	35.5
Imports	.7	1.2	1.3	1.9
Total new supply	25.8	35.4	37.3	37.4
Total supply	44.8	39.4	43.3	45.8
Ending stocks	19.0	6.0	8.4	9.8
Net supply	25.8	33.4	34.9	36.0
Exports	1.1	.6	1.4	.6
Apparent domestic consumption	24.7	32.8	33.5	35.4

[1] Discrepancies between these figures and those currently reported by the industry are attributable to the fact that industry production and stock figures have not yet been adjusted to final 1946 and preliminary 1947 census data. While these data have not yet been released, their trends were allowed for in the figures used above.

TABLE IX.—*Index of wholesale prices of building materials, annually 1939–48; monthly June 1946–December 1948*

[1926=100]

Year and month	All building materials	Brick and tile	Cement	Lumber	Paint and paint materials	Plumbing and heating	Structural steel	Other building materials
1939	90.5	91.4	91.3	93.2	82.8	79.2	107.3	90.3
1940	94.8	90.5	90.8	102.9	85.7	80.4	107.3	93.3
1941	103.2	93.7	92.0	122.5	91.4	84.8	107.3	98.3
1942	110.2	98.0	94.0	133.0	100.3	95.4	107.3	103.5
1943	111.4	99.1	93.8	141.4	102.3	90.7	107.3	102.0
1944	115.5	101.7	95.8	153.3	105.2	92.2	107.3	103.1
1945	117.8	112.4	99.4	155.1	106.9	93.4	107.3	104.4
1946	132.2	122.9	104.1	178.4	118.5	103.8	118.4	118.6
1947	179.7	140.0	115.7	277.6	162.6	125.4	134.5	147.4
1948	199.0	156.3	130.5	312.2	159.8	147.8	163.7	167.6
1946—June	129.9	121.3	102.6	176.0	108.6	106.0	120.1	118.4
July	132.1	122.5	104.0	177.3	114.9	106.0	120.1	119.9
August	132.7	126.0	105.8	177.6	113.9	106.3	120.1	120.9
September	133.8	127.7	106.5	178.2	116.7	107.2	120.1	121.4
October	134.8	127.8	106.5	178.9	119.2	107.2	120.1	122.5
November	145.5	129.1	107.0	192.1	151.3	107.2	120.1	125.3
December	157.8	130.0	106.9	227.2	155.4	114.9	120.1	131.8
1947—January	170.2	132.5	108.4	254.5	166.2	116.3	127.7	139.8
February	174.8	132.6	109.9	266.6	168.9	116.3	127.7	142.2
March	177.5	132.7	112.3	272.3	171.1	117.0	127.7	144.1
April	178.1	134.5	114.0	273.6	170.4	117.3	127.7	144.4
May	176.2	134.5	114.0	270.3	164.3	119.1	127.7	144.8
June	174.1	134.7	114.3	265.5	158.8	119.1	127.7	145.1
July	175.5	143.3	114.9	268.8	155.4	123.4	130.8	146.1
August	179.6	144.3	116.9	276.9	154.2	129.4	143.0	150.1
September	183.4	145.4	119.1	286.5	157.1	136.0	143.0	150.7
October	185.8	146.4	120.1	290.2	160.7	136.1	143.0	152.5
November	187.7	148.1	120.6	296.0	161.8	136.1	143.0	152.6
December	191.0	148.8	121.6	303.2	164.0	136.1	143.0	155.5
1948—January	193.3	150.9	126.5	307.3	163.2	138.8	143.0	157.9
February	192.7	151.1	127.2	303.8	159.6	138.7	149.4	159.8
March	193.1	151.6	127.4	303.8	156.7	138.7	155.8	161.8
April	195.0	152.5	127.5	309.2	158.6	138.7	155.8	162.2
May	196.4	152.8	128.2	312.9	158.4	143.2	153.3	163.1
June	196.8	153.3	128.8	313.2	158.7	145.3	153.3	163.5
July	199.5	157.9	132.2	316.8	157.8	145.3	159.6	166.9
August	203.6	158.6	133.2	318.2	158.0	153.2	178.8	172.0
September	204.0	158.9	133.3	317.1	160.2	157.0	178.8	174.8
October	203.5	160.1	133.7	314.5	160.4	157.3	178.8	174.8
November	202.9	160.4	133.7	310.3	161.6	157.3	178.8	175.6
December	202.0	160.5	133.5	305.1	161.5	157.3	178.8	176.9

Source: Department of Labor.

TABLE X.—*World primary production of tin*

[Long tons of tin contained in concentrates]

Country	1937	1938	1939	1946	1947	1948 [1]
Far East	150,188	103,233	109,745	17,608	48,942	85,400
Malaya	77,266	43,375	47,416	8,432	27,026	45,000
Netherlands East Indies	39,134	27,298	27,809	6,450	15,915	30,000
Siam	[2] 16,494	14,704	[2] 16,970	1,056	1,401	3,700
China	10,457	11,246	10,859	1,320	4,000	5,200
Burma	5,260	5,014	5,441	350	600	1,500
French Indochina	1,577	1,596	[2] 1,250			
Bolivia	[2] 25,025	[2] 25,371	[2] 27,215	[2] 37,619	[2] 33,259	[2] 35,000
Africa:						
Belgian Congo	8,942	8,820	8,964	14,091	14,897	15,000
Nigeria	10,782	8,977	9,428	10,338	9,139	8,000
Other	12,563	13,599	12,148	9,344	7,263	7,300
Total	207,500	160,000	167,500	89,000	113,500	150,700

[1] Estimated.
[2] Exports, production figures not available.

Source: International tin study group.

TABLE XI.—*Pig tin*

	United States smelter production [1] (long tons)	Apparent domestic consumption [2] (long tons)	Average price (cents per pound, grade A, f. o. b. New York)
1935		55, 928	50. 42
1936		68, 232	46. 44
1937		72, 928	54. 34
1938		48, 116	42. 30
1939		66, 583	50. 32
1940		72, 324	49. 83
1941		103, 086	52. 02
1942	15, 695	56, 288	[3] 52. 00
1943	20, 727	46, 253	[3] 52. 00
1944	30, 619	59, 156	[3] 52. 00
1945	40, 591	55, 642	[3] 52. 00
1946	43, 468	54, 627	54. 54
1947	33, 292	63, 078	77. 95
1948	36, 677	64, 000	[4] 99. 25

[1] United States production of primary tin refined entirely from foreign materials; United States ore production in entire period less than 1,000 tons.
[2] Primary tin only; excludes stock-pile accumulations.
[3] Price stabilized by the Office of Price Administration.
[4] Current price, 103.00.

Source: Production and consumption, Bureau of Mines through 1946, Office of Domestic Commerce, 1947–48; prices, American Bureau of Metal Statistics through 1947, Office of Domestic Commerce, 1948.

TABLE XII.—*Tin: Total new supply and distribution of United States consumption, 1946–48*

[Long tons—primary and secondary]

	1946	1947	1948 [1]
NEW SUPPLY			
Primary:			
Imports of concentrates	38, 116	30, 503	35, 000
Imports and tin metal	6, 716	33, 692	48, 000
Total primary	44, 832	64, 195	83, 000
Secondary:			
Domestic secondary pig tin	2, 512	3, 160	3, 100
Domestic secondary alloys	22, 025	23, 322	25, 900
Total secondary	24, 537	26, 482	29, 000
Total supply [2]	69, 369	90, 677	112, 000
DISTRIBUTION OF CONSUMPTION (END USE)			
Tin and terneplate	27, 051	31, 833	32, 400
Brass and bronze	22, 305	21, 148	22, 500
Solder	17, 255	19, 696	22, 100
Babbitt	6, 833	6, 829	6, 440
Tinning	2, 230	2, 825	2, 800
Collapsible tubes	898	1, 008	625
Foil	238	356	260
Type metal	1, 378	1, 372	1, 400
Chemicals	118	173	210
Tin pipe and tubes	324	479	330
Oxide	11	176	260
Other	1, 593	1, 286	1, 075
Total	80, 234	87, 181	90, 400

[1] Estimate.
[2] Actual availability slightly less due to losses incurred in the smelting of concentrates.

Source: Office of Domestic Commerce.

TABLE XIII.—*Nitrogenous materials: Production*[1]; *imports; exports, and apparent consumption,*[2] *1919–48*

[Short tons of nitrogen]

Year	Domestic production [1]	Imports	Exports	Apparent domestic consumption [2]	Year	Domestic production [1]	Imports	Exports	Apparent domestic consumption [2]
1919	157, 236	81, 839	12, 100	226, 975	1934	308, 701	135, 611	37, 430	406, 882
1920	171, 670	257, 049	20, 300	408, 419	1935	341, 250	139, 297	46, 979	433, 568
1921	141, 700	63, 913	24, 190	181, 423	1936	389, 720	185, 073	52, 284	522, 509
1922	165, 490	99, 493	34, 345	230, 638	1937	(3)	210, 962	45, 943	(3)
1923	211, 460	158, 947	40, 000	330, 407	1938	(3)	204, 579	41, 153	(3)
1924	194, 642	201, 888	35, 754	360, 776	1939	499, 000	213, 784	39, 000	673, 784
1925	215, 113	235, 747	35, 967	414, 893	1940	(3)	190, 734	70, 040	(3)
1926	229, 367	201, 229	48, 618	381, 978	1941	688, 000	169, 188	53, 000	804, 188
1927	239, 622	189, 523	36, 446	392, 699	1942	678, 465	251, 192	39, 497	890, 160
1928	280, 849	264, 402	28, 865	516, 386	1943	663, 603	218, 375	62, 610	819, 368
1929	378, 879	236, 289	41, 910	573, 258	1944	673, 402	192, 782	42, 023	824, 161
1930	339, 354	170, 553	27, 199	482, 708	1945	666, 134	226, 777	36, 727	856, 184
1931	278, 492	156, 103	33, 714	400, 881	1946	779, 942	176, 307	36, 344	886, 905
1932	233, 718	105, 858	34, 987	304, 589	1947	1, 137, 048	204, 313	66, 454	1, 307, 907
1933	282, 844	135, 077	22, 713	397, 208	1948	1, 104, 762	227, 000	59, 000	1, 290, 762

[1] The above data do not include production by the Army for military explosives or for its fertilizer programs in foreign areas.
[2] The apparent domestic consumption is the sum of the production of synthetic, by-product (including organic) nitrogen materials and imports for consumption minus exports. They also reflect varying quantities loaned to the Army or obtained from the Army for commercial use during 1946–48.
[3] Not available.

TABLE XIV.—*Nitrogenous materials supply and distribution*

[In short tons of nitrogen content]

	Year ended June 30, 1948	Year ending June 30, 1949
Resources:		
1. Synthetic nitrogen, private and TVA	911, 000	960, 000
Less loss in conversion by primary producers	21, 000	20, 000
Nitrogen content of material shipped to other plants	890, 000	940, 000
2. Coke-oven byproduct and natural organic nitrogenous materials	220, 000	222, 000
3. Imports	221, 000	225, 000
4. Army production available for agriculture or exports	3, 000	58, 000
Total nitrogen commercially available	1, 334, 000	1, 445, 000
In addition to nitrogen commercially available, Army produced for occupied-area program, not including tonnage shown above	248, 000	238, 000
Distribution:		
1. Agriculture:		
For domestic use	934, 000	1, 024, 000
Exports	65, 000	61, 000
Total	999, 000	1, 085, 000
2. Total industrial:		
Domestic use	329, 000	355, 000
Exports	6, 000	5, 000
Total	335, 000	360, 000
Total nitrogen distributed commercially	1, 334, 000	1, 445, 000

TABLE XV.—*Prices of nitrogenous materials, 1946–48*

[Short tons, bulk, carloads]

Year month	Anhydrous ammonia	Value N/ton	Ammonium nitrate [1]	Value N/ton	Ammonium sulfate	Value N/ton	Sodium nitrate, synthetic	N/ton	Sodium nitrate, Chile	N/ton
1946—January	$59	$71.65	$46.00	$141.54	$29.20	$142.44	$27	$168.75	$30.00	$187.50
April	59	71.65	46.00	141.54	29.20	142.44	27	168.75	30.00	187.50
July	59	71.65	46.00	141.54	29.20	142.44	27	168.75	30.00	187.50
October	59	71.65	46.00	141.54	30.00	146.34	27	168.75	35.50	221.88
1947—January	59	71.65	46.00	141.54	30.00	146.34	32	200.00	35.50	221.88
April	59	71.65	51.00	156.92	30.00 32.00	146.34 156.10	32	200.00	38.50	240.63
July	59	71.65	48.50 51.00	149.23 156.92	30.00 35.00	146.34 170.73	32	200.00	38.50	240.63
October	59	71.65	[2] 70.25 [3] 48.50	209.70 146.97	35.00 38.00	170.73 185.37	37	231.25	42.50	265.63
1948—January	59	71.65	[2] 75.00 [3] 48.50	223.88 146.97	35.00 40.00	170.73 195.12	37	231.25	44.00	275.00
April	59	71.65	[2] 75.00 [3] 48.50	223.88 146.97	38.00 40.00	185.37 195.12	37	231.25	44.50	278.13
July	59 70	71.65 85.00	[2] 79.50 [3] 50.52	237.31 151.51 157.58	40.00 45.00	195.12 219.51	42	262.50	44.50	278.13
October	68 70	82.57 85.00	79.00 50.52	235.82 151.51 157.58	45.00	219.51	45	281.25	48.00	300.00

[1] Ammonium nitrate in bags, October 1947 to October 1948; previous quotations in bulk.
[2] Canadian.
[3] Domestic.

TABLE XVI.—*Primary aluminum: Production, imports, apparent consumption and price, 1919–48*

Year	Primary production (short tons)	Primary imports (short tons)	Apparent consumption (short tons)	Primary ingot price (cents per pound)	Year	Primary production (short tons)	Primary imports (short tons)	Apparent consumption (short tons)	Primary ingot price (cents per pound)
1919	64,238	[1] 6,926	68,654	32.14	1934	37,089	[1] 9,295	68,281	21.58
1920	69,021	[1] 19,649	83,967	30.61	1935	59,648	[1] 10,645	95,823	20.50
1921	27,266	[1] 16,279	42,447	21.21	1936	112,465	[1] 12,781	137,722	20.50
1922	36,817	[1] 21,945	56,589	18.68	1937	146,340	[1] 22,589	167,979	20.08
1923	64,329	[1] 21,238	82,798	25.41	1938	143,441	[1] 8,870	89,523	20.00
1924	75,282	[1] 15,904	88,015	27.03	1939	163,545	9,290	167,646	20.00
1925	70,058	[1] 20,998	84,736	27.19	1940	206,280	17,435	227,017	18.69
1926	73,693	[1] 35,695	105,572	26.99	1941	309,067	13,358	302,788	16.50
1927	81,804	[1] 31,287	105,830	25.41	1942	521,106	112,112	588,969	[2] 15.00
1928	105,272	[1] 19,423	116,831	23.90	1943	920,179	135,581	877,349	[2] 15.00
1929	113,987	[1] 25,440	116,374	23.90	1944	776,446	100,969	744,627	[2] 15.00
1930	114,519	[1] 12,730	70,932	23.79	1945	495,060	334,125	797,220	[2] 15.00
1931	88,773	[1] 7,416	58,497	23.30	1946	409,600	42,607	461,877	[2] 15.00
1932	52,444	[1] 4,092	34,844	23.30	1947	571,750	16,000	524,200	[2] 15.00
1933	42,563	[1] 7,623	51,269	23.30	1948	620,000	85,000	697,000	[2] 15.74

[1] Crude and semicrude, some of which may be secondary aluminum.
[2] Since December 1942, a product called pig has been sold at 1 cent less than ingot.

Source: Bureau of Mines.

TABLE XVII.—*Aluminum supply and distribution*

[Short tons]

Supply	1947 (estimated)	1948 (estimated)
Stocks beginning of year:		
Producers	24,750	30,500
Consumers	50,000	25,000
Government (ex stock pile)	71,760	18,700
Total	146,510	74,200
New supply:		
Domestic	571,750	620,000
Imports	16,000	85,000
Secondary production	330,000	300,000
Total	917,750	1,005,000
Distribution:		
Building products	178,211	198,496
Transportation	128,707	136,136
Cooking utensils	89,105	94,248
Machinery	39,602	41,888
Household appliances	89,105	94,248
Power transmission	59,404	62,832
Fabricated for further processing	247,516	261,800
All other	158,410	167,552
Total	990,060	1,057,200
Stocks end of year:		
Producers	30,500	22,000
Consumers	25,000	0
Government (ex stock pile)	18,700	0
Total	74,200	22,000

TABLE XVIII.—*Refined copper supply and consumption, 1946–48*

[Thousands of short tons]

	1946	1947	1948 (estimated)
United States refined from domestic and foreign ores, etc., plus secondaries	604	1,196	1,234
Imports	154	148	240
Total	758	1,344	1,474
Exports	53	77	145
Available for United States needs	705	1,267	1,329
Consumption, excluding strategic stock pile [1]	1,231	1,338	1,395

[1] Attained by reductions in industry and Government stocks.

COPPER AND BRASS MILL PRODUCTION, 1946-48 [1]

[Millions of pounds—gross weight]

	1946	1947	[2] 1948
Copper products, unalloyed	584	739	758
Alloy products, total	1,570	1,360	1,394
Plate and strip	617	594	590
Rod and wire	792	596	625
Tube and plate	161	170	179
Total brass mill production	2,154	2,099	2,152
Wire mill production	1,151	1,434	1,538
Total, wire and brass mills	3,305	3,533	3,690

[1] Data represent mill production rather than shipments and are somewhat overstated through run-around processing of copper and copper alloy; tabulation does give a picture of the gross mill production by major categories.
[2] Preliminary.

Sources: Department of Commerce and Bureau of Mines, wire mill production; Brass Mill Producers Association, brass mill production.

TABLE XIX.—*Copper, refined: Production, imports, consumption, and price, 1919–1948*

	Production [1] (thousands of short tons)	Imports (thousands of short tons)	Apparent domestic consumption [2] (thousands of short tons)	Average price (cents per pound, f. o. b. refinery)		Production [1] (thousands of short tons)	Imports (thousands of short tons)	Apparent domestic consumption [2] (thousands of short tons)	Average price (cents per pound, f. o. b. refinery)
1919	643	18	457	18.691	1934	244	27	323	8.428
1920	605	54	527	17.456	1935	394	18	395	8.649
1921	253	35	305	12.502	1936	631	5	620	9.474
1922	475	52	448	13.382	1937	868	7	671	13.167
1923	718	80	650	14.421	1938	579	2	461	10.000
1924	817	73	677	13.024	1939	744	16	702	10.965
1925	837	50	701	14.042	1940	915	68	883	11.296
1926	870	85	785	13.795	1941	985	347	1,546	11.797
1927	842	52	711	12.920	1942	1,098	401	1,464	[3] 12.407
1928	913	42	804	14.570	1943	1,111	403	1,618	[3] 13.175
1929	1,001	67	889	18.107	1944	996	492	1,596	[3] 13.432
1930	697	43	633	12.982	1945	792	531	1,413	[3] 13.580
1931	521	87	451	8.116	1946	619	154	1,199	[3] 15.572
1932	272	84	260	5.555	1947	871	147	1,233	[3] 21.040
1933	225	5	339	7.025	1948	850	[4] 145	[5] 1,265	[5] 22.360

[1] Mine or smelter production from domestic ores only in terms of recoverable copper.
[2] Excludes secondaries.
[3] Prices for 1942 through June 1947 include premium payments.
[4] Estimated on basis of 11 months actual.
[5] Estimate.

Sources: Department of Commerce, Bureau of Mines, Copper Institute, United States Copper Association, and American Bureau of Metal Statistics.

TABLE XX

UNITED STATES LEAD SUPPLY AND CONSUMPTION, 1946–48

[Short tons]

	1946	1947	1948
Domestic mine production [1]	335,000	384,000	387,000
Domestic scrap recovery [2]	393,000	512,000	475,000
Imports:			
Ore and base bullion	45,000	52,000	60,000
Refined lead	115,000	160,000	225,000
Total new supply	889,000	1,108,000	1,147,000
Domestic consumption and exports	926,000	1,174,000	1,130,000
Net surplus or deficit	[3] −38,000	[3] −66,000	+17,000

LEAD CONSUMPTION IN THE UNITED STATES [4]

[Short tons]

	1946	1947	1948
Ammunition	30,000	40,000	43,000
Bearing metals	41,000	40,000	41,000
Cable covering	111,000	149,000	175,000
Chemicals	150,000	179,000	140,000
Sheet and pipe	68,000	62,000	62,000
Solder	50,000	55,000	67,000
Storage batteries	260,000	393,000	375,000
Tetraethyl lead	48,000	69,000	83,000
Type metal	33,000	26,000	29,000
Other	134,300	157,500	114,600
Exports and reexports	700	1,500	400
Total	926,000	1,174,000	1,130,000

[1] Recoverable lead content.
[2] Lead content of consumed scrap.
[3] Covered by declines in industry and Government stocks.
[4] American Bureau of Metal Statistics 1946 and 1947; Department of Commerce estimate, 1948.

TABLE XXI.—*Lead: production, imports, apparent consumption, and price, 1919–1948*

	United States production [1]	Imports [2]	Apparent consumption [3]	Average price [4] (cents per pound, f. o. b., New York)		United States production [1]	Imports [2]	Apparent consumption [3]	Average price [4] (cents per pound, f. o. b., New York)
	Short tons	*Short tons*	*Short tons*			*Short tons*	*Short tons*	*Short tons*	
1919	552,000	71,000	548,000	5.76	1934	495,000	13,000	488,000	3.86
1920	622,000	99,000	605,000	7.96	1935	601,000	24,000	539,000	4.07
1921	518,000	74,000	521,000	4.55	1936	636,000	24,000	634,000	4.71
1922	638,000	78,000	683,000	5.73	1937	740,000	41,000	679,000	6.01
1923	741,000	135,000	768,000	7.27	1938	595,000	64,000	546,000	4.74
1924	800,000	138,000	812,000	8.10	1939	656,000	87,000	667,000	5.05
1925	911,000	122,000	856,000	9.02	1940	717,000	282,000	782,000	5.18
1926	961,000	148,000	901,000	8.42	1941	858,000	381,000	1,050,000	5.79
1927	941,000	161,000	841,000	6.76	1942	819,000	492,000	1,000,000	[5] 6.48
1928	936,000	155,000	931,000	6.31	1943	795,000	319,000	1,100,000	[5] 6.50
1929	959,000	116,000	972,000	6.83	1944	748,000	320,000	1,090,000	[5] 6.50
1930	814,000	78,000	769,000	5.52	1945	754,000	300,000	1,000,000	[5] 6.50
1931	640,000	53,000	568,000	4.24	1946	728,000	160,000	925,000	[5] 8.11
1932	491,000	35,000	417,000	3.18	1947	896,000	212,000	1,172,000	[5] 14.67
1933	497,000	8,000	450,000	3.87	1948	862,000	[6] 285,000	1,130,000	18.04

[1] Mine production of recoverable lead plus production of secondary lead in she United States (Bureau of Mines through 1947, Department of Commerce, 1948).
[2] Ores, concentrates, base bullion, and metal (Department of Commerce).
[3] Estimated domestic consumption of primary, secondary, and antimonial lead (American Bureau of Metal Statistics through 1946; Department of Commerce, 1947 and 1948).
[4] American Bureau of Metal Statistics through 1947; Department of Commerce, 1948.
[5] Market price; payments under the premium price plan during the period January 1942 to June 1947 approximated 3.41 cents per pound for 42 percent of the domestic mine production of lead.
[6] Estimated on data for first 11 months.

TABLE XXII.—*Zinc supply and distribution, 1946–48*

[Thousands of short tons]

	1946	1947	1948
Opening stocks: [1]			
Ore at smelters (private and Government account)		426	375
Slab at smelters		176	68
Slab in consumers' plants		93	70
Total, opening stock		695	513
New supply:			
Domestic mine production	575	625	622
Imports of concentrate	226	247	223
Imports of slab zinc	105	72	85
Secondary slab production	56	60	60
Total, new supply	962	1,004	990
Consumption:			
Domestic industrial-primary and secondary slab [2]	801	781	806
Galvanizing	320	360	365
Brass and bronze	149	109	108
Zinc-base alloys	212	215	232
Rolled zinc	92	71	77
Zinc oxide (from slab) and other	28	26	24
Zinc dust, oxide, and pigment produced directly from ores	135	130	140
Export	37	107	70
Other and unaccounted	3	28	13
Total consumption, excluding strategic stock piling	986	1,046	1,029
Closing stocks:			
Ore at smelters (private and Government account)		375	[3] 325
Slab at smelters		68	21
Slab in consumers' plants		70	[3] 70
Total, closing stocks		513	416

[1] Figures on secondary slab zinc stocks not available. It may be assumed that these are quite small and do not fluctuate greatly.
[2] Includes consumption for current military uses but excludes stock piling.
[3] Estimated.

Source: Compiled by Department of Commerce from Government and industry sources.

TABLE XXIII.—*Zinc: Production, imports, consumption, and price, 1919–48*

[Thousands of short tons]

Year	United States mine production [1]	Imports [2]	Apparent domestic consumption	Average price (cents per pound at East St. Louis)
1919	549	14	465	6.99
1920	588	19	485	7.67
1921	257	9	296	4.66
1922	472	2	539	5.72
1923	611	3	632	6.61
1924	638	4	618	6.34
1925	711	11	675	7.62
1926	775	12	755	7.34
1927	719	8	707	6.24
1928	695	11	776	6.03
1929	724	12	780	6.51
1930	595	22	568	4.56
1931	410	1	426	3.64
1932	285	2	291	2.88
1933	384	4	445	4.03
1934	439	14	452	4.16
1935	518	13	599	4.33
1936	576	12	707	4.90
1937	626	45	743	6.52
1938	517	23	493	4.61
1939	584	61	745	5.11
1940	665	160	835	6.34
1941	749	280	987	7.47
1942	768	342	929	[3] 9.06
1943	744	504	1,004	[3] 10.54
1944	719	414	1,072	[3] 11.06
1945	614	414	1,034	[3] 11.21
1946	575	331	949	[3] 12.08
1947	625	320	939	[3] 12.24
1948	622	308	959	[4] 13.58

[1] Recoverable content of mine output.
[2] General imports of slabs and concentrates (concentrates on 83 percent recoverable basis).
[3] Prices adjusted for premium price subsidy payments; market prices averaged as follows: 1942–45, 8.25, OPA; 1946, 8.73 (OPA controls expired November 1946); 1947, 10.50.
[4] Estimated.

Sources: Department of Commerce, Bureau of Mines, American Bureau of Metal Statistics.

TABLE XXIV.—*Freight cars: Owned, ordered, delivered, on order, and exports, 1930–48*

	Total owned [1]	Cars ordered [2]	Cars delivered [3]	On order, Dec. 31 [4]	Exports [5]
1930	2,352,046	43,405	(6)	9,821	(6)
1931	2,275,137	10,197	15,976	4,042	867
1932	2,213,266	1,951	3,562	2,431	179
1933	2,099,948	1,720	3,727	224	248
1934	1,999,386	24,566	24,162	628	448
1935	1,892,375	18,749	6,572	12,805	1,473
1936	1,813,837	69,748	56,961	25,592	942
1937	1,779,886	49,942	67,587	7,947	2,551
1938	1,754,160	16,370	19,237	5,080	1,553
1939	1,702,968	53,915	21,896	37,099	2,051
1940	1,706,387	65,828	67,225	35,702	3,675
1941	1,755,598	106,987	67,602	74,897	4,471
1942	1,798,147	28,560	76,396	27,061	10,185
1943	1,809,439	37,030	28,354	35,737	13,795
1944	1,822,407	54,481	53,621	36,597	23,472
1945	1,812,271	37,862	47,299	37,160	14,485
1946	1,793,344	67,197	40,528	63,829	22,616
1947	1,784,326	121,327	80,044	105,112	38,946
1948	1,813,070	101,251	102,737	89,437	[7] 6,271

[1] Total freight cars owned at the end of the year indicated, by all classes of railroads (American Railway Car Institute reports). The total number of cars owned by all railroads and private lines on Dec. 31, 1948, was 2,089,200.
[2] Domestic cars ordered by all railroads and private lines (American Railway Car Institute and ODT reports). The total number of cars ordered by class I railroads in 1948 was 87,062 (Association of American Railroads reports).
[3] Cars delivered to class I railroads (Association of American Railroads reports). The total number of cars delivered to all railroads and private lines in 1948 was 112,647 (ODT reports).
[4] Cars on order by class I railroads (Association of American Railroads reports). The total number of cars on order by all railroads and private lines in 1948 was 103,896 (ODT reports).
[5] Two export cars are approximately the equivalent of one domestic car in terms of capacity, value, or steel consumption (Department of Commerce).
[6] Not available.
[7] January to October.

TABLE XXV.—*Gross sales of active machinery manufacturing corporations, 1939–48*

[In millions of dollars]

	1939	1940	1941	1942	1943	1944	1945	1946	1947	1948
Total industrial machinery, including electrical	4,423	5,929	9,451	13,437	16,203	16,943	14,543	11,465	16,285	18,544
Industrial machinery, except electrical [1]	2,798	3,742	6,089	8,707	9,891	9,322	7,950	6,394	8,395	9,288
Special industry machinery	415	525	701	918	876	839	790	635	834	923
General industry machinery	834	1,016	1,526	2,192	2,625	2,649	2,254	1,813	2,381	2,634
Metalworking machinery, including machine tools	351	738	1,489	2,559	2,687	2,020	1,666	1,340	1,759	1,947
Engines and turbines	128	177	321	646	1,083	1,087	772	621	816	902
Construction, mining and oil-field machinery	382	479	751	954	1,139	1,124	1,011	813	1,067	1,181
Office and store machines	267	303	409	468	242	274	292	235	308	341
Household and service industry machines [3]	197	238	416	342	1,002	274	395	318	417	461
Machinery, except transportation equipment and electrical not allocable	224	266	476	628	237	1,055	770	619	813	899
Electrical machinery and equipment [2]	1,625	2,187	3,362	4,730	6,312	7,621	6,593	5,071	7,890	9,256
Electrical equipment for public utility, manufacturing, mining, transportation (except automotive and construction use)	625	1,086	1,671	2,404	2,853	3,077	2,817	2,166	3,371	3,954
Communication equipment and phonographs	271	582	974	1,442	2,250	2,967	2,357	1,813	2,820	3,310
Other electrical machinery and equipment [3]	729	519	744	884	1,209	1,577	1,419	1,092	1,699	1,992

[1] Excludes agricultural machinery.
[2] Excludes automotive electrical equipment and electrical appliances.
[3] Excludes appliances.

Source: U. S. Treasury Department, Bureau of Internal Revenue (unpublished data), 1939 through 1945; 1946, 1947, and 1948—Office of Business Economics, Department of Commerce.

TABLE XXVI.—*United States production, exports, and imports—industrial machinery, including electrical*

[In millions of dollars]

Year	Production	Exports	Imports	Consumption	Year	Production	Exports	Imports	Consumption
1919	4,436	467	4.3	3,973	1934	(1)	165	8.9	(1)
1920	(1)	565	9.0	(1)	1935	4,470	197	9.0	4,282
1921	3,037	500	10.8	2,548	1936	(1)	249	12.4	(1)
1922	(1)	292	11.0	(1)	1937	5,225	353	15.5	4,888
1923	4,480	348	14.6	4,147	1938	(1)	372	11.6	(1)
1924	(1)	387	12.5	(1)	1939	4,559	395	10.0	4,174
1925	4,646	459	13.3	4,200	1940 [2]	5,929	568	6.2	5,367
1926	(1)	263	19.0	(1)	1941 [2]	9,451	622	6.0	8,835
1927	5,004	285	19.4	4,738	1942 [2]	13,437	676	37.1	12,798
1928	(1)	314	21.5	(1)	1943 [2]	16,203	1,065	34.0	15,172
1929	6,637	408	27.5	6,256	1944 [2]	16,943	1,294	27.9	15,677
1930	(1)	343	19.6	(1)	1945 [2]	14,543	1,002	17.1	13,558
1931	3,003	226	10.9	2,788	1946 [2]	11,465	1,143	14.9	10,337
1932	(1)	101	6.8	(1)	1947 [2]	16,285	1,899	18.8	14,405
1933	2,211	99	6.8	2,119	1948 [2]	18,544	[3] 1,767	[4] 22.8	16,800

[1] Not available.
[2] Production, 1940–48, based on gross sales active machinery-manufacturing corporations.
[3] 1948 annual exports estimated.
[4] 1948 annual imports estimated.

Source: Treasury Department, Bureau of Internal Revenue, 1939–45, and Office of Business Economics, Department of Commerce, 1946–48.
Sources: Foreign Commerce and Navigation of the United States; Statistical Abstract of the United States; Census of Manufactures, Facts for Industry, series 50–53.

TABLE XXVII.—*United States production, exports, and imports—industrial machinery, except electrical*

[In millions of dollars]

Year	Production	Exports	Imports	Consumption	Year	Production	Exports	Imports	Consumption
1919	3,279	378	4.1	2,905	1934	(1)	98	7.1	(1)
1920	(1)	463	8.5	(1)	1935	3,309	121	6.9	3,195
1921	2,105	411	10.4	1,704	1936	(1)	158	10.1	(1)
1922	(1)	239	10.1	(1)	1937	3,325	240	13.2	3,098
1923	3,080	288	12.4	2,804	1938	(1)	270	9.6	(1)
1924	(1)	317	9.7	(1)	1939	2,832	290	8.0	2,550
1925	3,045	385	10.9	2,671	1940 [2]	3,742	451	4.5	3,296
1926	(1)	179	16.5	(1)	1941 [2]	6,089	476	5.1	5,618
1927	3,271	200	16.4	3,087	1942 [2]	8,707	525	16.8	8,199
1928	(1)	225	18.7	(1)	1943 [2]	9,891	808	7.6	9,090
1929	4,239	278	24.8	3,986	1944 [2]	9,322	863	8.8	8,468
1930	(1)	226	16.6	(1)	1945 [2]	7,950	706	11.5	7,256
1931	1,815	142	8.0	1,681	1946 [2]	6,394	842	11.4	5,563
1932	(1)	58	4.9	(1)	1947 [2]	8,395	1,337	15.4	7,073
1933	1,536	55	5.2	1,486	1948 [2]	9,288	[3] 1,267	[4] 19.2	8,040

[1] Not available.
[2] Production 1940-48 based on gross sales active machinery manufacturers.
[3] 1948 annual exports estimated.
[4] 1948 annual imports estimated.

Source: Treasury Department, Bureau of Internal Revenue 1939-45, and Office of Business Economics, Department of Commerce, 1946-48.
Sources: Foreign Commerce and Navigation of the United States; Statistical Abstract of the United States; Census of Manufacturers; Facts for Industry, series 50-53.

TABLE XXVIII.—*Indexes of machinery prices*

	Machine tools	General and auxiliary machinery and equipment [1]	Construction machinery	Metal and metal products [2]
January of year—				
1939	100	100	100	100
1940	106	100	101	101
1941	114	101	103	103
1942	118	105	111	110
1943	118	104	111	110
1944	118	103	111	110
1945	118	102	111	110
1946	118	103	114	112
1947	137	124	132	147
1947—March	140	125	133	
1948—January				165
February				165
March				165
April				167
May				166
June				168
July				172
August				182
September				182
October				183
November				184
December				184

[1] Composite of 16 groups, including engines, air compressors, power pumps, mechanical measuring and testing instruments, scientific instruments, material-handling equipment, fans and blowers, mechanical stokers, heat exchangers, cutting tools and machine-tool attachments, mechanical power-transmission equipment, gas welding and cutting equipment, lubricating equipment, industrial scales, and industrial heat-treating furnaces.
[2] Includes agricultural implements, iron and steel, motor vehicles, nonferrous metals, plumbing and heating, other metal products.

Source: Bureau of Labor Statistics, U. S. Department of Labor.

The CHAIRMAN. Questions, Mr. Herter?

Mr. HERTER. Just one question, sir.

Mr. Keyserling, in his charts and in his testimony, showed that metals were today priced way beyond any other group of commodities, except farm commodities, prior to the recent shift in those prices, and that they were on the upgrade rather than the downgrade. He said that was one of the elements in our economy that was clearly out of balance and ought to be adjusted.

Is it not true, according to your statement, that the reason these metals are so highly priced is that they are in short supply and that in order to bring the marginal lines into balance, in order for them to go up, they are going to have to increase the supply? Have you any recommendation as to how those prices can be brought in line, those metal prices, without a policy that would discourage production?

Secretary SAWYER. Well, you asked me first if it were not true that the high prices were based upon the fact that they were in short supply. I am no economist, but I think fundamentally that is true in any case of high prices. I might say that as far as some of these metals are concerned, I think the present high prices are due partly, at least, to the effort to stock pile those materials. What we tried to do in Commerce was to deaden that impact somewhat by working with industry to have a reasonably regular accretion of the stock-piling program, rather than to have the Munitions Board in competition with industry in the demand for those products.

As to a specific suggestion on my part, I think we should continue, so far as we can, to assist industry, for instance the copper industry, which is undertaking to get supplies from South America. I believe the Government should do everything that industry wants, and perhaps make suggestions to industry as to how we can assist in that respect.

We have a problem in connection with manganese which has not been mentioned here. I think it is essential that the government not only assist, but insist on certain things being done in connection with that material.

Congressman Herter, I do not think I can answer your question any more specifically.

Mr. HERTER. I recall that we have had before us a bill to subsidize the production of copper, lead and zinc from the marginal producing areas at existing price levels; the mines could not operate profitably. Now the prices apparently have gone to a level which justified the opening of a great many of those mines. Production is increasing, but the demand is increasing faster than the production. That being the case, how can one adjust the imbalance in those prices with relation to other items?

Secretary SAWYER. I do not know, except that I think eventually the supply will catch up with the demand. I think we see some evidences of that at the moment, although as far as the nonferrous metals are concerned it is not in the immediate future.

Mr. HERTER. In other words, in order to maintain this high production, prices will have to stay up?

Secretary SAWYER. They are likely to stay up.

Mr. BUCHANAN. What selective items are you likely to ask to have an allocation authority for?

Secretary SAWYER. I would say the items that are in short supply. That would include any of the items we are dealing with now on the voluntary agreements program.

Mr. BUCHANAN. That is all.

Senator MYERS. Mr. Secretary, I was very much interested in your reference to the freight-car situation under the item "Machinery and equipment." Do you have any information with you today to indicate how many freight cars are being retired by the railroads each year?

Secretary SAWYER. I do not have with me today the information as to what freight cars are being retired, but I do have, and show on this chart, the actual number that were purchased.

Senator MYERS. That is in table XXIV?

Secretary SAWYER. Yes, table XXIV. The interesting thing is that the actual purchases of freight cars so far during the month of January were drastically reduced from the levels during the year 1948.

Senator MYERS. Was that the figure on retirement?

Secretary SAWYER. No, that is not the figure on retirement.

Senator MYERS. I note from table XXIV that we had many, many more freight cars in operation during the depression years, when of course both farm and industrial production was much less than it is today. We had some extended hearings on this very subject in the Interstate and Foreign Commerce Committee.

Do you have anything before you to indicate what the monthly production goals might be under your voluntary steel allocation program?

Secretary SAWYER. No; I do not have it, but I can tell you the production goal is 10,000 cars a month. The actual cars delivered, as you will note from this table, is 112,647 for the calendar year 1948.

Senator MYERS. They had not reached in 1948 the 10,000 goal. They may have in the latter months of the year approached it, but the over-all picture during the year indicates that they did not reach the 10,000-car goal.

Secretary SAWYER. Ten thousand would be 120,000.

Senator MYERS. Yes, sir; close to it.

Secretary SAWYER. As a matter of fact, I think the failure to reach it was not due either to lack of material or willingness on the part of the suppliers, but to some problem in connection with orders from the railroads.

The orders, as you will note, were 101,251, which is considerably below the amount of cars actually delivered. That is in the second column.

Senator MYERS. As I said, we had some very interesting hearings in the Senate Committee on Interstate and Foreign Commerce on this matter. Steel executives, freight-car manufacturers, and railroad representatives testified. I believe the results were splendid. They all agreed upon a voluntary program which would produce as many cars as were needed. The great difficulty seemed to be with steel. That was before the voluntary allocation program was enacted.

Have you given consideration to increasing the present monthly quota of steel which now provides for an allocation of sufficient steel to build 10,000 cars per month?

Secretary SAWYER. We have given a great deal of consideration to it. It has been urged upon us a number of times by Colonel Johnson and others, and we have not recommended an increase because, considering all the other demands of our economy and certain foreign demands, we felt that it was not wise to allocate such a very large part of the plate production to freight cars. It takes, by all odds, the biggest part. I think I have the figures here, if you will pardon me for just a moment.

I have a table and some charts here, Senator.

Senator MYERS. Please do not bother now. You can put them in the record later.

Secretary SAWYER. Very well, I will be glad to.

(The following matter was submitted later for the record:)

QUOTAS OF STEEL FOR FREIGHT CARS

The freight-car program, for the benefit of all railroads and private lines, consists of two parts. One part covers the allocation of steel products for the construction of 10,000 domestic railway freight cars per month. The second phase covers the allocation of steel for the repair of domestic railway freight cars, passenger cars, and locomotives.

The steel producers agreed under the program to provide an aggregate of approximately 250,000 tons of steel monthly for these two phases of the freight-car program. There is a variation from month to month in both the total steel allocations and types of steel between the new freight-car program and the repair program. Steel allocations for new freight cars have varied from 160,500 tons to 179,600 tons per month. MRO, or freight and passenger car and locomotive repairs, has been allocated from 77,500 to 86,800 tons per month.

The current production of plate is estimated at 635,000 tons a month. Of this amount, about 210,639 tons a month is currently being allocated under voluntary plans, of which 111,347 tons a month is currently being allocated to the domestic freight-car program, or about 17.5 percent of the total current plate production.

As of July 15, 1948, the backlog of new domestic freight cars on order and undelivered was 127,721 (all railroads and private lines). This figure has been continually dropping and stood at 103,896 cars as of December 31, 1948. New cars ordered in December 1948 by railroads and private lines from both contract car builders and railroad shops were 8,368 cars. New freight cars ordered in January 1949 amounted to 568 cars.[1] The backlog of cars on order and undelivered as of January 31, 1949, was 96,214 (all railroads and private lines).

The retirements of freight cars by class 1 railroads is shown by the following table (American Railway Car Institute reports):

1942	25, 925	1946	70, 813
1943	26, 086	1947	70, 382
1944	30, 987	1948	81, 659
1945	51, 348		

The average yearly rate of retirement of freight cars by class I railroads in the years from 1901 through 1947, inclusive, was 81,737.

On the basis of 10,000 cars delivered per month (although only 8,913 were delivered in January 1949) there is a backlog of 9½ months' orders on hand. However, there is an uneven distribution of freight-car orders in the various contract car-builders' plants. Some car builders will run out of orders and will have completed all deliveries of present orders by June or July 1949. We see no indication of a sharp pick-up in railroad car orders in the month of February.

In addition to this information on the status of the freight-car program, the accompanying table and charts graphically illustrate the steel allocations by products.

[1] In addition, one car builder reported during January a decision to build 1,000 freight cars for stock purposes, against the possibility of future orders.

Steel Allocations by Products

	Plates	Shapes	Bars and reinforcing, hot-rolled	Bars, cold-rolled	Sheets, hot-rolled	Sheets, cold-rolled	Sheets, galvanized	Pipe and tubes	Tin	Line pipe	Rod and wire	Rail and accessories	Wheels and axles and semifinish	Total
Freight cars	111,347	53,640	32,885	...	22,309	...	3,125	2,961	...	...	...	...	23,415	249,682
Atomic energy	2,730	2,868	3,653	...	291	...	418	4,563	...	...	...	1,891	...	16,414
Armed forces	13,470	11,370	18,780	5,920	19,300	...	2,980	14,045	330	...	4,450	510	11,350	102,505
Tank and oil field	7,368	285	1,142	...	9,002	...	...	733	...	...	...	...	...	18,530
Barges	17,700	6,250	300	...	150	...	...	600	...	...	...	...	...	25,000
National Advisory Committee for Aeronautics	575	600	530	...	...	...	86	114	...	...	...	11	...	1,926
Tankers	32,011	5,265	1,041	...	288	...	287	1,488	...	...	...	...	...	40,380
Merchant vessels	11,143	1,905	670	...	421	...	519	757	...	...	...	...	...	15,414
Oak Ridge pipe line	...	...	...	...	...	...	...	...	...	4,750	...	...	...	4,750
Mining machinery	12,720	5,455	8,345	765	2,745	65	...	985	...	...	15	240	450	31,785
Ore cars	1,025	445	...	...	722	...	...	...	...	...	...	...	...	2,192
Anthracite	550	320	240	...	750	...	...	410	...	...	...	860	...	3,130
Grain bins	...	...	200	...	200	...	8,000	...	...	...	...	...	...	8,400
Warm air heating equipment	...	...	...	...	9,712	10,840	11,070	...	...	...	...	...	...	31,622
Total	210,639	88,043	67,796	6,685	65,890	10,905	26,485	26,656	330	4,750	4,465	3,512	35,215	551,731
Monthly steel production (estimate) [1]	635,000	365,000	817,000	133,000	808,000	765,000	144,000	291,000	333,000	183,000	394,000	252,000	325,000	5,667,000
Monthly average diversion	67,893	27,584	22,102	1,624	11,497	4,873	12,610	11,179	130	4,750	1,937	2,431	14,314	182,924

[1] Calendar year 1949.

Senator MYERS. I do hope that not only you, yourself, Mr. Secretary, but also your staff and these task committees are constantly giving consideration to revamping this program in order that we might have even greater monthly goals. If you can find additional steel, perhaps through additional production, you might be in a position to give a greater steel allocation to this program of freight-car manufacture.

Secretary SAWYER. Well, early in the fall I asked the Office of Industry Cooperation to review our entire program. That includes all of the fields in which we are operating under voluntary agreement, and that is going on.

As I said a moment ago, it appears now that the problem is not getting steel, but getting the orders from the railroad companies.

During the month of January, there were orders for only 568 cars.

Senator MYERS. It is my recollection that the retirement of freight cars is almost as great as the present number being manufactured.

Secretary SAWYER. I think you are quite right. I think, as a matter of fact, the net number of cars for several months was going down. But, of course, we cannot make the railroads take cars unless they order them.

Senator MYERS. That is quite true.

Secretary SAWYER. Recently there has been a very marked decline in orders that have been placed.

I do not feel at the moment that that program is anything but on the right level. I think we are really giving them all the cars they will take, and it would appear now to be more than they want.

Senator MYERS. It would seem to me that there is still a critical shortage.

Secretary SAWYER. Oh, there is no doubt about that.

Senator MYERS. That is all, sir.

Mr. HERTER. I would like to ask one more question.

Mr. Secretary, in the economic report there is a paragraph that deals with the materials in short supply. I think in the President's message on the state of the Union he referred specifically to steel. In this report he recommends immediate legislation to take care of the situation, both from the point of view of undertaking the study of capacity and supply, and then to provide additional authority to deal more effectively with inadequacy of capacity and supply, if it should be shown by the study.

Could you amplify at all what he meant by that?

Secretary SAWYER. No; I do not think I would undertake that except I think the primary object was to get information, as I suggested here in my report, with reference to problems of supply and demand, not only in connection with steel, but many other commodities that are and are likely to be in short supply.

As to what specific objections may be made, I think I would prefer to wait until the legislation comes down. Secretary Brannan is in charge of that program.

Mr. HERTER. When would that legislation be drafted?

Secretary SAWYER. I think it is being drafted now.

Mr. HERTER. Can you tell me which agency or which Government department is in charge of that?

Secretary SAWYER. Mr. Brannan is in charge of the entire program.

Mr. HERTER. Thank you very much.

The CHAIRMAN. Mr. Secretary, there are one or two questions I wanted to ask you.

You spoke in your statement of the increase in finished steel production. Have you any information with respect to the particular corporations which will have that finished steel production?

Secretary SAWYER. No, but I think I can get it. Those figures come from the American Iron and Steel Institute. I don't know whether they are broken down or not, but I assume they are. If you would like to have it, I will try to get it.

The CHAIRMAN. Yes; I should like to have it. There have been statements that some of the larger units of the industry are expanding their finished production and that that expansion might possibly take the place of present capacity of smaller units in the industry. That was the information that I sought to develop, that I wanted to get the facts on. If you can get that, we would be very glad to have it.

Secretary SAWYER. I will try, Senator. Of course, the problem that has been presented from most quarters is that even with all available capacity, large and small, we still do not have enough steel.

The CHAIRMAN. Yes. I realize that.

(The following statement was later submitted for the record:)

STEEL FURNACE CAPACITY

The following table shows the individual capacity of 14 steel companies and the total capacity of all other companies on January 1, 1947, January 1, 1948, and January 1, 1949, together with the amounts of increase for each company listed and the percentage of the total capacity represented by each company listed. As indicated by the footnote, the individual break-down during the year 1949 is not available. The amounts stated include capacity to produce steel castings, which amounted in total to about 0.3 million tons in 1947, 1948, and 1949.

Steel furnace capacities, 1947, 1948, and 1949

[Thousands of short tons]

Company	Capacity Jan. 1, 1947	Percent of total	Capacity Jan. 1, 1948	Percent of total	Increase 1948 over 1947	Capacity Jan. 1, 1949	Percent of total	Increase 1949 over 1948	Capacity Jan. 1, 1950
United States Steel Corp.	29, 547	32. 4	31, 226	33. 1	1, 679	31, 277	32. 5	51	(1)
Bethlehem Steel Corp.	12, 900	14. 1	13, 800	14. 7	900	14, 200	14. 8	400	
Republic Steel Corp.	8, 600	9. 4	8, 600	9. 1		8, 600	9. 0		
Jones & Laughlin Steel Corp.	4, 741	5. 2	4, 741	5. 0		4, 816	5. 0	75	
National Steel Corp.	3, 900	4. 3	4, 050	4. 3	150	4, 200	4. 4	150	
Youngstown Sheet & Tube Co.	4, 002	4. 4	4, 002	4. 3		4, 082	4. 3	80	
Armco Steel Corp.	3, 276	3. 6	3, 367	3. 6	91	3, 563	3. 7	196	
Inland Steel Co.	3, 400	3. 7	3, 400	3. 6		3, 400	3. 5		
Sharon Steel Corp.	1, 617	1. 8	1, 572	1. 7	−45	1, 672	1. 7	100	
Wheeling Steel Corp.	1, 344	1. 5	1, 409	1. 5	65	1, 536	1. 6	127	
Colorado Fuel & Iron Corp.	1, 452	1. 6	1, 452	1. 5		1, 452	1. 5		
Ford Motor Co.	815	. 8	1, 115	1. 2	300	1, 432	1. 5	317	
Crucible Steel Co.	1, 275	1. 4	1, 254	1. 3	−21	1, 277	1. 3	23	
Pittsburgh Steel Co.	1, 072	1. 2	1, 072	1. 1		1, 072	1. 1		
Subtotal	77, 941	85. 4	81, 060	86. 0	3, 119	82, 579	85. 9	1, 519	
All other companies	13, 300	14. 6	13, 173	14. 0	−127	13, 542	14. 1	369	
Grand total	91, 241	100. 0	94, 233	100. 0	2, 992	96, 121	100. 0	1, 888	98, 304

[1] Increase of 2,183,000 planned during 1949 over 1948 but no details as to producers will be available until late 1949. When this increase becomes effective total steel-making capacity will be 98,304,000 net tons.

Source: American Iron and Steel Institute.
Prepared by Iron and Steel Division, Office of Domestic Commerce, Feb. 14, 1949.

The CHAIRMAN. The next question I was going to ask you deals with the statement at the bottom of that page:

The number of these complaints and the variety of the industries from which they have come, lead clearly to the conclusion that the shortage of steel is widespread.

Could you give us more detailed information as to the variety of the industries from which the complaints have come?

Secretary SAWYER. Oh, practically all industries that have been using steel. I must say that recently there have been indications that the demand is being reduced. But there is hardly any sector of the economy using steel where that demand has not been made, or from which it has not come. I do not think I could pick out any particular one at the moment.

The CHAIRMAN. I did not expect you to do it at the moment. I thought that you might amplify the record in that particular.

Secretary SAWYER. I would be very glad to.

The CHAIRMAN. If you will, please.

Secretary SAWYER. But it has been quite general.

The CHAIRMAN. That is what I thought, but I wanted to get the facts.

(The following statement was later submitted for the record):

COMPLAINTS ABOUT SHORTAGES OF STEEL

Ever since 1946 the Department has received a steady stream of personal visitors, long-distance calls, or letters asking for advice or direct assistance in consumer efforts to obtain steel requirements. Some of the largest steel users of the country advised us in the fall of 1946 that their production schedules could not be maintained at a rate sufficient to take care of their orders because of the small tonnage of steel available to them. During 1947 and 1948 it was primarily the smaller manufacturers or their customers who complained about the steel shortage. Farmers complained regarding their inability to obtain pipe for water wells and steel for grain storage bins. Oil operators could not obtain adequate supplies of drill pipe for oil and gas wells, and gas pipe line companies were harassed by the shortage of line pipe and steel for terminal storage tanks. Steel for various types of railroad equipment, including rails and other maintenance and operating needs, steel for anthracite and bituminous coal industries and for mining machinery, among others, was also seriously lacking. Manufacturers, house builders, small fabricating shops and warehouses clamored for steel. Appliance manufacturers faced shut-downs because of shortages of sheets and bars.

The CHAIRMAN. You say further in your statement:

The extent to which this expected increase in supply, and the improvement in product distribution, will satisfy the present demand cannot be predicted with any degree of precision.

Is there any way in which you could define the measure of this demand?

Secretary SAWYER. Well, it is rather difficult. I perhaps can illustrate my answer to your question by referring to the oil-goods industry where, some months ago, there was an estimate of a very large shortage in oil-country goods. The increase in production of oil-country goods was so marked that the demand was practically met in 1948 on the basis of drilling, I think, 39,000 wells. We were assured by the Iron and Steel Institute that the production was increasing at a rate which would meet a prospective demand for 43,000 wells in 1949.

My most recent information is that there is very little, if any, likelihood that there will be any such addition to the wells drilled in 1948. If that is true, then the demand in that particular sector will not only be met but the supply will be larger than the demand.

However, that is the sort of thing you cannot predict with any great accuracy. For instance, 6 months ago it looked like there would be a great shortage there. Today it looks as if within the next few months there might be a surplus.

The CHAIRMAN. Are these estimates of material shortages, of demand and supply, based upon a full employment economy, or do the estimates include some guessing as to unemployment?

Secretary SAWYER. I think they are based generally upon a full employment economy, the estimates made by the Department.

The CHAIRMAN. You say "generally"?

Secretary SAWYER. Yes.

The CHAIRMAN. Then you want the record to stand that these estimates are the best you can make?

Secretary SAWYER. Yes.

The CHAIRMAN. I think that is all, Mr. Secretary.

Secretary SAWYER. Thank you very much.

The CHAIRMAN. We are very much obliged to you for your presentation.

The House of Representatives is not in session this afternoon, so there can be a meeting of the committee on the part of the House. On the other hand, the Senate is meeting. I expect to be able to secure the permission of the Senate to hold a meeting this afternoon, and in that event Secretary Brannan will be our witness.

Tomorrow the program will include testimony by Mr. Tighe Woods and Mr. Raymond Foley on housing, and Secretary of the Interior Krug.

The committee will stand in recess until 2:30.

(Whereupon, at 12:35 p. m., a recess was taken until 2:30 p. m. of the same day.)

AFTERNOON SESSION

The CHAIRMAN. The committee will be in order.

Mr. Secretary, are you ready to proceed?

Secretary BRANNAN. I am, sir.

The CHAIRMAN. I want to have you finish your statement and get out of here before a western blizzard comes in.

Secretary BRANNAN. The statement would take about 20 minutes to read, Mr. Chairman. On this occasion, while I would rather work without a word-by-word written statement, I think I would be a little better off if I stayed with the statement today, because we do cite some facts and statistics that are hard to carry in one's head.

The CHAIRMAN. Very good, sir. You may proceed.

STATEMENT OF CHARLES F. BRANNAN, SECRETARY OF AGRICULTURE

Secretary BRANNAN. Mr. Chairman, the policy and programs recommended by President Truman in the economic report, which you are considering, are not only adapted in general to our agricultural situation but are specifically needed by agriculture.

I will go further. Even if this were an agricultural committee instead of a joint committee concerned with the entire economy, you would almost certainly find that these recommendations are the essence of good agricultural policy. That is to say: Informed persons primarily concerned with agriculture's welfare are likely to come to the same conclusions that are brought out in this report dealing with the entire Nation's welfare.

Of course, this is not surprising. It merely reflects these facts: (1) That all segments of our economy are so closely interdependent that the welfare of one cannot be separated from the whole, (2) that agriculture is a truly basic segment of the economy, and (3) that agriculture is already far along the path of abundant production which all parts of the economy must travel if we are to be permanently a strong and prosperous Nation.

These are general facts, but in the course of this discussion I shall attempt to give you current economic facts that illustrate the truth of the generalizations and point to the need for constructive action.

Before proceeding, let us take a fresh look at the policy and program recommendations to which I have referred. The starting point, of course, is the Employment Act of 1946. Under it, as a matter of highest national policy, we seek maximum employment, production, and purchasing power. We recognize that at times we will not reach this triple objective unless we as a whole people take certain definite, united actions through government. Under this act, the President and the Congress keep watch on the economic situation and develop means for advancing toward the objective—maximum employment, production, and purchasing power.

This brings us to the central point in the President's economic report. We are still a growing people with growing wants and with inherent ability to meet our needs through production and trade. Obviously, then, our policy should be to provide for steady, long-time expansion of our production and trade. And we should currently grapple with all economic forces which are interfering and threatening to interfere with our growth. That, in my opinion, is the core of the economic report—a plan for long-time growth and program measures to deal with both inflationary and deflationary forces that hold back our progress.

Now, it so happens that American agriculture is both by nature and current practice a steady producer and an increasingly heavy producer. This means agriculture tends continuously to expand our total economy, and this in turn means that agriculture can prosper only if the other segments of the economy expand simultaneously. It so happens, too, that agriculture is the least able of the major segments to withstand a contracting economy—the first to feel the effects of imbalance and the first to suffer in case of depression.

Let me nail down what I have said about farm production.

The fact that our agriculture is more highly productive now than ever before is hardly subject to question.

Our total output last year set another new record—the sixth in the last 9 years. This record was set in spite of somewhat smaller livestock production, due to the short corn crop of 1947 and a livestock population that had been reduced by sales that had outrun the rate of replacement.

Our crop production last year was 15 percent greater than in 1947 and 37 percent greater than in the predrought period of 1923–32.

Crop yields per acre in 1948 were larger by half than in 1923–32. These simple facts of enlarged production are not well enough realized.

Our whole history is one of increasing farm production with serious decreases coming only in years of extremely bad weather. But in recent years we have stepped up the tempo. Between the 1920's and the early 1940's farmers increased production per acre of cropland almost one-fourth, production per animal unit of breeding livestock between a fourth and a third, and output per worker nearly two-thirds. During the recent war our farmers increased production so greatly that we were able to provide our armed forces and allies with nearly a fifth of our total food supplies and still increase civilian consumption by about 10 percent.

In 1948, as the economic report points out, agricultural output increased about 9 percent over 1947 while industrial output increased 3 percent. The increases that we have made in recent years have been partly in response to high demand and price. They have also been due in part to favorable weather. However, the forces which have been set in motion are in the main not subject to turning off like a spigot. Farmers, unlike many industrial producers, cannot stop production suddenly. And, more important, I hope we never have to ask them to.

We can also be fairly sure, as a result of long experience, that even a serious decline in farm prices would not shut down the flow of production from our farms. On the contrary, we have seen that when prices go down many farmers try to increase the volume of their production to maintain the gross income to which they have geared their business.

Farming has become more highly mechanized and that trend is likely to continue. Science has developed and farmers are using higher yielding crop varieties and strains of livestock, insecticides, and fungicides that are much more effective than the old ones, more fertilizer and lime. It seems quite clear that much of our new-found efficiency is here to stay.

I will speak about the supplies of individual commodities in connection with my discussion of prices.

For 1949 the Department of Agriculture has suggested production goals that call for continued high level farm output. It is still too early, of course, to forecast production. For one thing, there is no way of telling just yet what the extremely severe winter in the West is doing to our total livestock production and our fall seeded crops. In general, I would say, that losses in a few States would have to be much greater than anyone now seems to expect in order to change the national production picture substantially. At least we have reason to hope that the relief now being given will prevent losses of national significance, as well as minimize local hardships.

On the basis of all indications we now have, farmers are planning to continue making full use of their productive resources, and with good weather farm production should continue at about the level of recent years.

The CHAIRMAN. It might be appropriate, Mr. Secretary, for me to interject at this point. As you know, bills have now been introduced in both Houses of the Congress to meet the disaster which the livestock industry faces throughout the West, to alleviate that disaster by Government financing as well as by the utilization of machinery to keep the roads open.

It has become quite apparent that if the livestock industry in this storm-bound area is to survive it can be brought through this crisis only by a resumption of such fiscal activities on the part of the Government as were engaged in under the RACC several years ago, the old Farm Loan Act. I cite this as an illustration of how the help of Government is welcome in a crisis by everybody affected, banks, railroads, the individuals concerned, the cities, the counties and the States. Without Government aid the extent of the disaster would be beyond all bearing.

Secretary BRANNAN. May I also comment, Mr. Chairman, that it is also indicative of your personal alertness to the needs of the people in the West.

The CHAIRMAN. That is beside the question. Every Senator and every Congressman in the West, without respect to party tag, is concerned in this matter because the disaster is so general in its effects that it is clear the only relief will come by way of Government action.

I make the comparison because the theory of the maximum employment bill under which we are working is that only the Government can prevent the old-fashioned bust which has historically always followed periods of inflation.

Secretary BRANNAN. Mr. Chairman, the big question before us is not whether agriculture can and will continue to produce an abundance but whether farmers will be penalized for producing in accordance with the needs and policy of the Nation.

In covering the high points of the economic situation the President's report points out that prices of most durables moved up in 1948 while some other groups weakened—with farm products leading the decline.

Prices received by farmers, and prices paid by farmers, both, reached an all-time high in January a year ago. During 1948 prices received by farmers for their crops went down 20 percent, livestock and livestock products went down 7 percent, and their average was down 13 percent. On the other hand, the prices paid by farmers stayed near the record level all year. As a result, the realized net income of farm operators went down in 1948 for the first time in 10 years.

The parity ratio in December was 14 points lower than in January, and 25 points lower than the record set in October of 1946. Furthermore, the parity ratio for 1948 as a whole was lower than for any other year since 1942.

That is to say, the relationship between prices received and prices paid was less favorable to farmers than at any time since the early part of the war.

The price changes I have mentioned seem to indicate that the peak of farm prosperity is past. Beyond that I am not prepared to make any sweeping predictions.

I would rather emphasize what has happened than to deal in possibilities. And what has happened is that farm prices have been coming down faster than nonfarm prices. We are thus put on notice that we must protect ourselves against imbalance in the economy. We do have a certain measure of protection in the form of price supports for farm commodities. The President emphasized this in the Economic Report. He pointed out that the sharp break in grain prices early in 1948—

> did not set off a train of consequences similar to those which, following World War 1, had turned the boom into a deflation of unusual depth and rapidity in 1920–22.

He went on to say that—

> the farm price support program guaranteed that the collapse of grain prices would not go far enough to impoverish the farmers, to curtail the farmers' demand for the products of industry, or to bring about a chain reaction of price breaks in other markets.

Our experience a year ago is particularly noteworthy just now because of the break in certain commodity prices this week. As you know, the Senate Agriculture Committee held a hearing on this subject yesterday. I testified that the Department of Agriculture sees nothing in the basic economic situation to warrant this break, and then presented facts about each of the commodities involved.

The wheat situation in brief is as follows: Stocks of wheat on farms on January 1 were not as large as they were a year ago. The Department is continuing to buy all cash wheat offered at going market prices with very little wheat moving because the cash price is below the support level. Our exports of wheat and of all grains during the current marketing year are exceeding all previous records.

Corn producers who have access to acceptable storage have until June 30 to obtain support at 90 percent of parity.

Soybeans are not moving from farm to market very rapidly. The world supply of fats and oils is still short. Export allocations comprising nearly 9,000,000 bushels of soybeans have been made since January 1 and substantial quantities of lard and edible oils will also be exported.

As to meat, it appears that consumer income is large in relation to the numbers of livestock available for market and that livestock prices probably will go up. At least until the latter part of this year there will be no more meat than there was in the same period last year.

In general the best evidence indicates that although the peak may be past, agriculture will continue to do relatively well in 1949. However, price supports will become a more important influence in maintaining farm income.

We need to increase Commodity Credit Corporation storage facilities and we must prepare to use some orderly marketing programs to a greater extent than we have recently used them.

Not only farmers, but everybody in this country, can be thankful for the stabilizing effect that the farm price support system exerts on the total economy.

However, it is perfectly plain that programs operating within only one segment of the economy cannot offer adequate assurance of total economic stability and growth. We need the additional measures recommended in the economic report.

This week's price fluctuations also point up the need for one additional stabilizing measure on the agricultural side. The President stated this need in the economic report as follows:

> Excessive speculation in grains, cotton, and other agricultural commodities results in wide and harmful fluctuations in prices. The experience in the fall of 1947, and in the winter and spring of 1948, demonstrated the need for more effective governmental supervision over speculative trading on the commodity ex-

changes. I recommend that the Congress grant more specific and more adequate authority to prevent excessive speculation or the manipulation of prices.

We know from experience that speculation may start a downward market cycle or may intensify the movement, forcing prices to unduly low levels. On the other hand, speculative buying movements may cause a boom in market activity temporarily pushing prices to unwarranted levels. Speculation may simply reflect actual changes in crop production, supplies, or demand. But just as easily it may reflect rumor, gossip, and unfounded reports.

Probably few people realize that the dollar value of futures trading in the fiscal year 1947–48 greatly exceeded the value of all stocks and bonds traded on the stock exchanges. The volume of trading on the regulated futures markets was estimated at nearly $50,000,000,000 for the year compared with 33,000,000,000 in the previous year.

Futures trading is an established part of our distribution system. Hedging is an important marketing function and we cannot have hedging without some speculation. We must not impair the hedging facilities of the futures markets. At the same time we cannot afford the effects of excessive speculation.

The present Commodity Exchange Act provides a considerable measure of protection against outright manipulation, corners and sharp practices in certain commodities. This protection should be extended to all agricultural products in which there is futures trading. But neither the Commodity Exchange Act nor any other present authority can be exercised to curb the speculative fevers that sweep over these markets at times.

One way to slow these movements is to limit general public participation when necessary by increasing the amount of margin money that must be deposited to cover speculative trades. By requiring speculators to cushion their trades with more capital, the size of their operations is reduced. The trades which they are able to make are made more secure and the market as a whole is placed on a more firm foundation.

Agriculture is concerned not only with maintaining stability in its own price structure, but also, as I have already pointed out, with supplies and prices of products that the farmers have to buy. In particular, agriculture is concerned at this time about the shortages in manufactured items produced with steel, copper, aluminum, zinc, and tin, and with the inadequacy of electrical generating and transmission facilities.

Let us take a look at the rural electrification problem.

Electricity is important for two reasons: (1) To increase the efficiency of agricultural production, and (2) to help bring rural people up to parity with urban dwellers in the standard of living. Two basic shortages are currently retarding the rural electrification program in most parts of the country. A shortage of low-cost power is holding up the extension of service and restricting the amount of electricity that can be used by people who already have service. The second major shortage is that of conductor for the construction of distribution and transmission lines. Both copper and aluminum conductors are in short supply. The program is practically at a standstill in some locations because aluminum conductor is not available, and conductor made of other material is too expensive to be feasible under the REA policy of making only sound loans.

There are still approximately 3½ million rural homes that do not have central station electric service. Most of them can expect service within the next 5 years if adequate power and materials can be made available, but only if this is done.

Another important need is that of increasing storage facilities so that the price-support program will be fully effective and so that safe reserves of food and other agricultural products can be maintained in the interest of a stable economy and national security. Because of heavy demands, galvanized sheet steel has not been available for the production of storage bins without formal Government assistance.

There is still a shortage of large-size tractors and certain kinds of equipment, such as combines and corn pickers, despite the fact that production of farm machinery in 1947 and 1948 reached an all-time high. The production by small manufacturers of farm machinery, equipment, and supplies has been adversely affected by the shortage and comparatively high price of steel. Blacksmiths and other farm machinery repairmen are having difficulty getting enough iron and steel and are forced to pay excessive prices for their supplies. There is still an inadequate supply of pipe for farm water and irrigation systems, as well as for soil-conservation practices.

In 1947 farmers spent nearly $2,000,000,000 for mechanical equipment that they use in their farm business. The use of such equipment has accounted and will continue to account for a considerable part of the increase in agricultural efficiency and total production. Adequate supplies of tractors, machinery, cars, and trucks at fair prices are essential to the maintenance of farm production and farm income.

Agriculture also has a direct interest in the availability of tin and tin products which are essential to the preservation and marketing of food and which are imported under the terms of international allocations.

Fertilizer is another class of material in which agriculture has a great interest. Farmers spent more than $600,000,000 for chemical fertilizer in 1948, and they used between 2½ and 3 times as many tons of fertilizer last year as they used in the average year just before the war. These materials, like machinery and equipment, help to account for our increasing efficiency and total output.

Nitrogen presents the most acute supply problem. Domestic requirements are still unsatisfied. It would require capacity near that being operated by the Army for occupied areas to meet the unfilled present demand. A very serious situation would result should the necessity arise to recall for munition production any substantial part of the plants built for war production which are now producing about 60 percent of our domestic supply of nitrogen fertilizer and other ammonia compounds. Consideration should be given to provision of stand-by facilities to avoid this situation.

Increasing requirements for both phosphate and potash point to the need for future expansion of production.

Without going into detail about each item, I think it is evident that agriculture has a direct interest in a number of the President's recommendations directed toward economic stability, promotion of supply and production, and temporary measures for dealing with materials and facilities in short supply.

At the beginning of this statement, I spoke in a general way about long-range objectives. If I now attempted to deal with the subject in specific terms, I am afraid I would either have to repeat the excellent summary which you have before you in the Economic Report or take up much more time than your schedule could accommodate. Volumes of testimony have been presented in recent years on the subjects covered in the third group of the President's recommendations. The need for comprehensive programs of resources conservation and development is well known. Farmers have a direct stake in the development of world trade. The Nation's housing, education, health, and social security problems are all made up in part of rural difficulties. We need to round out and adapt our farm program so as to carry out a policy of organized, sustained and realistic abundance, with emphasis on marketing our increased production and providing parity of living standards for farm people.

Out of all the things that might be stressed at this time, I am choosing this one observation with which to conclude:

Some people tend to overemphasize the prosperity of the American farmer and therefore to disregard his problems. It is true that farm people are now and for a few years have been relatively prosperous—but this is relative only to their own past. They are not more prosperous than other groups. By some measures, they are less so. Most farm people, of course, are in the Nation's low-income group. Leaving out part-time farm units and small holdings that are not generally recognized as farms, there are still many farms which produce too little for a good living. Just to indicate the problem with one figure, let me remind you that 28 percent of all holdings of farm land are small family farms that sell less than a sixth, by value, of the farm products that are marketed in this country. In 1944, the average farm in this group produced products valued at less than $1,900. That was not their net and not even the amount sold—it was total production.

Farm people on the average are still making less than 60 percent as much money as nonfarm people. Preliminary figures for 1948 indicate that the per capita net income of persons on farms was only about $909 compared with about $1,569 for persons not on farms. Millions of farm people do without telephones, running water, and other modern conveniences. Thirty percent still do without central station electric service. In relation to their numbers, rural people have far fewer doctors, dentists, and nurses, and far less adequate hospital and clinic facilities than city people have.

In brief, what we call the American standard of living is still out of reach for many of the people who are contributing so much to that standard through their production of goods and through the economic stabilization effect of their production and their program activities.

I, for one, do not believe that the American economy is going to be contracted and squeezed out. But of this I am sure: We must see to it that the farm family is not again the first victim of a squeeze. As a matter of fact, there is good reason to believe that if we take action promotly to avoid that, we will thereby help to make sure there are no victims at all.

Mr. BUCHANAN (presiding). Thank you, Secretary Brannan.

Mr. Wolcott.

Mr. WOLCOTT. I don't know that I fully understand what you mean by the last sentence, Mr. Secretary:

As a matter of fact, there is good reason to believe that if we take action promptly to avoid that, we will thereby help to make sure there are no victims at all.

What specific action do you recommend should be taken?

Secretary BRANNAN. The recommendations in the economic report. That includes the actions necessary to stabilize the farm economy and the balance of the economy, because as I tried to point out in the opening part of the statement, there is a very, very close relationship, getting increasingly closer, between prosperity or well-being in rural communities and prosperity or well-being in the business community, the labor segments of our population and elsewhere.

Mr. WOLCOTT. Do you include in those actions such actions as the President recommended with respect to price control, allocation controls, and priority controls?

Secretary BRANNAN. The stand-by powers for all allocation and priority; I do, sir.

Mr. WOLCOTT. Do you think the stand-by price controls and allocation controls are necessary to the continued prosperity of the American farmer?

Secretary BRANNAN. I think so, sir, and if I may cite to you an example—the price of tractors went up almost $400 in the last 12 months. The price of fertilizer has gone up. The price of many other things that farmers used to produce has gone up, and because of that, for the first time in 10 years, as I said in the statement, the net farm income of the farm population of this country has gone down.

Mr. WOLCOTT. Sometime age we had some discussion about this historical formula, the 1–1–7 formula. Are you familiar with that? For some years we have been told here in Congress that there is a formula which has applied generally throughout our history, that factory income equals farm income, that national income was 7 times factory income. If that is true, then by maintaining high farm income it follows that we maintain high national income. I think that was one of the reasons originally for the price support program. Do you want to elaborate on that postion at all?

Secretary BRANNAN. Mr. Wolcott, I am sorry to say that I have had no direct connection with the preparation or promulgation of that formula. I really am not prepared to discuss it with intelligence, sir.

Mr. WOLCOTT. But basically you do think that the prosperity of the Nation is dependent, somewhat, if not largely, upon the prosperity of the American farmer?

Secretary BRANNAN. I certainly do, sir. Not alone, but he is an integral part of our total economy. He cannot be in unfortunate circumstances long without its having an effect on the balance of the economy.

If I may say so, I think it is even more true today than it was a decade or two ago. Because, whereas the American farmer a decade ago used a mule or horse or teams of horses for the power to plow his fields and harvest his crops, today he uses the tractor. That tractor was made in the industrial plant of this Nation. When he is unable to buy that tractor, and when he is unable to buy the other things which go to keep that tractor operating, and all the rest of the machinery that he operates in connection with it, the impact on our industrial economy is felt even more rapidly than it would have been two decades ago.

Mr. WOLCOTT. That was when we recognized that the rural people constituted 55 percent, I believe, of our purchasing power. Probably they constitute a greater percentage today, do they not?

Secretary BRANNAN. Mr. Wolcott, I am sorry I do not have the figure. If we might supply it for you I would be happy to.

(The following information was later submitted for the record:)

Cash receipts from farm marketings in 1948 amounted to about 15 percent of total national income. Net income of persons on farms amounted to about 9 percent of the national income.

Mr. WOLCOTT. I think it would be interesting. If there is anything to this basic formula which we have rather accepted around here for a good many years, I think we should be brought up to date occasionally on it to determine how influential it is, and whether the farm population is keeping its relative position in the domestic market. If it could be obtained, I think it would be helpful.

Secretary BRANNAN. I do not know the figures, Mr. Congressman, but I do know this, that he has greatly expanded his purchasing activity in the past few years. I think his relative purchases have increased not only in relation to his income, but also in relation to the percentage of his income invested in production facilities that are produced in industrial areas, rather than grown on his own farm.

Mr. WOLCOTT. When the 1–1–7 formula applied, if that formula was justified by a 55 percent market, I think we could determine what effect any reduction or increase in farm income would have upon national income if we would determine what changes there are in the farmer's purchasing power percentagewise.

If the farmer's purchasing power percentagewise is less than it was under the 1–1–7 formula, as applied to a 55 percent market, then of course the decrease in farm income incident to the reduction in commodity prices would not have as great an influence on national income as it would if it had increased perhaps to 60 percent, or higher than that.

That is what I had in mind, Mr. Secretary.

Secretary BRANNAN. Yes; but, Mr. Wolcott, may I point out that there is another factor in that the American farmer has become the purchaser of many, many more of these so-called durable goods in the past 20 years, or the past 10 years, even, than he was before that period of time. Because with electricity, with REA, he now becomes a purchaser of all the electrical materials that go into his house, such as equipment; he becomes the purchaser of perhaps electric stoves, electric refrigerators, of electric milking machines, and many, many other devices.

REA alone has expanded the American farmer's demand in the durable-goods market tremendously.

Mr. WOLCOTT. Of course that demand has been more noticeable since the war when farm income was up high enough so that the farmers got something resembling a fair share of the national income.

Secretary BRANNAN. That is right. He certainly cannot buy those things if he does not have the income to buy them with.

Mr. WOLCOTT. Assuming, as I think we all do, that the prosperity of the farmer reflects itself in the prosperity of the Nation, that is the best way to keep the farm income up. Perhaps in that connection you would like to discuss the difference and evaluate the differences between the 90 percent price support and the sliding scale price support which was announced last year.

Mind you, as a Member of Congress, Mr. Brannan, we are seeking a program which will keep farm incomes high. I think we recognize there is a relation between farmers' and everyone's prosperity.

Secretary BRANNAN. Well, if you will permit me, Mr. Wolcott and Mr. Chairman, I would like to postpone our discussion of the type of price-support program we hope to keep in force and effect for some short time yet to come; we are working both night and day over in the Department in an effort to put our views together for the benefit of the Congress and we do not have them in complete shape right now to discuss in detail.

If it would suffice to say on this occasion: Our objective certainly is to bring to bear all the authorities and all of the necessary powers that can be developed in order to bring about the adjustments in agricultural production that are necessary to sustain a high-level income. Certainly, there is need for a conversion or an adjustment away from the type of high-level production in some crops that are needed for a war economy, and were needed for the immediate postwar economy, into other commodities that the American people have indicated they would rather have. Just to cite one of them, it would be certainly correct to say that there would be a great expansion of our cattle and beef industry, our whole meat-producing industry in the country, and the adjustment away from some of the other commodities that are in extremely long supply and for which we can make no uses, no good economic uses, such as potatoes.

Mr. WOLCOTT. I do not know if you are in position to discuss this next question. There is a relationship, of course, between domestic prices and world demand for domestically produced goods, and recognizing that we sometimes authorize export controls. I understood the purpose of export controls primarily to be that the President and the Administration were given authority to balance the unusually heavy demand for American goods by foreign countries against domestic and economic stability; which means, of course, if the powers are to be used to encourage and expand foreign markets for American goods or to equitably distribute our goods in such a manner as to get the highest prices for them, for American producers, then it follows that those controls should not be used to prevent the sale of American goods in surplus abroad.

In your statement along that line, you say:

> Soybeans are not moving from farm to market very rapidly. The world supply of fats and oils is still short. Export allocations comprising nearly 9,000,000 bushels of soybeans have been made since January 1 and substantial quantities of lard and edible oils will also be exported.

I think you have removed all restrictions on the export of inedible fats and oils, have you not, within the last week?

Secretary BRANNAN. I think they did; the Department of Commerce has that under their jurisdiction.

Mr. WOLCOTT. Do you recall whether your Department was consulted before they moved to do that?

Secretary BRANNAN. We were, sir.

Mr. WOLCOTT. Don't you think we should do something to get rid of the surplus of edible fats and oils we now have which seems to be depressing the prices?

Secretary BRANNAN. I certainly do, sir. I think Mr. Sawyer had an announcement on that at noon today. The exact tenor of it I have not had a chance to acquaint myself with, but it is to the effect, if I understand it, that edible fats will be put on general license forthwith, or very soon—I am not quite sure.

Mr. WOLCOTT. Well, it would seem to be a pretty good thing for us; it would seem to be a pretty good policy, would it not, to put it on general licensing?

Secretary BRANNAN. I asked Mr. McCune to check to see whether there was not a statement on the wire at noon.

Mr. WOLCOTT. Would it not be a good idea to put on general licensing all those commodities that are surplus here?

Secretary BRANNAN. Yes, I think that is right, Mr. Congressman.

Mr. WOLCOTT. Having in mind, of course, the control over the distribution.

Secretary BRANNAN. That is right. That is because the world is still short of fats and oils, and I think it wise that we do take a look at it to be sure that those in greatest need do get their share of the supply.

The only small point that I might raise about the comment is that we want to be certain that these things are genuinely surplus to the domestic economy.

Mr. WOLCOTT. Would it not be advisable in respect to agricultural products or commodities to require that the Department of Commerce consult the Agriculture Department to determine what agricultural commodities were in surplus and perhaps also require that the Department of Commerce should put on general licensing all agricultural commodities upon recommendation of the Secretary of Agriculture?

Secretary BRANNAN. The Department of Commerce has consulted from time to time about these problems, and I am confident they will accept our advice on the subjects.

Mr. WOLCOTT. Would you like the authority to tell the Secretary of Commerce, or whoever is designated to administer the export-control program, that they must put on general licensing agricultural commodities in surplus on the determination by the Department of Agriculture?

Secretary BRANNAN. Well, Mr. Wolcott, I would prefer the power be vested in the President as was suggested in the Administration's bill now before the Congress, and I am sure that among his people on the administrative side of government, we will see to it that commodities do move out of the country when they are surplus to the domestic need.

Mr. WOLCOTT. I do not say this with any idea that it might reflect upon the Department of Commerce at all, but because of the nature of things we assume the Department of Agriculture knows more about farm products and food than the Department of Commerce does, and the Secretary of Commerce would know more about things that come within their jurisdiction than you do. It sounds logical to place the responsibility in the department which is set up primarily to function in these respective fields.

Secretary BRANNAN. As I say, my position is that vesting all of these powers in the President and allowing him to delegate them as he sees fit is probably the best rule.

Mr. BUCHANAN. Interposing a question there, in the functioning of your industrial committee, is it not true that the Department of Agriculture now makes recommendations which are finally passed upon by the Department of Commerce?

Secretary BRANNAN. The power for making the determination is vested in the Department of Commerce. We make recommendations to them. But the final power was vested in the Secretary of Commerce by prevailing law.

Mr. BUCHANAN. Just what specific authorities will you ask for regarding control of speculative commodity markets other than what you have at the present time?

Secretary BRANNAN. In general, we are recommending, as appears in the statement here, power to fix margins. There is not now any power to fix margins, and there have been occasions on which the Department thought that a raising of the margins would have had a tendency to counteract what appeared to be rather strong inflationary tendencies or strong speculative tendencies. We have made recommendations to the Board of Trade and the other exchanges, and on some occasions they have partially accepted those recommendations and on other occasions they have not.

Mr. BUCHANAN. For increasing the margin requirements?

Secretary BRANNAN. Yes, sir.

Mr. BUCHANAN. How much of an increase have you recommended?

Secretary BRANNAN. We recommended an increase to as much as 33⅓ percent on one occasion.

Mr. BUCHANAN. In view of the break here recently in corn and wheat and falling below the cash-support price, cash Chicago price, would you just enlarge upon how far into the support program you intend to go to bolster the market in these particular commodities, corn and wheat?

Secretary BRANNAN. The price support program with respect to corn is actually in operation today, and any producer of corn who can get storage, who can find storage for his corn—and storage for corn until after it is shelled is not a very difficult thing to provide—that man with corn not exceeding a certain moisture content can walk into a Commodity Credit Corporation office in his county and get 90 percent of parity in the form of a loan, or he can get an agreement from the Government that at anytime between now and the 1st of July the Government will buy that corn from him at the support price. So there have not been many producers selling corn in this market, and our people have been in this market all day long buying corn and have not bought substantial quantities. We have never had all of our offerings to take fulfilled at any time; the price support program has operated, as far as producers are concerned, as a very stabilizing influence.

Mr. BUCHANAN. There is not at any time the lack of any adequate storage space?

Secretary BRANNAN. There is not now corn which should be in storage in any appreciable quantity outside of storage, because, as you know, corn can be put up in cribs on the farm in pretty good shape. But there was, at the peak of the wheat movement, and for several months after it, and before we began to get a considerable amount of this wheat moved offshore, a very considerable shortage of storage for grain in general, because of the high production of wheat, the high production of sorghum grains, and the very high production of corn. As the new crop begins to come on, we will again be faced with a serious storage shortage if we do not do something in the meantime to alleviate it.

Mr. BUCHANAN. I understand that the REA has 20,000 miles of poles not yet wired to connect power to farms. What are the facts in the case?

Secretary BRANNAN. The simple and controlling fact, of course, is the shortage of cable. They have set poles in anticipation of cable delivery, and have done all the rest of the preparatory work to run the line, and the line has not been forthcoming as fast as we had hoped it would, and there is a genuine shortage of aluminum for electric cable along with the same shortage that exists in many things that we are needing now in our economy.

The CHAIRMAN. Mr. Secretary, the Members of the Senate who were here when you started your testimony regretted very much that the call for a roll call vote in the Senate required them to leave. I am sure that the members of the House who are here covered all of the points that were raised in your statement.

I wonder, however, if you discussed possible future markets for agricultural production in the United States. Before we left, you were talking about the increasing productivity of American agriculture which has been characteristic of it since the beginning. Did you discuss this in terms of future markets?

Secretary BRANNAN. Senator, I did not go into any detail in that, and I would remark by way of direct reply, that it is a matter of fact that the emphasis and energy of the Department in these past 5 or 6 years, or since the war has permitted us to do it, have been concentrated more and more upon the distribution of agricultural commodities than at any time in our history. The last 20 years, or even longer than that, have been devoted to a very intensive research and experimental work in development of productive facilities and not too much emphasis on how you get the products into the hands of the people who need them in good condition at reasonable prices, and under proper circumstances.

We are now devoting an increasing amount of our energies to that, and the Congress very properly, I think, recognized that and has authorized the concentration of our efforts in that field. We know, for example, Senator O'Mahoney, that the average citizen in this country who has a reasonable amount of money in his pocket will consume a great deal more meat than we have been consuming per capita these past few years, and we know also that he will consume a considerable amount more of dairy products and he will consume more vegetables, more citrus, and many other things. How to get them into his hands at reasonable prices and in good condition is, in my opinion, one of the major undertakings which confront the Department in the years to come.

The CHAIRMAN. I suppose you would agree that maximum employment is of great importance to all who are engaged in agriculture, since it creates the market without which agriculture could not survive?

Secretary BRANNAN. Indeed, sir. There is no question about that.

The CHAIRMAN. I shall not bother you with any other questions, Mr. Secretary.

Senator DOUGLAS. May I ask you two rather hot questions, Mr. Secretary?

Secretary BRANNAN. All right, Senator Douglas.

Senator DOUGLAS. And if, for any reason, you feel it improper to answer, I hope you will feel free to say so.

The first is on this fixed-parity versus flexible-price problem. If we were to continue on the basis of fixed parity, or 90 percent of fixed parity, would that necessarily mean maintenance of the same profit margins which existed from 1909 to 1914? If I may amplify my question, is it not probable that costs have been falling, at least in recent years, more rapidly per unit of output in agriculture than they have in industry, so that if we maintain a parity of value relationships, with costs falling more rapidly in the agricultural sector than in the industrial sector, would not the result be a greater profit margin per unit of output in agriculture than in industry?

Secretary BRANNAN. Senator, I do not know that I can answer that in its entirety. I do say to you, though, that the maintenance of completely high-level support cannot be considered by itself, because in almost all cases where the advocates of high-level, rigid support have indicated their views recently, they have also coupled with them the desirability for either acreage limitations or marketing quotas, and so on and so forth. So that, by the same device that you may be keeping his unit income high, you may be leveling off the total income by reducing the number of units which can move into the market or can be produced.

Senator DOUGLAS. But that is done at the expense of restriction of output, and therefore some restriction of employment on the farm.

Secretary BRANNAN. It could be—it does not necessarily reflect itself in lack of employment but may be in a conversion or an adjustment to another kind of agricultural pursuit which might fit into the economy better.

Senator DOUGLAS. Transfer from wheat to grass?

Secretary BRANNAN. And livestock.

Senator DOUGLAS. From cereals to meat?

Secretary BRANNAN. That is right, and from some of the others, like cotton, to livestock economy, or a dairy economy, in the eastern and southeastern part of the country. There are many examples of obvious conversions in the pattern of agriculture of the areas.

Senator DOUGLAS. That was the next question I wanted to ask on the same subject. Can you maintain a fixed parity without attempting to control output? These are very hard questions, but I assume we are meeting not as Republicans and Democrats but as probers of truth, irrespective of party.

Secretary BRANNAN. May I say this, Senator Douglas, that wherever we have maintained over a period of time a rigid level or high level or any level of price support, we have come around to acreage limitations. The classical example, of course, is tobacco for one and peanuts this year. There was discussion of acreage limitations of cotton this year, but the character of the law precluded them at the time.

Senator DOUGLAS. May I interject? That comes about from the fact that with a given national income a fixed price or value necessarily limits the quantity demanded, and if you are to dispose of more units, you must have some flexibility of price or value.

Secretary BRANNAN. That is reflected; but also reflected is the greater unit production per acre.

Senator DOUGLAS. That's right.

Secretary BRANNAN. And this has kept up with the growing demand in many cases. We have been producing more agricultural products on less acres in this period of time than we had even in World War I.

Senator DOUGLAS. But if you have fixed parity, then you are led into fixed acreage, but fixed acreages does not mean fixed crops or fixed yields; and if you have a fixed parity which is above relative costs, you will get increased production per acreage, and you may have some problem of disposing of the products produced in excess of the quantity demanded and the value relationship which obtains.

Secretary BRANNAN. That could be true, Senator, but it is not necessarily the only conclusion that might be drawn.

Mr. BUCHANAN. Do you have concern over that problem for 1949?

Secretary BRANNAN. We certainly do with respect to potatoes; we have had for 1948 and 1947, as a matter of fact, with respect to potatoes; and there is some concern among a number of people about the crop production. We are not making any predictions at this time.

Senator DOUGLAS. On the other hand, it is also true if we merely left the marketing absolutely free—since the demand for farm products tends to be somewhat as we term it, inelastic—that a given proportional increased output tends to be accompanied, as your memorandum seems to indicate, by a greater portional fall in price or value so that the farmers as a whole will receive less for producing more, and it is that fact that price supports are designed to prevent. Is that not true?

Secretary BRANNAN. That is right. The farmer has had a tendency every time the prices of commodities have fallen extremely low to try to plant more to make up the total family income. That was particularly true when wheat went down as low as 25 cents in the 1920's It was accompanied by considerable more acreage being planted.

Senator DOUGLAS. May I ask one question on the general economic program as embodied in the economic report? I was not here when you presented your main statement. It covered, as I see it, only agriculture, but I understand that Congressman Wolcott asked a question on the general economic policy of the President, and I was wondering if you were prepared to discuss that?

Secretary BRANNAN. I shall try, if you care to hear me.

Senator DOUGLAS. There is a problem that I suppose has been going through the heads of all of us. The economic report was submitted in January on the basis of the figures up to that day I suppose—the first of January—and upon the record of 1948 and the predictions of the future, it was thought the fiscal year 1949–50 would be a year of prosperity and high employment.

As a result of that prediction, the economic policy which was prescribed was sound, I think, if the prediction was correct, namely, that we should take in in taxes more than we paid out in expenditures; that we should use the surplus to retire the bank-held public debt and to diminish inflationary pressures, and there were a number of other features of the same type.

The Federal Reserve Board made its rules, somewhat dampening down consumer credit, and so forth.

Now, we in the Congress have to adopt in the next months policies and programs for the fiscal year July 1, 1949—July 1, 1950, and we do it with very incomplete knowledge of what the actual economic conditions are going to be for that coming year. We have to do it on the basis of past developments, and our guess as to what is going to happen.

Now, suppose the worst happens. We hope it will not. We will take steps to try to prevent it. But suppose, while we expect prosperity we get a depression, a fall in prices, a fall in production, a fall in employment. Then the fiscal policies which would have been proper for a period of prosperity are exactly the opposite of what we should have used in the period of depression. Certainly in the period of depression we should not collect more taxes than we have expended; it is not a period in which we should reduce the public debt. I happen to be one of those who believes that it should be a period in which, on the whole, we should spend more than we take in in taxes to help compensate for the deflationary effect in the private sector of the economy—but that, I will put it briefly, is our dilemma. Are we not put in the position of a doctor prescribing for a patient a year to a year and a half in advance? And if I may use the somewhat inelegant expression, suppose we say on the basis of the patient's present condition we should give him a good heavy dose of bismuth for the forthcoming year. So we prescribe bismuth through the taxation policy and the expenditure policies and the monetary and credit policies, and so forth. But, as this prescription goes into effect, and we give him bismuth throughout the coming year, it develops that what the patient needs is cascara. Is there any way in which we can get more flexibility if conditions change? Do you see any way?

Secretary BRANNAN. Well, I probably should not have offered to try to answer, but I would make this comment, that it seems to me that the proposals which the President has made do have a great degree of flexibility. For example, the controls in allocation divisions are all on a stand-by basis. They are not locked on the economy. They may be taken off or put on in very short order, and they are flexible enough that they may be put on only certain commodities and not on others; so that in that sense we are really not prescribing for a patient that is in a dire condition or is in bad health; we are suggesting to a patient who is in good health that he do the things that will continue to keep him in good health and have at hand the remedies which will keep him in good health and keep him from slipping into an illness of one kind or another.

Senator DOUGLAS. About so-called crop control, that is true, but what about taxation and financial policies?

Secretary BRANNAN. I had better let those go until Mr. Snyder——

Mr. WOLCOTT. I suggest, Senator, sometimes the dread and the fear of taking the medicine will cause a nervous reaction that will have a dilatory effect.

The CHAIRMAN. Mr. Brannan, have you made, or has your Department made, any new estimates of the results on farmers' income of the recent drop in farm prices that was not available to the Council of Economic Advisers?

Secretary BRANNAN. Senator, we have not projected those out in the final figures, but I would like to say that for the most part, to the very best of our knowledge, the wheat which has been moving to market and being bought by our purchasers in all the major wheat markets of the country is not coming from producers. It is coming from sources other than producers. Producers of this country up until December 31, had available to them the price-support program, and the major portion of them took advantage of the price supports, and they are resting behind them very comfortably, so that our purchasers in the market yesterday when prices were supposed to be tumbling at their worst, or going to lowest levels, had more difficulty buying cash grain than they did at any other time.

On Monday of this week we bought 1,167,000 bushels of wheat. On Tuesday we bought 1,700,000 bushels. Yesterday we bought less than a million bushels, so that the actual grain which is changing hands in the country, and it is a very small amount, to the best of our knowledge, is not coming out of producers. Much of that has been sold by producers to somebody else at the support level or above. He certainly had no reason for selling it below the support level unless he was in that unfortunate group who could not get storage.

The CHAIRMAN. My understanding with respect to your investigation of this drop in prices on the commodity exchange is that you have directed the Commodity Branch in the Department to investigate immediately and find out the position of all traders on the trading market. When do you expect those figures?

Secretary BRANNAN. It will take about 4 or 5 days to analyze them.

Senator O'Mahoney, may I say in this connection that the day before yesterday when the market began to go down we asked our people to go out on the street and go into the main business houses that are trading on the market and ask them why they thought the market was reacting as it was. We got four or five suggestions, and one of them was a suggestion that there might have been speculative short selling, and it was on the suggestions that came from the people on the street, in the industry, rather than any conclusions that we drew, that we ordered the investigation. I have not made any statement to the effect that I thought this was an entirely speculative or bearish short-selling operation. It may turn out to be that, and in the rumor stage there was some evidence of it, but in the factual stage——

The CHAIRMAN. When we went into this commodity-exchange matter in the last session, the defenders of the exchange, those who were objecting to the President's suggestion with respect to the control of speculation on the commodity exchange, uniformly asserted that it was in the public interest to maintain wide-open futures market. I was never convinced that the evidence submitted proved the case for those who contended that the futures market is essential in the public interest; however, that argument was made. The information which you are now gathering will enable us, at the proper time, to look into that whole question again, will it not?

Secretary BRANNAN. It will, Senator.

The CHAIRMAN. The charge, of course, on the other side is that these wild fluctuations of commodity prices in the commodity exchange are purely speculative.

Secretary BRANNAN. Yes.

The CHAIRMAN. But you have not as yet gathered the material upon which to take a position?

Secretary BRANNAN. That's right, Senator.

Of course there was speculative buying and selling, but whether that was the factor that drove the market in the direction it did with the intensity it did is the thing which nobody can say, at least not that I know of.

The CHAIRMAN. Let me compliment you for withholding judgment until you secure the facts. If we all wait for the facts we can arrive at more intelligent conclusions, I think.

Secretary Brannan. Thank you, sir.

The CHAIRMAN. Are there any other questions?

If not, Mr. Secretary, we are very much obliged to you for your presentation.

The committee will resume tomorrow morning at 10 o'clock.

Mr. Tighe Woods, the Housing Expediter and Mr. Raymond Foley, Housing and Home Finance Administrator, will be the witnesses.

Secretary Krug is also scheduled to appear tomorrow if we have sufficient time.

The committee is now in recess until tomorrow morning at 10 o'clock.

(Whereupon, at 4:05 p. m., an adjournment was taken until 10 a. m., Friday, February 11, 1949.)

JANUARY 1949 ECONOMIC PEPORT OF THE PRESIDENT

FRIDAY, FEBRUARY 11, 1949

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

The committee met, pursuant to adjournment, at 10:30 a. m., in the caucus room, Old House Office Building, Senator Joseph C. O'Mahoney (chairman) presiding.

Present: Senators O'Mahoney and Douglas, Representatives Patman, Huber, Buchanan, and Rich.

The CHAIRMAN. The committee will be in order.

Mr. Foley, you are the Housing and Home Finance Administrator?

Mr. FOLEY. That is correct, sir.

The CHAIRMAN. You may proceed with your statement.

STATEMENT OF RAYMOND M. FOLEY, HOUSING AND HOME FINANCE ADMINISTRATOR, ACCOMPANIED BY MALCOLM B. CATLIN AND E. EVERETT ASHLEY III

Mr. FOLEY. It is a privilege for me to appear before this committee and to review the housing problem as it relates to the proposals in the President's economic report. As you know, just a few days ago I appeared before the Senate Banking and Currency Committee to present my views concerning Senate bills 138 and 712, which together are designed to establish a sound foundation for an effective start on meeting the Nation's over-all housing needs. My testimony before that committee describes in considerable detail the specific measures that are proposed in those bills, and I do not feel that I should take the time of this committee to repeat that discussion here, except in its broadest aspects.

The CHAIRMAN. So that the record may be clear, may I ask you to state who are the sponsors of these two bills? Who is the sponsor of S. 138?

Mr. FOLEY. Senators Ellender, Wagner, Maybank, Sparkman, Myers, Hill and Pepper.

The CHAIRMAN. Do you remember the titles of the bills?

Mr. FOLEY. I have the bills and will put their titles into the record, if you wish.

Mr. PATMAN. I wonder if we have similar House bills. If so, will you give us the names of the authors?

Mr. FOLEY. The title of S. 138 is "To establish a national housing objective and the policy to be followed in the attainment thereof, to provide Federal aid to assist slum-clearance projects and low-rent public-housing projects initiated by local agencies; to provide financial assistance by the Secretary of Agriculture for farm housing and for other purposes." Two bills having this same title have been introduced in the House—H. R. 933, sponsored by Congressman Spence, and H. R. 1519, sponsored by Congressman Buchanan.

S. 712, "A bill to amend the National Housing Act and for other purposes" was presented by Senator Maybank, with Senators Wagner, Ellender, Sparkman, Myers, Hill, Pepper, and Long. A bill, H. R. 1938, having the same title, has been sponsored in the House by Congressman Spence.

The CHAIRMAN. Wasn't there another bill introduced by Senator Taft, and others, dealing with the same subject?

Mr. FOLEY. There are a variety of other bills. The testimony to which I referred was addressed to two bills—S. 138 and S. 712. There are before the Congress in addition to these two bills and their House counterparts more than 100 bills dealing with various aspects of the housing situation. A list of the bills and their sponsors is as follows:

HOUSING BILLS OTHER THAN S. 138, S. 712, H. R. 933, H. R. 1519 AND H. R. 1938 INTRODUCED IN EIGHTY-FIRST CONGRESS, THROUGH FEBRUARY 10, 1949

General housing bills (providing for national housing policy, slum clearance and urban redevelopment, low-rent public housing, housing research, and Federal aid to farm housing)

S. 709: Senators Baldwin, Flanders, Tobey, Taft, Aiken, Smith of New Jersey, Morse, Saltonstall, Young, Knowland, Lodge, Thye, Ives, Smith of Maine, Hendrickson, and Schoeppel.

The following general housing bills were introduced early in the session and are based on S. 866, the general housing bill of the Eightieth Congress:

H. R. 11: Representative Boggs.
H. R. 94: Representative Multer.
H. R. 333: Representative Boggs.
H. R. 346: Representative Celler.
H. R. 525: Representative O'Brien.
H. R. 489: Representative Lane.
H. R. 1148: Representative Kennedy.

General housing bills—Plus Federal loan for middle income housing

H. R. 1973: Representative Javits.
H. R. 1883: Representative Bolton.
H. R. 1886: Representative Canfield.
H. R. 1887: Representative Case (New Jersey).
H. R. 1904: Representative Hand.
H. R. 1911: Representative Keating.
H. R. 1927: Representative Pfeifer.
H. R. 1931: Representative Riehlman.
H. R. 1944: Representative Tollefson.
H. R. 1974: Representative Lodge.

Local-State-Federal subsidy to low-rent public housing

S. 757: Senators Cain and Bricker.

Liberalized FHA aids to lower-cost homes—Federal loans for middle income housing—Changes in secondary market

S. 724: Senators Flanders, Tobey, and Ives.

Federal loans for middle-income housing

H. R. 2516: Representative Douglas (California).

Federal loans to veterans—Secondary market changes

S. 686: Senator Sparkman.

Farm housing, Federal aid to

H. R. 1376: Representative Jones (Alabama).
S. 685: Senator Sparkman.
Also provided in general housing bills supra.

Secondary market for GI farm loans

H. R. 2315: Representative Mills (Arkansas).

Amendment of Farmers Home Administration Act

H. R. 2500: Representative Wilson (Oklahoma).

Amendment of National Housing Act to insure construction advances on single-family dwellings

H. R. 2377: Representative Sutton (Tennessee).

Secondary market changes

S. 265: Senator Butler.
S. 616: Senator Thomas.
S. 686: Senator Sparkman.
S. 712: Senators Maybank, Wagner, Ellender, Sparkman, Myers, Hill, Pepper, and Long.
S. 724: Senators Flanders, Tobey, and Ives.
H. R. 95: Representative Nixon (California).
H. R. 1006: Representative Smathers.
H. R. 1324: Representative Holifield.
H. R. 1772: Representative Rains.
H. R. 1973 and companions (supra).

FHA loans for moderate priced homes

H. R. 853: Representative Lemke.

Additional loans and annual contributions for public housing

H. R. 348: Representative Celler.

Increased cost limits on public housing

H. R. 349: Representative Celler.

Federal grants for urban redevelopment and low-rent housing

H. R. 1708. Representative Coudert.

Federal-State assistance in financing low-cost houses

H. R. 435: Representative Kearns.

Amendment of Servicemen's Readjustment Act of 1944 home loan provisions

S. 616: Senator Thomas (Utah).
S. 686: Senator Sparkman.
S. 724 (supra).
H. R. 148: Representative Beckworth.
H. R. 202: Representative Lynch.
H. R. 355: Representative Celler.
H. R. 841: Representative Hedrick.
H. R. 777: Representative Rogers (Massachusetts) "Veterans Housing Associations."
H. R. 1684: Representative Keogh.
H. R. 1973 and companions (supra).
H. R. 2053: Representative Kearney "Veterans Homestead Act of 1949."
H. R. 2420: Representative Rankin.
H. R. 2436: Representative Teague.

Amendment of Servicemen's Readjustment Act of 1944 farm loan provisions

H. R. 1527: Representative Cunningham.

Tax benefits for housing

H. R. 131: Representative Angell.
H. R. 239: Representative King.
H. R. 1329: Representative Keating.
H. R. 1345: Representative Chesney.

Housing for students and faculties

Amendment to S. 138: Senators Pepper and Neely.

Disposition of war housing

S. 127: Senators Hill and Sparkman.
S. 232: Senator Smith (Maine).
S. 293: Senator McMahon.
S. 556: Senators Pepper and Holland.

S. 912: Senator Pepper.
H. R. 70: Representative Hale (Maine).
H. R. 966: Representative Regan.
H. R. 1159: Representative Ribicoff.
H. R. 2103: Representative King (California).
H. R. 2107: Representative Potter.
H. R. 2171: Representative Doyle.
H. R. 2367: Representative Cannon (Missouri)

Disposition of resettlement projects

S. 351: Senators McCarthy and O'Conor.
H. R. 2440: Representative Monroney.

Housing in Alaska

S. 533: Senator Johnson (Colorado).
S. 851: Senator Magnuson.
H. R. 939: Delegate Bartlett.
H. R. 1549: Representative Lemke.
H. R. 2122: Delegate Bartlett.

FHA and GI loans contingent upon warranty against structural defects

H. R. 787: Representative Douglas.

Federal aid to housing contingent upon no racial or other discrimination

H. R. 1641: Representative Dollinger.

To provide for the appointment of conservators, receivers, and other fiduciaries to take charge of the affairs of Federal savings and loan associations

H. R. 1229: Representative King.

To reestablish the original eleventh and twelfth Federal home loan bank districts and to reestablish the original Federal Home Loan Banks of Los Angeles and Portland, respectively

H. R. 1232: Representative King.

Amendments with respect to stock holdings of savings and loan associations and payment of dividends by institutions insured by the Federal Savings and Loan Insurance Corporation, etc.

H. R. 1732: Representative Spence.

Conversion of national banking associations into State banks

S. 101: Senator Tobey.
H. R. 58: Representative Fulton.
H. R. 1161: Representative Spence.
H. R. 1269: Representative Wolcott.

Decennial census of housing

S. 688: Senator O'Conor.
S. 709 (supra).
H. R. 1215: Representative Fogarty.
H. R. 1688: Representative Miller (California).
H. R. 1973: Representative Javits and other companion bills (supra).
H. R. 2203: Representative Murray (Tennessee).

Amendment of Home Owners' Loan Act

H. R. 2559: Representative Multer.

Amendment of Federal Home Loan Bank Act

S. 880: Senator Sparkman.
H. R. 2571: Representative Brown (Georgia).

Evictions from public housing

H. R. 2391: Representative Chudoff.
H. R. 2539: Representative Cavalcante.
H. R. 2622: Representative Wagner.

Study of rent control

H. Res. 83: Representative King (California).

Rent control

S 434: Senator Myers.
S. 600: Senator Maybank.
S. 888: Senator Myers.
H. R. 198: Representative Judd.
H. R. 791: Representative Douglas.
H. R. 1731: Representative Spence.
H. R. 1757: Representative Rains (Alabama).
H. R. 1851: Representative Yates.
H. R. 2291: Representative Douglas.
H. R. 2482: Representative Ford (Michigan).

That legislation would enunciate a national housing policy, and in that way would, for the first time, provide a frame of reference within which we could define our objectives and measure our progress in reaching them. It would authorize Federal aid to our cities so that they might make a start in the long overdue job of slum clearance. It would reactivate and expand the low rent public housing programs. It would provide assistance for the improvement of our farm housing. It would authorize a comprehensive program of research into both the economic and technical aspects of housing. It would introduce a series of amendments to the National Housing Act designed (*a*) to stimulate the production of a greater number of homes in the lower price brackets, (*b*) to aid the formation and operation of cooperative housing organizations, particularly for the veteran, (*c*) to continue the present system of mortgage insurance on rental housing, and (*d*) to make the Government facilities for secondary mortgage market operations more effective in stimulating the production of lower price sale and rental housing and cooperative housing projects.

The breadth of these proposals is, I think, clear recognition of the fact that we have not done as well in housing our people as we should have, considering our resources and our productive capacities. We have supplied our housing through an industry that has not progressed technologically nor organizationally at anything like the rate at which practically all other American industries have progressed. Housing production has occurred in great bursts of activity which have glutted the top levels of the market and have been followed by longer or shorter periods of doldrums sometimes virtual cessation of activity. This extreme instability of so important a segment of our productive machine has had serious repercussions on the national economy, through its waves of unemployment and the great disparities between the price of housing and the wherewithal to buy or rent it. I think it is quite clear that production on the boom and bust pattern has not resulted in a satisfactory answer to our housing needs not to a lasting improvement in our housing standards.

Efforts to salvage the human values that are wasted and undermined as a result of inadequate housing cannot be divorced from measures to strengthen our economy generally and to raise the standard of living of our people. Our present supply of housing accommodations may be characterized in a phrase—"Too few of any kind, and too many that are too poor"—and it has been so characterized for much too long a time. Especially is this true in the case of housing for families of low and middle income, for many minority groups, and for many veterans.

Since the end of the war we have been coping, in the broad sense, with the sheer production and supply side of the problem. We have had to set our sights squarely on the task of getting home building geared up to production levels high enough to take the worst edge off of the immediate shortage of dwelling units, to reduce the number of doubled-up families, and to provide especially for the needs of returning veterans. I am sure that you are generally familiar with the ways in which Federal home financing aids have been used both to stimulate housing production and to meet the needs of veterans. Our home production effort has required equally fast expansion of production in the supporting building materials industries.

The CHAIRMAN. Mr. Foley, you speak of "returning veterans." Have not most of the veterans already returned?

Mr. FOLEY. That is true. I was speaking of the period during which they were returning, Senator.

The CHAIRMAN. I see. Do you have any statistical information, however, with respect to the number of veterans who, at the present time, are without adequate housing?

Mr. FOLEY. You mean as of now veterans who do not have the type of housing they ought to have?

The CHAIRMAN. That is right.

Mr. FOLEY. We can prepare a statement for you. It involves a very complex problem; it deals with all the doubling up, and that sort of thing. An attempt to separate veterans from the others in the general statistics, however, would not be possible.

(The following statement was later submitted for the record:)

VETERANS' HOUSING REQUIREMENTS

In order to get a complete picture of the housing requirements of veterans it is appropriate as a point of departure to review the situation which was disclosed in the Nation-wide survey of the problem made by the Bureau of the Census in June 1946. That study showed that there were more than 3,900,000 veterans who were in the market for housing. Of this total some 2,200,000 indicated that they were so desperately in need of housing that they would take anything almost without regard to price or quality. The remaining 1,700,000 reported that they would be in the market provided they could obtain houses of the size and quality they desired and at prices or rents they could afford.

During the 7 months following the Nation-wide study, the Bureau of the Census and the Bureau of Labor Statistics conducted spot surveys of the veterans' housing problem in 109 selected localities. These studies for individual communities fully bore out the findings of the national survey and demonstrated further that veterans' housing needs were still critical in January 1947.

These studies took into account primarily the housing situation as it related to veterans who were married at that time. In the main only those single veterans who were planning an early marriage expressed an interest in procuring family housing at that time. In the more than 2 years which have elapsed since then, however, the marriage rate has run at record levels. All told nearly 3,000,000 couples have been married since January 1947. A significant proportion of these new-formed families are headed by veterans.

These young families, many with modest incomes, have found it difficult if not impossible to find adequate shelter at prices they could afford. For those veterans seeking rental housing, the problem has been even more acute because of the disinclination of many landlords to accept families with children. In consequence, many have been obliged to share quarters with another family, very often the parents of either husband or wife, which is at best a none too happy arrangement.

According to the latest Bureau of the Census figures, there were in April 1948 some 2,500,000 families who did not have separate homes of their own. Veteran families are believed to account for a substantial share of these doubled families.

Studies in individual areas throughout the Nation bear out the conclusion that the provision of housing for veterans is still one of our most pressing problems.

For example, surveys conducted during the spring and summer of 1948 under the auspices of the Maryland Veterans' Housing Commission consistently showed a significant number of veterans still seeking housing. Also a survey of the Seattle, Wash., housing market sponsored by the mayor's emergency housing committee during 1948 showed that more than one-third of the veterans in that area were seeking housing. Similar situations are to be found in countless other cities, large and small, across the breadth and length of the land.

The CHAIRMAN. Do you have any statistical information on the number of families which are presently without adequate housing?

Mr. FOLEY. Yes; I think I develop some of those statistics in this statement. If what we have here is not adequate, we would be glad to furnish more amplified statistics.

The CHAIRMAN. Very good.

Mr. FOLEY. This task has necessarily pressed the capacity of both the home-building industry and the producers of building materials. Other types of construction have been going forward at very high levels at the same time, with consequent severe demands for materials. There have been as a result, substantial aad severe demands for materials. There have been, as a result, substantial and disturbing increases in the price of materials. In addition, the costs of land and construction labor have risen, with a consequent rise in the total cost of construction.

I am fully aware of the fact that some of the measures that we have to employ to meet this almost overwhelming problem have themselves contributed to the upward pressure on prices. Had we been able to wait, or take longer at the job, our present price and cost picture undoubtedly would have been a more comfortable one. I believe you will agree, however, that we have had to choose among many difficult alternatives, the least desirable of which would have been to accept a prolonged acute housing shortage.

We must continue to employ liberal Federal financing aids in order to maintain our present level of housing production and to insure a steady consumer market at this level. These aids should, however, be used to an increasing degree as we go along to stimulate greater production of good and livable homes in the lower-price brackets. Specific methods for pursuing this objective are contained in the legislative proposals I presented to the Senate Banking and Currency Committee.

The place of home building in the economy

The home-building industry is one of the major cogs in our economic machine. When operating in high gear, it has accounted for between one-fourth and one-third of the Nations' annual gross private domestic investment.

In spite of its great size and importance to our economy, home building has never achieved economic maturity. There is a large segment of the American people to whose income the housing product has never been adjusted. This, in turn, has led to violent cyclical fluctuations in production. Hence, instead of being one of the important stabilizing elements in our national economy, home building has actually fluctuated more violently than any other major segment of economic activity. This instability has contributed significantly to the instability of our economy as a whole.

The wide fluctuations which characterize the residential building industry are apparent to the most casual observer of the record. Since 1920, production of housing in nonfarm areas has ranged all the way from a peak of 937,000 units in 1925 to a low of only 93,000 units in 1933 and back to about 930,000 units in 1948. During the same period, dollar expenditures ranged from 4½ billion dollars in 1925 to a low of $278,000,000 in 1933, and, with today's high prices, to a new all-time peak of nearly $7,000,000,000 in 1948.

The instability in home building is further demonstrated by the fluctuations in construction employment. During the decade between 1930 and 1939, for example, employment in on-site residential construction ranged from a high of 668,000 to a low of 150,000. The depression low was more than 77 percent below the peak of the decade. In contrast, during the same period, total nonagricultural employment fluctuated within a range of about 25 percent.

The CHAIRMAN. Are these statistics based upon the researches of the Department of Labor, or of a branch department of your agency?

Mr. FOLEY. The Department of Labor.

The CHAIRMAN. They come from the Bureau of Labor Statistics, in other words?

Mr. FOLEY. That is right, sir.

If we permit such an important segment of our economy as residential construction to fluctuate as widely in the future as it has in the past, our hopes for achieving general economic stability will be endangered.

The necessity for achieving a high, stable level of new home production can also be delineated in terms of the large dimensions of the housing needs of the Nation. Figures obtained from the Bureau of the Census as to the size and character of our supply of housing in 1947 and the rate of anticipated family formation in the years ahead afford some indication of the magnitude of those needs.

Extent of our future housing needs

To illustrate the extent of our future production needs, let us examine the scope of the job if we undertake to meet our critical housing needs between now and 1960. By that date the Bureau of the Census estimates that some 7,000,000 more nonfarm families will require housing than in 1947. Over the same period, there will be losses from fire and other hazards, normal wear and tear and obsolescence, and the removal of temporary war and veterans' housing units. An adequate effective vacancy rate must be achieved. Combined with the job of coping with units which, according to census figures for 1947, are substandard, the requirements for nonfarm areas between now and 1960 add up to nearly 15,000,000 units. To this must be added the 2 to 3 million farm units which should be built or rehabilitated before 1960. Altogether, the job amounts to between 17 and 18 million units which must be built or rehabilitated.

Some part of this job can be accomplished by the conversion of larger structures into a greater number of smaller units. Some part of the job may be accounted for by a better preservation of our existing supply of sound and acceptable dwellings. Some part can be accomplished by rehabilitation of currently substandard units.

There are those who argue that a significant part of the job can be accomplished, especially in the field of housing for low-income families, by waiting for higher-priced housing to "trickle down" until it is within the reach of our lowest-income families. To expect to solve the housing needs of the Nation's low-income families entirely with the cast-off and worn-out houses of the rich is neither socially nor economically sound. There are relatively so few families with high income that the "trickling down" starts with too small a supply and at too high prices and rents. Even if high-priced houses were to depreciate in price rapidly, their number would be too small to meet the urgent needs of the large number of home seekers at the broad base of the pyramid.

Actually, by the time such units become cheap enough for families of low income, they have generally deteriorated to the point where they should be scrapped. They are costly to maintain and, because of their age, design, and type of facilities, are generally ill-suited to the needs of the families who are obliged to move into them.

Recent production record

While the home-building industry has done a commendable job since the end of the war, a still better job must be done. Even today we unfortunately tend to measure our housing progress against a record set more than 20 years ago. We have been inclined to measure our success by whether or not we could equal a production rate established in 1925. It is true that the ability of the industry to expand its output from 142,000 to 930,000 in only 4 years has indeed been a gratifying performance. I do not wish to minimize that performance when I tell you that I believe it is high time we cease limiting our housing horizon to our achievements in the past. The time has come when we should begin to appraise our present performance by the demands and needs of the future. We must find the means for achieving and sustaining over a long period of time a rate of home building in excess of the previous record of 937,000 units set in 1925 and of last year's nearly 930,000 units. After all, since 1925, our population has increased by more than 25 percent; our families have increased by more than 40 percent, while the actual production of goods as measured by the Federal Reserve Board's Index of Industrial Production has more than doubled.

Moreover, despite the remarkable production record since the end of World War II, home starts were beginning to decline in the latter part of 1948, with the number of units started in each of the last 4 months of the year falling below the same months of 1947. Also, on the basis of late 1948 trends, experts from both Government and industry now predict a lower level of housing production in 1949 than in 1948.

This down trend occurred not because of any slackening in housing requirements, nor because of any shortage of manpower or materials, but because housing, more than most other consumer necessities, has been pricing itself out of the mass market.

Despite undeniable evidence that the most urgent need, especially among veterans, was for moderate-priced homes, the industry has found itself swept along in a tide of rising costs. Starting from a level of costs that was too high for the pocketbooks of too large a portion of the American people even before the war, by September of 1948 construction costs had reached an all-time peak. The Department of Commerce Cost Index reached a level 117 percent above the 1939 level, while the Boeckh Index of Residential Construction Costs had risen to a point 120 percent above the 1939 average.

The CHAIRMAN. What is the Boeckh Index?

Mr. FOLEY. Will you describe that, Mr. Catlin?

Mr. CATLIN. That is an index compiled by the E. H. Boeckh & Associates, Inc., a private concern that has specialized in the appraisal of residential properties for many years. The index quotations to which Mr. Foley referred are developed by the Commerce Department based on the data collected by the Boeckh organization.

The CHAIRMAN. Thank you. Mr. Foley, may I say at this point that I have sent to the Banking and Currency Committee of the House to get the comparable bills which have been introduced in the House. I have received only two of them. The first of these is H. R. 933, introduced on January 6, 1949, by Representative Spence, entitled "A bill to establish a national housing objective and the policy to be followed in the attainment thereof; to provide federal aid to assist slum-clearance projects and low-rent public housing projects initiated by local agencies; to provide for financial assistance by the Secretary of Agriculture for farm housing, and for other purposes."

The other bill (H. R. 1973) was introduced on January 27, 1949, by Representative Javits. It is entitled "A bill to establish a national housing objective, and the policy to be followed in the attainment thereof, and for other purposes."

Mr. FOLEY. Of those two bills, Senator, as I recall it, the one introduced by Congressman Spence would correspond generally with S. 138, whereas the one introduced by Congressman Javits does not. It differs in a number of particulars.

Mr. RICH. May I ask Mr. Foley a question?

In your last statement that you made:

Do you expect to to show the reason for this high cost, and what can be done to alleviate the high cost of housing construction?

Mr. FOLEY. If I understand your question correctly in its first part, it would involve our giving you a break-down of the factors that make up the cost.

Mr. RICH. I would like you, during the period in which you are going to be on the stand, to tell us why we have reached this high cost of construction, give the reasons for it, and then give us an idea of what can be done to alleviate and reduce the cost of construction of homes.

Mr. FOLEY. I would be glad to discuss both of those phases. But may I suggest that I do it at the end of my statement?

Mr. RICH. Yes.

Mr. FOLEY. I might add further that, in response to the first part of your question, a good deal of detailed data would be necessary to answer fully.

Mr. RICH. I think you can give that without too much detail.

Mr. FOLEY. Yes, I think we can, but I might not have it all here at this point.

More than a third of this increase since 1939 occurred during 1947 and 1948. As a result, in city after city, prices of new homes reached the point where even the most desperate home seekers were reluctantly forced to conclude that the down payments and the monthly carrying charges were beyond their means. The cumulative effect of the growing buyer resistance finally began to make itself evident upon the national scene. The market for more expensive houses has become sluggish and all too few builders have been able even to approach the production of the badly needed lower cost house.

There is some evidence that construction costs may be stabilizing and that a turning point may have been reached. Reflecting primarily a small drop in the price of lumber, construction cost indexes declined in both October and November. This is the first decline since May 1943. The commerce construction cost index and the Boeckh residential index have thus far declined only about 2 percent. Still, both remain more than double the 1939 level.

This possibility of a turn in the tide is encouraging, but it is clear that we still have a long hard way to go to bring new home prices within the reach of the potential mass market. We are currently making a vigorous effort, therefore, not only to draw concerted attention to the need for greater production in the lower price brackets, but to enlist the active help of all segments of the industry in actually getting that production. The Housing and Home Finance Agency, along with other Government agencies, has launched a Nation-wide campaign with the active participation of builders, realtors, financial agencies, materials producers, and local government groups. It is intended to insure the broadest possible use of Government aids available for home construction as well as to provide for exchange of information and know-how on methods to reduce costs, and to improve design and livability. The campaign will emphasize the great market and opportunity available for home building in the middle and lower income brackets and the aids available to builders aiming at this market, with particular emphasis on the needs of larger families. The drive is being carried on through a Nation-wide series of meetings which will draw together local representatives of these agencies and organizations in several hundred communities.

Production of building materials

I understand that the Secretary of Commerce has already presented to this committee a considerable body of statistics relating to the trends in building materials production and prices, and that the Secretary of Labor will present information on employment and wage trends. I will therefore sketch this situation very briefly.

Once the major war construction program was completed in 1942, construction activity tapered off rapidly so that the volume for 1944 and 1945 was at approximately the same level as during the depth of the depression in the thirties. As a result, most building-material industries emerged after VJ-day as casualties of a war economy, with production at very low levels due to the wartime shrinkage of markets, loss of workers to the armed forces and war industries, diversion of productive capacities to war production, and cutting off of raw materials and new equipment. Considering this situation, I think we must consider the production record achieved in 1946, 1947, and 1948 as remarkable indeed.

As measured by the Department of Commerce monthly composite indexes of production for selected construction materials, the rate of production of all construction materials combined at the end of 1946 had increased about 67 percent above the rate at the end of 1945. By the end of 1947 this increase from 1945 had reached almost 80 percent. I think it is now apparent that the production of construction materials reached an all-time peak in 1948. Data for December are not yet available, but production during the first 11 months of the year was up more than 5 percent from 1947, was almost 18 percent above

1946 production, and was over 46 percent above the prewar year 1939. Production of 8 of the 20 kinds of material for which monthly data are collected—including wire nails, cast-iron soil pipe, gypsum lath, hardwood flooring, and several other items which were in critically short supply for about 2 years after the end of World War II—was up more than 40 percent in the first 11 months of 1948 as compared with the same months of 1946. Home building, of course, has been only one of many types of construction and other industries competing for these materials, and during the past 3 years there have been many serious and costly imbalances between supply and home-building demand.

The CHAIRMAN. May I interrupt you there to ask whether this increase of 40 percent in the production of wire nails, cast-iron soil pipe, gypsum lath, hardwood flooring, and the other items to which you referred has been sufficient to meet the demand?

Mr. FOLEY. I would not say that it has been fully sufficient to meet the demand, Senator. It has resulted in an improving situation.

I might illustrate it this way: In the year and a half immediately following the war, when we were trying to build up this production of private housing, we had a number of situations, particularly in those materials mentioned, in which long delays of construction resulted on-site because of difficulty in getting materials. We had the resultant situation of black and gray markets which added to cost also.

At that time, the average time for completion of the typical detached family residence was from 10 to 11 months, largely due to material shortages. That situation has changed until I would estimate that presently 4 months would more nearly reflect the average, which is getting rather close to what we would have expected to be a good average before the war.

Through the Federal Housing Administration—which is the only constituent agency in the Housing and Home Finance Agency which has a field staff throughout the Nation dealing with private building—we have been getting monthly reports over all of that period, or most of that period, up to now, dealing with shortage situations, both in material and in labor. They have shown steadily an improved situation. They still show, on a few materials, a spotty situation of shortage, which may cause short delays in construction, but it is a very much improved picture.

Mr. CHAIRMAN. Now, suppose we succeeded in stimulating the construction, particularly of low-cost housing, to meet the need of the lower income brackets, as you urge. What would then be the relation of the supply of these materials to the demand?

Mr. FOLEY. It would be my opinion, Senator, that with the present trends, as indicated by the Department of Commerce reports on the production of materials, the supply of materials would remain adequate. It would be possible, of course, to so stimulate the building of housing that it would get out of line, but we do not anticipate the results of the efforts we are making to be so rapid that they would result in that.

As Mr. Catlin points out, there probably would be spotty shortages more in the general run of materials, probably due to delays and difficulties in filling up the pipe lines of transportation.

The CHAIRMAN. Then your statement is that we have a production capacity now which is almost equal to the demand which would be occasioned for these materials by the housing program which you are discussing?

Mr. FOLEY. Well, in the sense of productive capacity, I think I might safely say "yes," Senator.

The CHAIRMAN. Well, capacity and production are two different things.

Mr. FOLEY. Although probably in some of the particular lines of materials there might have to be additions to the productive plant. That whole subject, of course, is under constant study and review with relation to plans for stimulating housing.

The CHAIRMAN. Of course, it is one of the situations that this committee must review. That is why I am asking you for the information.

Mr. FOLEY. Such studies are being made by the Department of Commerce at this time.

Mr. RICH. Mr. Chairman, may I ask Mr. Foley this question:

As I understand it, Mr. Foley, the requirement of time necessary to secure materials to construct a home during the past year was about 6 months. Now materials are becoming more plentiful and it requires only 4 months to secure the materials necessary to construct a home, on the average.

Now, the more homes the Government starts to build in competition with private enterprise—isn't that going to require a greater amount of materials, and therefore will it not put back the time required to secure these materials? In other words, the more you build, the scarcer the materials are going to be; is that not a fact?

Mr. FOLEY. Well, first, Congressman, I apparently did not make myself quite clear to you in my discussion of the time required for completion. The comparison I am making is between the year or year and a half directly after the war when the average time for completion of a single detached house was from 10 to 11 months. I compared that with an average time for completion during the past year, which I estimate at about 4 months—that may not be exactly correct. That is a little bit different than saying that it required that long to get the materials. Of course, there are many other factors involved.

That would be related to what would have normally been about a 3 months time before the war when we did not have materials shortages.

As to the second part of your question, whether or not the building of public housing under the program that has been proposed would interfere with the full employment of the resources of private enterprise in building, my answer to that is: I think not, Congressman.

In the first place, the program that has been proposed is spread over a number of years. It would represent probably not more than 10 percent of the total production that would be required in meeting the needs that we have estimated here and would build up gradually over a period of years, rather than being a total demand thrown suddenly onto the market.

Mr. RICH. Is it not a fact that private enterprise is now using all the materials at its command in order to construct all the houses possible?

Mr. FOLEY. I think, Congressman, that is not exactly the case. As a matter of fact, as pointed out, there are relatively few items of materials in which any material delay in construction is now being caused by shortages. There are other items which are in full supply and where probably the supply could be increased quite considerably if the demand existed.

As I stated in my testimony a little earlier, there was a falling off of starts during the last 4 months of last year.

Mr. RICH. A falling off of what?

Mr. FOLEY. A falling off of private building starts, as compared to the year before. At the same time there has been an improvement of the materials situation.

Mr. RICH. Will you tell us what is the cause of this falling off?

Mr. FOLEY. As I indicated in my statement a moment ago, the chief basic cause, in our opinion, is price.

Mr. RICH. The price is too high and the people are not buying. Even people who are able to are not buying because of the price being too high?

Mr. FOLEY. Unless they are under serious compulsion to get shelter.

Mr. HUBER. Mr. Chairman, may I ask a question at this point? Is it true that possibly some of the prospects for luxury homes are not available now—the high-priced homes that have been built during the past few years?

Mr. FOLEY. You mean the purchasing prospects, the buyers?

Mr. HUBER. Right.

Mr. FOLEY. Yes; I think in part, at least, that would be true. Of course, the production of luxury housing in the true sense of really high-priced housing has always been only a small part of the total production. Any considerable fluctuation in that volume would not heavily affect the total of building.

The real problem, as I have indicated here, is cost and price. That is the whole heart and core of our housing problem in this country. It is because the costs are such that the industry is not able to build for the mass of the market, without reference to the luxury part of the market. Price situations, in our opinion, are causing a decline in starts.

Mr. RICH. I wish you would come soon to the point and tell us the reason for this high cost of materials necessary to build a house. I think when you give us that information you will be telling us why we are not getting more housing.

Mr. FOLEY. I expect, Congressman, that I will not be able to answer any more fully and adequately why costs in building materials are high than other witnesses will be able to tell you why costs of other things are too high.

The CHAIRMAN. Cannot you answer in a single phrase, Mr. Foley, "uncontrolled inflation"?——

Mr. FOLEY. I would agree with your definition.

Mr. RICH. Are you contemplating building a home for yourself, now?

Mr. FOLEY. For myself?

Mr. RICH. Yes.

Mr. FOLEY. I am contemplating it, but not at the moment.

Mr. RICH. Why?

Mr. FOLEY. For one reason, because I don't know where I will want the house, since I am in the Government employ. [Laughter.]

The CHAIRMAN. You might have been under some doubt last fall, but are you still in doubt?

Mr. FOLEY. I am not under any doubt for the basic reason that you have in mind, Senator.

Mr. RICH. If I asked a personal question, I am sorry, sir.

Mr. FOLEY. No; I do not resent the question at all. I do hope some day to build myself a house. I have been hoping to build myself a house, Congressman, since I sold the house in which I had lived for years before coming to Washington, chiefly because, like many other men with a family, my family had grown up and gone, and the house was too big. I did not build at that time because we were then in the situation of war-controlled housing. Then my personal situation changed.

I do hope to build a house, and I would say, I think that even if I knew right today exactly where I wanted the house, I probably would not undertake its building at this particular moment. I would probably wait. But cost is not the main factor in my personal situation.

Mr. RICH. Why wouldn't you build it? That is the point I am trying to get at now. Most people are not contemplating the building of a house because everything is too high. They just cannot go into it.

Mr. FOLEY. Prices are too high at this time, and that is why we have undertaken the effort I have outlined here rather briefly, to try to get the building industry in toto—not just the operating builders, but the total building industry—to try to bring about a situation in which there would be lower costs.

Actually, as I have said many times, even allowing the basic unit costs of material and labor that go into a house, I think there are unnecessary costs presently in the picture which can be eliminated through greater efficiency, greater productivity, better design, and a general undertaking throughout a very complicated and intricate set of operations that finally produce a house to take out of it all unnecessary charges.

Mr. RICH. The point I want to bring out, Mr. Foley, is this: Anyone who constructs a house now thinks twice before he starts, because of the enormous costs of all the materials, all the labor, and everything that goes into the construction of building a home. It is so high that the man figures he is going to have so much money invested that he says, "Shall I take the chance on building a home?" I hear hundreds of people talk about constructing homes. They want to build, but they are just afraid to undertake the building. It costs too much with labor and material what it is.

Mr. FOLEY. That is what I said in brief when I assigned as the reason for the falling off in starts the fact that housing was priced out of the mass market.

Nevertheless, these production increases have been reflected in a generally improved supply for home builders. Shortages of specific materials in various localities were reported by home builders from time to time during 1948, but they became less widespread and of lesser duration toward the end of the year. I understand, however, that despite this general improvement in production and supply, the Department of Commerce anticipates that cement and some iron and steel items, particularly pipe, may continue in tight supply during 1949 in some localities.

Production of pressure pipe, soil pipe, cast iron boilers, cast iron radiation, plumbing and drainage equipment, and warm air furnaces was assisted in 1948 by voluntary allocation programs under Public Law 395, and it is quite apparent that this type of assistance will continue to be needed for some time for the more critical items.

Building material prices

The whole price of all building materials combined, as measured by indexes published by the Bureau of Labor Statistics, reached an all-time high in September 1948. Since this peak month, however, the composite price of all building materials has declined slightly each month through December 1948, the latest month for which data are available. The total decline from September to December amounted to 1 percent, and was caused almost entirely by the decline of 4.5 percent in the December wholesale price of lumber from its postwar peak for August 1948. This still left lumber 3½ times as high as it was in August 1939. Furthermore, four of the seven basic material groups in the index were still at the peak in December. They were brick and tile, plumbing and heating, structural steel, and the classification "other materials."

The composite wholesale price of all building materials at the end of 1948 was 5.8 percent higher than at the end of the preceding year. Since September 1945 the month after VJ-day, the wholesale prices of all seven kinds of building materials have increased substantially, the increases ranging from a low of 34 percent for cement to a high of 97 percent for lumber.

Construction labor

Contract construction employment, which covers all kinds of construction work, including residential building, remained above the two million mark throughout the last eight months of 1948. This employment reached a postwar peak of 2,253,000 in August and averaged 2,063,000 for the year. According to the spot reports from FHA field offices, there were shortages of building trade workers in various localities from time to time during 1948, particularly in the trowel trades. These shortages appeared to be temporary and were reported less frequently toward the end of the year. According to Bureau of Labor Statistics reports, there were about 134,000 building-trade apprentices in training at the end of 1948 which was about 17 percent more than at the end of 1947. This program has considerably augmented the supply of trained workers for residential construction.

The average hourly rate of earnings on private building construction in November 1948—the most recent month for which this figure is available—was at a new all-time high of nearly $1.94 an hour. This November peak was 9 percent above the rate for December 1947, and 108 percent above the 1939 average of slightly over 93 cents an hour.

Mr. PATMAN. What part of the industry are you talking about now, the construction industry?

Mr. FOLEY. The construction industry. That is, all construction, including residential.

Mr. PATMAN. The hours, the price per hour, the wages, which wage earner are you talking about?

Mr. FOLEY. I am talking about the construction industry over all.

Mr. PATMAN. Are you talking about the carpenter, the helper, or the apprentice?

Mr. FOLEY. That is an average of all the trades as compiled by the Department of Labor.

Mr. PATMAN. What is the ratio of apprentices to the number of workers in any particular industry? Let us take bricklayers, for instance.

Mr. FOLEY. I do not know that I can answer that offhand, Congressman. Do you have the figure, Mr. Catlin?

Mr. CATLIN. I can get it for you.

Mr. FOLEY. If you are interested particularly, we will get that.

Mr. PATMAN. I notice they have about 19,000 apprentices now in the bricklaying industry. I just wonder how many experienced bricklayers there are.

Mr. FOLEY. I think we could rather readily develop some figures for you from the Department of Labor.

Mr. PATMAN. Do you have a program to try to maintain a definite ratio between the number under training and the number already in the trades?

Mr. FOLEY. I don't know that the program is directed to maintaining an actual ratio, although it might eventually reach that point. The program up to now has been devoted to trying to increase the apprenticeship operation.

Mr. PATMAN. Trying to increase it?

Mr. FOLEY. That is right.

Mr. PATMAN. I wish you would put that information in the record.

Mr. FOLEY. We will try to prepare it and get it in the record.

(The following statement and tables were later submitted for the record:)

It is virtually impossible to develop data on the total supply of skilled workers in the various building trades. A proportion of the skilled journeymen are what might be identified as floaters who pick up other types of jobs when their particular skill is not in demand in the building field. As a result, the effective supply of carpenters or bricklayers, for example, will tend to rise and fall as building activity fluctuates. The Bureau of Labor Statistics does prepare estimates periodically, however, of the average number of workers by skill and occupation required for new construction work. Table 1 shows these estimates for 1946 and 1948. The average number of man-months of work for bricklayers amounted to 109,000. It should be recognized that this represents the number of man-months of work in new construction in 1948 not the maximum number of bricklayers employed in any one month in 1948. Since the series is expressed in terms of man-months of work it does not reflect the additional number of actual workers over and above the number of man-months required to compensate for work time lost by individual employees because of sickness, weather conditions, time between jobs, vacations, etc. Because of these qualifications and the fact that they do not give any indication of the number of men who were engaged in maintenance and repair work the data obviously understate the total number of trained bricklayers in the United States. The Bureau of Labor Statistics keeps no records as to employment of building mechanics in maintenance and repair work.

TABLE 1.—*Number of site workers required to put in place new construction, by skill and occupation, 1946 and 1948* [1]

Skill and occupation	Average monthly number of workers at the site (in thousands)					
	1948			1946		
	On all new construction	On new residential building		On all new construction	On new residential building	
		Labor requirements	Percent of total		Labor requirements	Percent of total
Total	1,860	680	37	1,475	485	33
Supervisory and clerical workers	47	13	28	35	9	26
Skilled workers	974	470	48	777	336	43
Bricklayers	109	60	55	88	43	49
Carpenters	417	232	56	335	166	50
Construction machine operators	53	6	11	42	5	12
Electricians	39	15	38	31	10	32
Lathers	16	9	56	15	7	47
Painters and glaziers	83	52	63	67	37	55
Plasterers	46	27	59	38	19	50
Plumbers and steamfitters	62	30	48	49	21	43
All other	149	39	26	112	28	25
Semiskilled workers	243	80	33	184	56	30
Unskilled workers	596	117	20	479	84	18

[1] These estimates are designed to measure the number of workers required to put in place the dollar volume of new construction activity estimated jointly by the Department of Commerce and Labor. They cover the workers engaged at the site of new construction and also employees in yards, shops, and offices whose time is chargeable to new construction operations. Consequently the estimates include not only construction employees of establishments primarily engaged in new construction, but also self-employed persons, working proprietors, and employees of nonconstruction establishments who are engaged in new construction work. They do not cover persons engaged in repairs and maintenance.

In the case of all non-Federal construction, these estimates are derived by converting, into man-months or work, dollars spent during each month of the year on construction projects under way. The conversion is made by using a factor representing the value of work put in place per man per hour based on data from the 1939 Census of Construction and from periodic studies of a large number of individual projects of various types by the Bureau of Labor Statistics. The factor is adjusted for each quarter in accordance with changes in prices of building materials, average hourly earnings of construction workers, and average hours worked per week. For Federal construction, estimates are made directly from reports on employment collected from contractors and then checked against estimates based on Federal expenditures.

Source: Bureau of Labor Statistics.

Table 2 presents the latest figures from the Department of Labor's Bureau of Apprenticeship on the number of apprentices in the building trades. With regard to the ratio of apprentices to journeymen, the Bureau of Labor Statistics has made studies of this subject in 1945, 1946, and 1948 as a part of its annual survey of union wages and hours in the building trades. In 1948 a total of 1,109 locals reported journeymen employment of 805,883 compared with apprentice membership of 88,978 or a ratio of about 1 to every 9 journeymen. A similar ratio prevailed in 1946. Ratios for individual trades have not been computed from the 1948 survey. However, the Bureau of Labor Statistics published an analysis of its 1946 survey with respect to varying ratios among the building trades in which it said in part:

"Proportions of apprentices to journeymen ranged from less than 2 percent for stonecutters and stonemasons to 23 percent for asbestos workers. Exceeding the over-all average of 9 to 1 were the electricians, cement finishers and plasterers, and sheet-metal workers, with about 5 journeymen to each apprentice. A low ratio was recorded for painters and paperhangers—1 apprentice to more than 20 journeymen. Significant increases in the apprentice labor force were reported by the carpenters, bricklayers, cement finishers, lathers, plasters, and sign painters.

"Trade practices, labor-market conditions, and custom exert far greater influence on apprentice-journeymen ratios than size of trade membership. Carpenters, with the largest membership tabulated, had about 1 apprentice for each 10 journeymen, whereas asbestos workers, with about 2 percent as many members as the carpenters, reported about 1 apprentice for every 4 journeymen."

With regard to the apprentice ratio in the bricklaying trade we are advised by the Bureau of Apprenticeship that local bricklayer's unions have been instructed by their national headquarters to disregard the national apprenticeship ratio and to recruit as many apprentices as are necessary to augment the supply in individual communities.

TABLE 2.—*Number of apprentices in the building trades, national summary*[1] *(subject to revision)*

[In thousands]

As of—	Number of reports[1]	All building trades[2]	Trowel trades	Woodworking trades	Painting trades	Pipe trades	Electrical trades	Sheet-metal trades	Other
1947—Dec. 31	6,010	114.4	15.8	41.8	9.1	17.2	17.4	8.3	4.9
1948—Jan. 31[3]	5,909	115.1	15.9	41.9	8.7	17.9	17.3	8.4	5.0
Feb. 29	6,037	114.9	16.3	40.9	8.3	17.5	17.1	8.9	5.4
Mar. 31	6,770	124.3	17.1	44.7	9.0	19.3	18.2	9.6	6.5
Apr. 30	6,981	128.2	18.0	46.7	9.5	18.9	18.3	10.1	6.7
May 31	6,937	131.3	18.1	47.0	9.0	21.0	19.1	10.3	6.8
June 30	6,959	132.1	18.8	47.2	9.1	20.8	18.9	10.5	7.0
July 31	7,007	133.8	18.7	47.6	9.0	21.4	19.2	10.4	7.5
Aug. 31	6,788	131.8	18.5	46.7	8.8	22.0	18.9	10.2	6.7
Sept. 30	6,783	132.6	18.8	47.5	8.8	22.1	18.5	10.2	6.7
Oct. 31	6,927	133.3	19.2	47.3	9.0	21.8	18.9	10.3	7.0
Nov. 30	6,767	133.2	19.1	46.9	8.8	22.3	18.7	10.3	7.0
Dec. 31	6,819	134.3	19.4	46.8	8.9	22.6	19.1	10.4	7.1

[1] Obtained from local joint apprenticeship committees, local trade-unions, local employers' associations, and local building-trades councils by field representatives of the Bureau of Apprenticeship. The total does not represent complete coverage of the United States.
[2] Data on separate trades will not necessarily add to totals, because of rounding.
[3] Smaller totals, compared with December 1947, in number of reports and in number or apprentices in the painting and electrical trades, attributable in the main to revised reporting procedures.

Mr. FOLEY. The situation I have outlined should serve to indicate to you in its broadest terms the nature and extent of our housing needs, the past and present production record in home building, where we stand at present with respect to the supply and prices of building materials, as well as something on the present level of building costs. As this committee is well aware, however, there are significant current gaps in our statistical knowledge as it relates to housing. These gaps are such as to make it impossible, even if time permitted, to develop as completely documented and well rounded a presentation of the current housing situation as I should like to do. This is particularly true in the field of building costs. We all know as a practical matter that construction costs today are too high. Individual case records of the FHA bear this out. When it comes to demonstrating it statistically on an over-all basis, however, our present means are notoriously lacking. Your committee came to this same conclusion last year when it reported:

There is need for a reliable general construction cost index for * * * the predominant types of residential construction.

This is one of the many gaps in our body of housing statistics to which we would devote our attention under the research program requested in the legislation now before the Congress.

Mr. RICH. Mr. Foley, may I break in right there?

Mr. FOLEY. Yes, sir.

Mr. RICH. In reference to the question asked by Congressman Patman, he asked about the bricklayers. I had some personal experience in the bricklaying business this last fall. We paid the bricklayers working on a community building $2.54 an hour. They laid about 400 bricks a day. It was on a cost-plus basis. Then we had a contract for building a building. I don't know what the bricklayers got from the contractor, but they had a contract to lay the brick. They laid about 900 or 1,000 bricks a day under contract, and only laid about 400 bricks when they were laying it by the hour.

So the enormous difference there between what the bricklayer got when he was paid by the hour, and the amount he received when he was doing this work by contract, was a great deal more than twice as much. So it depends a great deal on the kind of work that men are going to do in the construction of homes, or in manufacturing establishments, it does not make any difference what it is, as long as we are going to try to give an honest day's work for an honest day's pay.

I think that is one thing that has to be investigated as you are going out now to make this investigation. I give you that because it was so apparent. I believe some relief can be gotten there, and probably some changes might be made in your construction costs and construction laws.

Mr. FOLEY. Well, as I pointed out, greater efficiency in many directions is probably an essential to bringing down the cost of housing.

In concluding, I would like to make a few general remarks so that the committee may have in mind some of the principles underlying our national housing objective and may have also some means of evaluating various proposals for attaining them.

First, we must take steps to see that every American family has the opportunity of acquiring a decent, safe, and livable home. To accomplish this we must keep expanding our housing production and our output of necessary materials. It also means clearing the corrosive slums of our cities, replacing or rehabilitating dwellings now in substandard condition, and special means for providing housing for families who cannot now pay an economic rent.

Second, our private-enterprise system must do most of the job, and the Federal Government must do everthing it can, consistent with sound public policy, to make that possible. It is important here to bear in mind that housing is peculiarly local in character and that the typical home-building business is a relatively small enterprise. The Federal Government must assume the leadership in helping our communities to improve and simplify the conditions in which these enterprises function. We must seek improved methods of financing the production of housing, as distinct from consumer credit, and we must seek equally hard to develop simpler methods of building and simpler and more uniform home-building materials and equipment. We must stimulate the development of adequate data on local markets and current building activity and encourage their use by industry.

Third, we must strive our utmost to keep the home-building industry operating at a high level and to eradicate or minimize the violent fluctuations that have characterized this industry in the past. If we can accomplish this, we will not only put this important industry in the position where it can contribute what it should in terms of full and constant employment, but we will also have created the element of stability that is essential if we are to clear away many of she protective but restrictive practices that have grown up around the productive process through the years. It would also clear the way for real technological progress and for important reductions in costs.

It is against this background and these objectives that we must consider the various housing and related proposals made by the President in his economic report. I believe these objectives are so worthy as to leave little doubt as to the desirability of having available the powers necessary to overcome such temporary obstacles as may interfere with the task of carrying them out.

I have appended to this statement a group of statistical tables which contain the basic data on housing needs and production, material production and prices, and building costs to which I have referred.

There are also available to the members of the committee copies of the December issue of Housing Statistics, published by the Office of the Administrator of the Housing and Home Finance Agency.

Due to the shortness of time, this statement has not been cleared by the Bureau of the Budget.

(The tables referred to are as follows:)

TABLE I.—*Comparison of estimated future housing requirements of the United States prepared by Congressional Joint Committee on Housing and the Housing and Home Finance Agency*

[In thousands]

Joint Committee [1]			*HHFA*		
1. Estimated 1960 families	[2] 39,500		1. Estimated 1960 families according to Bureau of Census	[2] 39,500	
2. Allowance for 4 percent effective vacancies (i.e. units actually for rent or sale and habitable year round)	1,600		2. Allowance of 4 percent effective vacancies (i.e. units actually for rent or sale and habitable year round)	1,600	
3. Total dwelling units needed in 1960	41,100		3. Total dwelling units needed in 1960	41,100	
4. Subtract: Effective inventory as of April 1947	[3] 32,729		4. Subtract: Effective inventory as of April 1947	[3] 32,729	
5. Number of additional units needed from beginning of 1947	8,371		5. Number of additional units needed from beginning of 1947	8,371	
6. Subtract: Units added to supply in 1947	1,000		6. Subtract: Units added to supply in 1947 and 1948	2,100	
7. Net additional number needed between 1948 and 1960 to bring requirements and supply into balance		7,371	7. Net additional number needed between 1948 and 1960 to bring requirements and supply into balance [4]		6,271
Add:			Add:		
8. For replacement of estimated losses from 1947 to 1960 (fire, demolition, floods, etc.)	520		8. For replacement of estimated losses from 1947 to 1960 (fire, demolition, floods, etc.)	520	
9. For replacement of nonfarm units in need of major repairs and of urban units lacking private bath and toilet	[5] 5,200		9. For rehabilitation or replacement of substandard units equivalent to nonfarm units in need of major repairs and of urban units lacking private bath and toilet	[5] 5,600	
10. For replacement of substandard units in surrounding surbuban areas and for replacement of standard units deteriorating by 1960	[6] 2,000		10 For rehabilitation or replacement of substandard units in surrounding suburban areas and for rehabilitation or replacement of standard units deteriorating by 1960	[6] 2,000	

See footnotes at end of table.

TABLE I.—*Comparison of estimated future housing requirements of the United States prepared by Congressional Joint Committee on Housing and the Housing and Home Finance Agency*—Continued

[In thousands]

Joint Committee		*HHFA*	
11. For replacement of temporary structures	350	11. For replacement of temporary structures	350
12. Total replacement, 1948–60	8,070	12. Total rehabilitation and replacement, to 1960	8,470
13. Minimum construction needed	15,441	13. Total nonfarm requirements to 1960	14,741
Add:		Add:	
14. To bring replacement rate to 1 percent	1,850	14. Rehabilitation or new construction of farm housing	2,000– 3,000
15. Optimum construction needed—nonfarm	17,291	15. Total U. S. housing requirements	16,741–17,741
Add:			
16. Farm housing required 1948–60	2,400– 3,600		
17. Total U. S. housing requirements	19,691–20,891		
Annual averages:		Annual averages:	
Nonfarm (minimum)	1,287	Nonfarm	1,340
Nonfarm (optimum)	1,441	Farm	182– 273
Farm	200– 300	Total	1,522–1,613
Total (minimum)	1,487–1,587		
Total (optimum)	1,641–1,741		

[1] Estimate presented in final majority report of the Joint Committee on Housing, 80th Cong., Mar. 1948, pp. 8–11.

[2] United States Bureau of the Census estimate of nonfarm families presented before the Joint Committee on Housing, 80th Cong., Jan. 12, 1948.

[3] Computed from United States Bureau of the Census figures from Current Population Reports Series P–70, No. 1, Housing Characteristics of the United States, April 1947, table 1, by deducting from the total nonfarm inventory of 34,248,000, a figure of 1,128,000 units representing uninhabitable units and seasonable dwellings and a figure of 391,000 units representing vacant units held off the market. See Majority Report of Joint Committee on Housing, 80th Cong., p. 9, table I.

[4] Represents net additional number needed between 1948 and 1960 exclusive of the 870,000 units (items 8 and 11) needed to replace disaster losses and temporary structures. Excludes existing units covered in item 9 and 10 which will have to be replaced before 1960.

[5] Based upon United States Bureau of the Census figures on the quality of the housing inventory as presented in Current Population Reports Series P–70, No. 1. Housing Characteristics of the United States, April 1947, table 4. The Joint Committee figures represent all ordinary occupied dwelling units whereas the Housing and Home Finance Agency figures represent all ordinary dwelling units.

[6] Presupposes an average life for houses of about 75 years for standard units deteriorating by 1960; includes also an estimate of roughly 500,000 units in rural nonfarm portions of metropolitan districts which while in good condition lacked private bath ant toilet in April 1947.

TABLE II.—*Housing starts by type of financing and by location, 1920–48*

Year	Total	Number of new permanent nonfarm housing accommodations started					
		Privately financed			Publicly financed		
		Total	Urban	Rural	Total	Urban	Rural
1920	247,000	247,000	196,000	51,000	0	0	0
1921	449,000	449,000	359,000	90,000	0	0	0
1922	716,000	716,000	574,000	142,000	0	0	0
1923	871,000	871,000	698,000	173,000	0	0	0
1924	893,000	893,000	716,000	177,000	0	0	0
1925	937,000	937,000	752,000	185,000	0	0	0
1926	849,000	849,000	681,000	168,000	0	0	0
1927	810,000	810,000	643,000	167,000	0	0	0
1928	753,000	753,000	594,000	159,000	0	0	0
1929	509,000	509,000	400,000	109,000	0	0	0
1930	330,000	330,000	236,000	94,000	0	0	0
1931	254,000	254,000	174,000	80,000	0	0	0
1932	134,000	134,000	64,000	70,000	0	0	0
1933	93,000	93,000	45,000	48,000	0	0	0
1934	126,000	126,000	49,000	77,000	0	0	0
1935	221,000	215,705	112,591	103,114	5,295	4,409	886
1936	319,000	304,225	197,648	106,577	14,775	13,352	1,423
1937	336,000	332,406	214,406	118,000	3,594	3,594	0
1938	406,000	399,294	255,294	144,000	6,706	6,706	0
1939	515,000	458,458	303,547	154,911	56,542	55,453	1,089
1940	602,600	529,571	333,154	196,417	73,029	63,446	9,583
1941	706,100	619,511	369,499	250,012	86,589	64,801	21,788
1942	356,000	301,191	184,914	116,277	54,809	42,486	12,323
1943	191,000	183,703	119,714	63,989	7,297	4,686	2,611

TABLE II.—*Housing starts by type of financing and by location, 1920–48*—Con.

Year	Total	Number of new permanent nonfarm housing accommodations started					
		Privately financed			Publicly financed		
		Total	Urban	Rural	Total	Urban	Rural
1944	141,800	138,692	93,216	45,476	3,108	2,984	124
1945	209,300	208,059	132,659	75,400	1,241	1,241	0
1946	670,500	662,473	395,673	266,800	8,027	8,027	0
1947	849,000	845,560	476,360	369,200	3,440	3,440	0
1948	926,800	(1)	(1)	(1)	(1)	(1)	(1)

[1] Not available.

Source: U. S. Department of Labor; for monthly data 1947–48, see Housing Statistics, December, p. 2.

TABLE III.—*Housing starts by type of structure, 1920–48*

Year	Total accommodations started	Number of new permanent units in—			Percentage of total units in—		
		1-family structures	2-family structures	Multi-family structures	1-family structures	2-family structures [1]	Multi-family structures [1]
1920	247,000	202,000	24,000	21,000	81.8	9.7	8.5
1921	449,000	316,000	70,000	63,000	70.4	15.6	14.0
1922	716,000	437,000	146,000	133,000	61.0	20.4	18.6
1923	871,000	513,000	175,000	183,000	58.9	20.1	21.0
1924	893,000	534,000	173,000	186,000	59.8	19.4	20.8
1925	937,000	572,000	157,000	208,000	61.0	16.8	22.2
1926	849,000	491,000	117,000	241,000	57.8	13.8	28.4
1927	810,000	454,000	99,000	257,000	56.1	12.2	31.7
1928	753,000	436,000	78,000	239,000	57.9	10.4	31.7
1929	509,000	316,000	51,000	142,000	62.1	10.0	27.9
1930	330,000	227,000	29,000	74,000	68.8	8.8	22.4
1931	254,000	187,000	22,000	45,000	73.6	8.7	17.7
1932	134,000	118,000	7,000	9,000	88.1	5.2	6.7
1933	93,000	76,000	5,000	12,000	81.7	5.4	12.9
1934	126,000	109,000	5,000	12,000	86.5	4.0	9.5
1935	221,000	183,000	8,000	30,000	82.8	3.6	13.6
1936	319,000	244,000	14,000	61,000	76.5	4.4	19.1
1937	336,000	267,000	16,000	53,000	79.4	4.8	15.8
1938	406,000	317,000	18,000	71,000	78.1	4.4	17.5
1939	515,000	399,000	29,000	87,000	77.5	5.6	16.9
1940	602,600	485,700	37,300	79,600	80.6	6.2	13.2
1941	706,100	603,500	34,300	68,300	85.5	4.8	9.7
1942	356,000	292,800	20,100	43,100	82.3	5.6	12.1
1943	191,000	143,600	17,800	29,600	75.2	9.3	15.5
1944	141,800	117,700	10,600	13,500	83.0	7.5	9.5
1945	209,300	184,600	8,800	15,900	88.2	4.2	7.6
1946	670,500	590,000	24,300	56,200	88.0	3.6	8.4
1947	849,000	740,200	33,900	74,900	87.2	4.0	8.8
1948	926,800	(2)	(2)	(2)	(2)	(2)	(2)

[1] All units in multifamily and 2-family structures are classified as rental type.
[2] Not available.

Source: U. S. Department of Labor; for monthly data 1947-48, see Housing Statistics, December, p. 4.

TABLE IV.—*Indexes of production for selected construction materials, 1920–48*

[1939 monthly average=100; unadjusted]

Year	U. S. Department of Commerce composite index	Lumber	Brick	Cement	Wire nails [5]	Cast-iron soil pipe and fitting	Gypsum board [5]
1920	[2] 97.1	121.7	119.3	81.8	122.0	67.2	(6)
1921	[2] 83.2	100.9	112.6	80.8	88.2	61.8	(6)
1922	[2] 106.0	122.6	154.8	93.9	111.7	96.0	(6)
1923	[2] 125.3	142.6	194.9	112.4	131.1	116.4	(6)
1924	[2] 126.9	137.4	194.4	122.2	112.0	128.0	(6)
1925	[2] 135.7	142.6	212.4	132.2	114.7	137.1	(6)
1926	[2] 135.0	138.2	210.7	134.6	110.3	126.1	(6)
1927	[2] 130.5	129.5	200.5	141.7	106.8	129.6	(6)
1928	[3] 129.2	127.8	186.7	144.2	105.6	134.7	147.4
1929	[3] 128.9	134.7	161.7	139.6	97.2	96.0	162.3
1930	[3] 102.2	102.1	108.2	131.8	70.9	67.2	109.5
1931	[3] 73.2	69.5	68.1	102.6	56.3	49.5	89.3
1932	[3] 46.1	42.8	29.6	62.8	40.0	31.7	51.3
1933	[3] 50.8	57.1	27.3	51.9	66.2	33.9	50.6
1934	[3] 55.1	59.8	29.7	63.6	45.9	29.8	51.6
1935	[3] 65.8	75.9	48.3	62.8	65.8	48.4	63.3
1936	[3] 90.8	96.1	80.7	92.3	88.4	83.1	83.9
1937	[4] 93.8	100.9	88.7	95.0	80.6	84.9	93.9
1938	[4] 82.2	81.4	74.8	86.2	71.5	66.1	90.5
1939	[4] 100.0	100.0	100.0	100.0	100.0	100.0	100.0
1940	[4] 106.4	108.4	86.3	106.5	96.2	106.7	141.4
1941	[4] 129.2	127.1	104.5	134.2	113.2	110.5	227.0
1942	[4] 126.9	126.4	71.7	149.5	122.5	76.1	357.4
1943	[4] 101.3	119.2	40.5	109.1	114.4	40.3	407.3
1944	[4] 92.1	114.5	39.7	74.4	91.1	44.4	362.5
1945	[4] 89.8	97.8	48.4	84.1	86.5	54.3	365.9
1946	[4] 125.1	121.9	103.0	134.0	89.6	108.3	486.1
1947	[4] 139.6	127.4	106.3	152.6	118.6	155.2	510.9
1948 [1]	[4] 147.5	130.1	123.8	167.7	127.3	168.3	657.4

[1] First 11 months.
[2] Includes 13 materials.
[3] Includes 20 materials.
[4] Includes 26 materials.
[5] Shipments.
[6] Not available.

Source: U. S. Department of Commerce, for comparable monthly data, 1947 and 1948, see Housing Statistics, December, pp. 7 and 8.

TABLE V.—*Indexes of construction cost and wholesale prices of selected building materials, 1920–48*

[1939=100]

Year	U. S. Department of Commerce		U. S. Department of Labor			
	Composite construction cost	Boeckh residences	All building materials	Brick and tile	Lumber	Plumbing and heating
1920	133.9	121.1	150.1	118.4	165.2	(2)
1921	108.9	97.3	97.4	105.7	88.9	(2)
1922	97.7	89.5	97.3	99.4	99.1	(2)
1923	107.1	100.3	108.7	103.6	111.8	(2)
1924	106.2	98.8	102.3	103.4	99.3	(2)
1925	104.8	98.1	101.7	100.1	100.6	(2)
1926	105.2	98.8	100.0	100.0	100.0	100.0
1927	104.4	97.5	94.7	95.7	93.1	92.0
1928	104.5	97.8	94.1	95.6	90.5	95.1
1929	106.7	102.0	95.4	94.3	93.8	95.0
1930	102.4	99.5	89.9	89.4	85.8	88.6
1931	93.8	91.7	79.2	83.6	69.5	84.7
1932	81.1	77.6	71.4	77.3	58.5	66.8
1933	87.1	77.7	77.0	79.2	70.7	67.1
1934	94.4	84.6	86.2	90.2	84.5	72.6

[2] Not available.

TABLE V.—*Indexes of construction cost and wholesale prices of selected building materials, 1920–48*—Continued

[1939=100]

Year	U. S. Department of Commerce		U. S. Department of Labor			
	Composite construction cost	Boeckh residences	All building materials	Brick and tile	Lumber	Plumbing and heating
1935	90.8	82.1	85.3	89.4	81.8	68.9
1936	92.8	85.9	86.7	88.7	87.0	75.0
1937	100.9	95.6	95.2	93.5	99.7	78.8
1938	99.7	98.2	90.3	91.0	87.4	78.5
1939	100.0	100.0	90.5	91.4	93.2	79.2
1940	102.7	103.7	94.8	90.5	102.9	80.4
1941	112.3	111.8	103.2	93.7	122.5	84.8
1942	129.1	118.1	110.2	98.0	132.8	95.4
1943	135.7	123.6	111.4	99.1	141.4	90.7
1944	133.3	134.7	115.5	101.7	153.3	92.2
1945	137.4	143.7	117.8	112.4	155.1	93.4
1946	159.6	159.2	132.6	122.9	178.4	103.8
1947	190.3	193.0	179.7	140.0	277.6	125.4
1948	[1] 210.6	[1] 214.7	198.6	155.7	311.2	147.6

[1] Average for first 11 months.

Source: U. S. Departments of Commerce and Labor; for monthly data 1947–48, see Housing Statistics, December, pp. 10–12.

TABLE VI.—*Comparison of nonfarm primary families, total money income and wages and salary income for 1947, with wages and salary income in 1939*

	1947		1939
	Primary families total money income	Primary families with wages and salary income	Primary families with wages and salary income
Number of families	30,205,000	26,520,000	([1])
Less than $500 percent	2.7	3.1	14.0
$500 to $999 do	4.7	4.6	20.2
$1,000 to $1,499 do	6.5	6.4	20.4
$1,500 to $1,999 do	7.9	8.7	17.1
Less than $2,000 do	21.8	22.8	71.7
$2,000 to $2,499 do	11.4	12.2	11.2
$2,500 to $2,999 do	11.4	11.7	6.0
$3,000 to $4,999 do	34.9	35.9	8.5
$5,000 and over do	20.6	17.4	2.6
Total do	100.0	100.0	100.0
Median	$3,224	$3,184	$1,389

[1] Comparable figure not available.

Source: Bureau of the Census.

TABLE VII.—*State of repair and plumbing equipment: Nonfarm and farm dwelling units, 1940 and 1947*

[Units in thousands]

Area, and state of repair and plumbing equipment	All ordinary dwelling units, 1947		All dwelling units, 1940	
	Number	Percent	Number	Percent
United States total	41,625	100	37,325	100
In good condition or in need of minor repairs	37,505	90	30,534	82
With private bath and private flush toilet	26,510	64	19,093	51
Without private bath and private flush toilet	10,995	26	11,441	31
In need of major repairs	4,120	10	6,791	18
With private bath and private flush toilet	819	2	1,480	4
Without private bath and private flush toilet	3,301	8	5,311	14
Nonfarm	34,133	100	29,683	100
In good condition or in need of minor repairs	31,430	92	25,485	86
With private bath and private flush toilet	25,041	73	18,363	62
Without private bath and private flush toilet	6,389	19	7,122	24
In need of major repairs	2,703	8	4,198	14
With private bath and private flush toilet	781	2	1,400	5
Without private bath and private flush toilet	1,922	6	2,798	9
Farm	7,492	100	7,642	100
In good condition or in need of minor repairs	6,075	81	5,049	66
With private bath and private flush toilet	1,469	20	730	10
Without private bath and private flush toilet	4,606	61	4,319	56
In need of major repairs	1,417	19	2,593	34
With private bath and private flush toilet	38	1	80	1
Without private bath and private flush toilet	1,379	18	2,513	33

Source: Bureau of the Census.

TABLE VIII.—*Vacancy and occupancy in nonfarm and farm dwelling units, 1940 and 1947*

[In thousands]

	Total	Nonfarm	Farm
PART A—1947			
Occupied dwelling units (household equivalent)	39,138	32,457	6,681
Ordinary dwelling units occupied by residents	39,016	32,354	6,662
Other dwelling places	122	103	19
Occupied by nonresidents	164	152	12
Unoccupied	2,445	1,627	818
Seasonal	1,087	839	248
Nonseasonal	1,358	788	570
Habitable	1,028	651	377
Rental or sales units	710	475	235
Offered for rent or sale	439	260	179
Rented or sold, not yet occupied	271	215	56
Other	318	176	142
Not habitable	330	137	193
Total dwelling units	41,747	34,236	7,511
PART B—1940			
Occupied dwelling units	34,855	27,748	7,107
Ordinary dwelling units occupied by residents	34,688	27,601	7,087
Other dwelling places	167	147	20
Occupied by nonresidents	106	90	16

TABLE VIII.—*Vacancy and occupancy in nonfarm and farm dwelling units, 1940 and 1947*—Continued

	Total	Nonfarm	Farm
Unoccupied	2,365	1,845	520
Seasonal	686	600	86
Nonseasonal	1,678	1,244	434
For rent or sale	1,514	1,132	382
Not for rent or sale	165	112	52
Total dwelling units	37,325	29,683	7,642

NOTE.—Figures for 1940 are rounded and therefore will not necessarily add to totals. Because of change in enumeration practice, data for 1940 and 1947 are not precisely comparable.

TABLE IX.—*Comparison of residential construction expenditures with gross national product and gross private domestic investment, 1929–47*

[Millions of dollars]

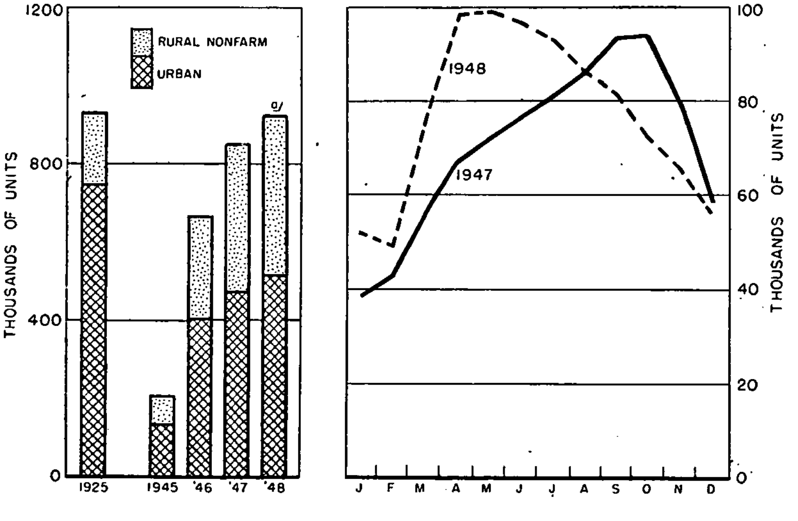
	Gross national product	Gross private domestic investment	Residential construction expenditures		Gross national product	Gross private domestic investment	Residential construction expenditures
1929	103,828	15,824	2,797	1939	90,426	9,004	2,114
1930	90,857	10,209	1,446	1940	100,477	12,983	2,355
1931	75,930	5,362	1,228	1941	125,294	17,211	2,765
1932	58,340	886	462	1942	159,628	9,330	1,315
1933	55,760	1,306	278	1943	192,573	4,591	650
1934	64,868	2,807	361	1944	212,231	6,395	535
1935	72,193	6,146	665	1945	213,429	9,244	684
1936	82,483	8,318	1,131	1946	209,266	26,458	3,183
1937	90,213	11,440	1,372	1947	231,636	30,031	5,260
1938	84,683	6,311	1,511				

Source: U. S. Department of Commerce, Bureau of Foreign and Domestic Commerce.

CHART 1

NONFARM PERMANENT HOUSING ACCOMMODATIONS STARTED

Total starts for 1948 are well above the 1947 figure and are exceeded only by the record of 1925; December however, is the fourth consecutive month that residential starts have lagged behind the corresponding months of 1947.

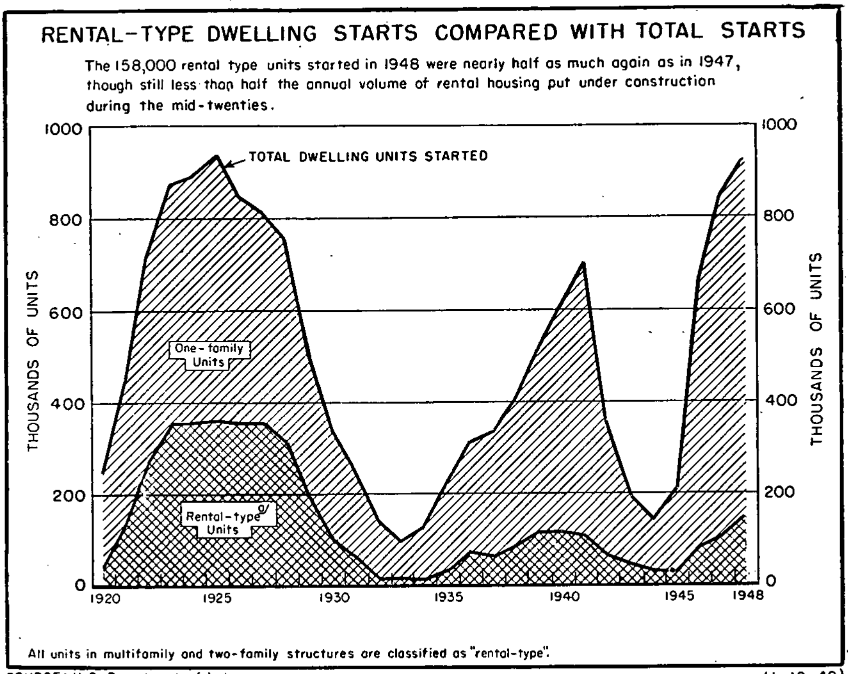


a/ Break between urban and rural nonfarm partially estimated.

SOURCE: U.S. Department of Labor

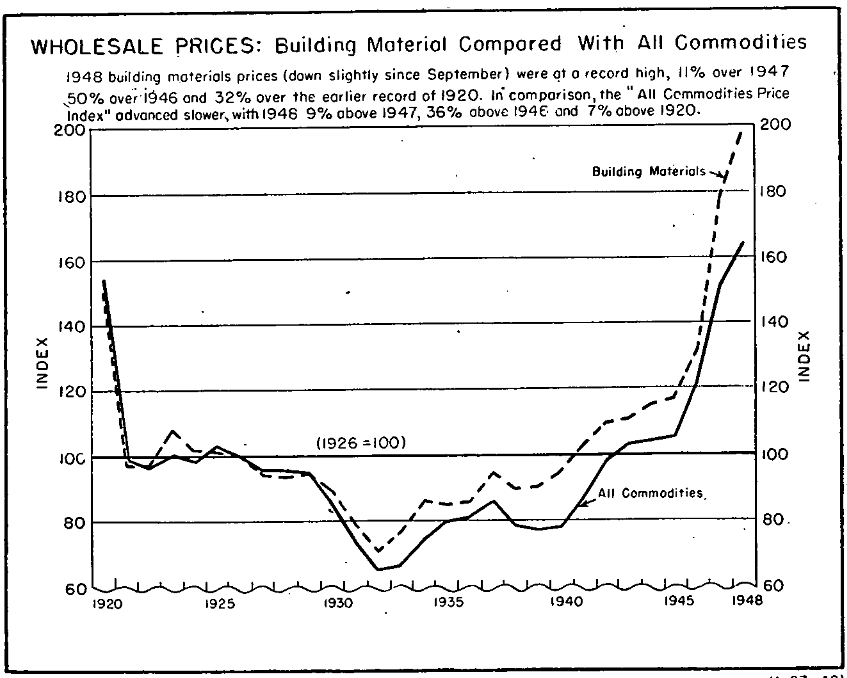
(1-12-49)

CHART 2



SOURCE: U.S. Department of Labor (1-12-49)

CHART 3



SOURCE: U.S. Department of Labor (1-27-49)

The CHAIRMAN. Are there any additional questions?

Mr. RICH. I would like to get the answer to the question I asked a short time ago. I am interested in knowing how far the Government can go now in order to try to get cheap housing. I would like to know what the actual costs are, in your judgment, at the present time, for the construction of homes.

Mr. FOLEY. What the actual costs are?

Mr. RICH. The actual costs, but also the reasons for the high cost of living in homes.

Mr. FOLEY. By that you mean, I assume, Congressman Rich, why have costs for producing housing risen so rapidly since before the war?

Mr. RICH. That is right.

Mr. FOLEY. I think the answer to that is contained in the words suggested to me by Senator O'Mahoney, an uncontrolled inflation, a lack of means of controlling a too rapid and perhaps, in many cases, unnecessary rise in the components.

I think it is essentially no different from the rise that has taken place elsewhere in the economy, the other necessities of living. But at least in some of the components of housing the rise has been out of all proportion, even to that—lumber, for instance, as I pointed out, having gone up to more than 300 percent of 1926 levels.

We hear lately of a drop in the price of lumber. There is great hope that that would be reflected markedly in the cost of housing.

However, when you realize that lumber had risen to that very high point and that the recent declines have been but a small percentage, and when you realize that generally lumber represents only about 20 percent of the cost of a house, a 10, 15, 20 or even 25 percent drop in the present price of lumber would be reflected in a very small decrease in the total price of the house.

If, however, by your question, Congressman, you contemplate a break-down of the cost of the components of a house and the history of their rise, we can give you that kind of data.

Mr. RICH. I have seen those figures, but I am interested in this: I hear so much about the high cost of homes and the fact that you cannot buy a cheap house today—that is, not a cheap house, but a good house cheap. The working man just cannot afford to buy a home. You built almost as many homes last year as you did in 1925, when you built more homes than in any other year in the history of this Nation. The great demand for homes requires the utilization of all the materials we have, both the labor and the materials which go into the building of a home. Naturally, that increases the price.

Now, if the Government goes into the construction of homes and makes labor more scarce and materials more scarce, how are you going to keep from increasing the price of all the homes you build in the future?

Mr. FOLEY. If we had to assume, Congressman, that we had reached the limits of our productive capacity and ability in the components of housing, the materials that go into it, and also had reached the limits of our ability to supply labor, then I think there would be validity in your question, not just because it involves public housing, but because any increased program——

Mr. RICH. Well, what is wrong with the question I asked?

Mr. FOLEY. I am trying to give my impression in response to it. What I was about to say is that I do not think we are at all justified in assuming that we have reached the limits of our productive ability for materials, nor that we have reached the limits of our productivity of our labor force, nor of the expansion of the labor force, in this field. Consequently, I contend that we can increase our production of houses correspondingly. It matters little whether that housing is built in one class or another, so long as we do maintain the improvement in the supply of materials and labor, consistent with the increase in the program of construction. That is contemplated in all that I have said.

But further than that, as an additional consideration in connection with the question you have put, there is a large element of the American people—opinions of percentage varying, but it is a large percentage—whose incomes are so low that they cannot now, and could not even in the low-price period before the war, equip themselves with decent housing at an economic price. We have to have an economic price for private enterprise to function.

Consequently, we have that need; we have had it, and it continues. Even at the possible price—and I do not admit this price—but even at the possible price that there might have to be some competition for materials in order to do it, I do not believe we can as a people ignore those needs and continue to ignore them—partly because of the economic results, which would be damaging, but more because of the human damage that would result and is now actually resulting.

Mr. RICH. I am interested in people getting houses, but you made the statement a while ago that the purchasing demand does not seem to be present for houses, and that there is a falling off right now for the construction of houses over what there was several months ago. Naturally that is because of high prices, is it not?

Mr. FOLEY. Yes; as I have stated. But I have not said, Congressman, that the need has decreased, nor the demand in the sense of reflecting a need. What I have said is that the effective market has declined for the type of housing that the industry has been providing.

The CHAIRMAN. Mr. Foley, may I suggest to you——

Mr. RICH. I just wanted to finish this up, if the chairman please.

The CHAIRMAN. If the Congressman will yield to me for just a minute, I was trying to point out some material which is now before us which I think answers the Congressman's question.

Mr. RICH. I don't want to leave the impression that I am not trying to get houses. I want to get houses. But I am just like Mr. Foley, I do not want to build any more houses because the cost is too high. Now he says that the demand is slackening off. Well, as the demand slackens off prices will come down for the construction of housing. Of course, it may not come down fast enough to get the volume of houses that we want. I am interested in knowing what his thought and idea would be as to what we could do as a government in order to accelerate the supply of these houses. I am interested in his answer.

Mr. HUBER. Will the gentleman yield?

Mr. RICH. Yes.

Mr. HUBER. Is it not possible if we had retained controls that we would not be faced with this situation?

Mr. RICH. No; it wouldn't make a bit of difference.

Mr. HUBER. It would not?

Mr. RICH. No.

Mr. HUBER. They told us the law of supply and demand would take care of itself here a few years ago.

Mr. RICH. You let the American people go ahead, and in a very short time they will furnish everything that the American people want. Whenever you put the screws on them and have everybody hollering and having to come to Washington to get information and to get permission from some of these bureaucrats to go out and get materials, you put the screws on the American people; the American people don't like it, and nobody likes it. It blocks progress.

I don't want any more rationing of these things, because we are going to get to that point where we are going to furnish homes, if you will stop this idea of trying to regulate everything the American people do.

I hope some Members of Congress, and the people of this country, and the bureaus that want to do that, will get that idea out of their heads pretty soon, because it just does not make sense to me.

The CHAIRMAN. Mr. Foley, may I interrupt at this point. I want to call particular attention to two of the tables which you are presenting. These are tables II and V. I believe they answer completely and conclusively the question which the Congressman from Pennsylvania has stated.

I know perfectly well from both public and private conversations with Congressman Rich that he wants adequate housing, that he wants all classes of people in the lower income brackets and in the higher income brackets adequately housed—just as he desires to see the maximum employment of his people because he is himself an employer. That is one of the reasons why he gets himself reelected, even in adverse years for his party.

Our problem is, how are we going to meet the dilemma? The question which he asks is based upon the assumption that if prices come down new houses will be built. Now, the record before us conclusively proves that houses are not built when prices are low, and when conditions are such as to produce unemployment. We have to find the balance.

On table II, you have some statistics showing housing starts, both privately financed and publicly financed. Beginning with the year 1935 it will be observed that the total number of houses started was 215,000. Then it goes to 304,000, 332,000, 399,000; 458,000 in 1939; 529,000 in 1940; 619,000 in 1941; and 301,000 in 1942. Of course, some of those housing starts in 1941 were due, no doubt, to the pressure of defense preparations.

On table No. V, it will be observed that the cost of all building materials in those same years, beginning with 1935, began to run up from 85.3 in 1935, to 110.2 in 1942. They went further in 1943 and the other years of uncontrolled inflation, until in 1948 the index reached a high of 198.6 for all building materials. It was precisely during that period that, because of increased prices, construction began finally to fall off.

Now we are in the position where, because prices have been completely uncontrolled and we have been waiting for the normal bust and boom theory to take effect, housing starts have fallen off. Now, isn't that the fact as presented by your testimony?

Mr. FOLEY. That is true. That is, of course, the purpose for presenting the tables, to illustrate that cycle. Obviously, no matter how low the price of housing may be, it cannot be sold in volume if everything else is still lower. The situation confronting us now is the result of a shortage in housing supply and no controls in either the price of housing or the price of the components of housing.

The most inflationary thing that could happen to us in housing at this time and for years to come would be too small production. If we fell back to the production illustrated in some of those years in the depression, I think a still greater inflation in the price of the existing inventory would happen because of the pressures by new families and demands for housing.

But we are trying, as Senator O'Mahoney has pointed out, to get into some state of balance here with respect to price and the ability of the people to pay.

Congressman, if I may refer back to your conversation of a moment ago, the estimates of the Commerce Department for the coming year are about 875,000 units in private construction. That is based, however, upon the expectation that there will be a larger production in lower price areas. That is exactly what we are trying to accomplish, first, through the effort that we are putting on in the industry now, and second, through certain legislative proposals that we think will furnish a stimulus in that direction.

Mr. RICH. But is it not a fact that since lumber is becoming scarce—we do not have the forests—they are manufacturing now a great many substitutes, such as plyboard, for the sheeting lumbers that are becoming more extensively used? And also for joists they are using so many steel joists now. That is becoming quite an industry, doing away with the 2 by 10's, or 2 by 12's, we will say. They used to use up a lot of lumber.

Now they are being manufactured by the steel mills. I notice a great many of them being used where I never dreamed of such a thing myself 2 or 3 years ago.

So as we get into the manufacture of those articles, with the competition that we have, we will say, by other countries in bringing this stuff in. Eventually, it seems to me, we ought to get much cheaper prices when we get a great deal more competition in those things.

Mr. FOLEY. The development of new materials, as well as the development and application of new techniques, are to us two of the very important possibilities in bringing about eventual reduction in the cost of producing housing. They are, in fact, two of the very important reasons why we are urging authority for a broader research program in housing for the Federal Agency.

Mr. RICH. Just one question. Do you think the amount of material we are exporting, if it could be used for our own homes, would have a great influence in keeping up the price of housing materials?

Mr. FOLEY. I think not, Congressman. The whole matter of export of building materials has been very carefully studied and reviewed and controlled. The problem, insofar as it relates to housing, has been constantly reviewed by us with the export authorities. Up to this time I think these statistics will show the exports have been so minor they have had relatively small effect on the cost of housing.

Mr. RICH. But is it not a fact that every carload of lumber you ship out of this country that could be used in the construction of homes here at home tends to make the material that much more scarce here?

Mr. FOLEY. If it were only that consideration, yes. But there are balancing considerations of imports and other materials which we need, and I think even balancing imports of lumber.

Mr. HUBER. Mr. Chairman, the gentleman from Pennsylvania has contributed more testimony than the witness.

The CHAIRMAN. He is contributing some pretty good testimony.

Mr. HUBER. I would like to ask him a question.

Mr. Rich seems to have some knowledge of bricklaying. What do you feel would be a fair wage for a bricklayer?

Mr. RICH. I haven't any knowledge of bricklaying. I only know what bricklayers are getting. The bricklayers, as I said, got $2.61½ an hour for laying brick and they laid 400 a day; then when they worked under contract they laid 1,000 a day; I just called attention to the difference between 400 brick and 1,000 brick—and I don't care how much the bricklayers got—they were the same bricklayers. That is the point I make.

Mr. HUBER. I asked you for an answer to a question and not for a speech. How much do you think they should make as an annual wage per year, a bricklayer?

Mr. RICH. Well, I don't know. The bricklayers have a good wage scale.

Mr. HUBER. I thought we might have something in the record there. Of course, a bricklayer isn't like a Member of Congress. We get paid whether we have a session or not. In all the discussions around here this bricklayer always turns out to be a scapegoat somehow or other. I wonder if you marked off the cost of all the bricklaying we still wouldn't have prices rather high.

Mr. RICH. You didn't hear me say anything about the bricklayer getting $2.61½ an hour, did you?

Mr. HUBER. Well, I didn't think——

Mr. RICH. When the bricklayer gets $2.61½ for one job and lays 400 bricks, and then turns right over the next week to another job under contract where he lays 1,000, I say that is not honest.

The CHAIRMAN. The committee will come to order, please. Let us get back to the issue. This committee was not assembled to consider wages and hours. We are here to discuss what Government shall do with respect to the economic problem. At the moment, we are dealing with the question of what, if anything, the Government should do with respect to housing.

I think the Congressman from Pennsylvania has raised a very important issue here. His question to the witness was, "Is it not a fact if we exported less materials, less building materials abroad, we would have more to use on domestic construction?" He wanted to know whether or not the amount exported would have an appreciable effect upon costs at home. Is that not correct?

Mr. RICH. That is correct.

The CHAIRMAN. I desire to point out that when we, by Government action, control exports we inevitably say to some businessman, some free enterpriser engaged in the export trade, "Even though you want to send your materials abroad, the Government says you may not do it." So the Congressman is arguing for Government control of the free enterprise of exporters in selling their own product abroad. [Laughter.]

Mr. RICH. Oh, Mr. Chairman, you are mistaken. I want the Federal Government to stop buying this lumber and sending it to foreign countries, and to keep it for our own people here in America. That is what I want. I want the American people and the American Government to take care of our American homes. I don't want them to be spending everything on taking care of foreign governments and foreign people. It is our duty to take care of our own people first. If that isn't good Americanism, then I want you to show me what is.

The CHAIRMAN. Well, I will say to the Congressman that that is the issue upon which both Democratic leaders and Republican leaders are in complete agreement.

Mr. RICH. I don't agree with either one of them on that. I am for America and American homes.

The CHAIRMAN. And I suggest to the Congressman that he take that up with Governor Dewey and Senator Vandenberg, and let us get along with our questions here.

Are there any other questions?

Senator DOUGLAS. I have a few questions.

The CHAIRMAN. Senator Douglas.

Senator DOUGLAS. Mr. Foley, the first bill you referred to calls for a total construction of 1,050,000 housing units, as I understand it, within a period of 7 years, or an average of 150,000 a year.

Mr. FOLEY. That is public housing units.

Senator DOUGLAS. Would it not be a good plan to have this rate of construction altered according to business conditions? Instead of constructing 150,000 each year, would it not be well to give the President discretion to alter the rate, let us say, between a minimum of 50,000 and a maximum of 300,000 each year, so that in periods of depression we could throw a large volume of construction into the breach? That, of course, would give employment and create some secondary effects of building up purchasing power. At the same time, it would enable the construction to take place at lower cost levels than would otherwise be the case.

Conversely, when you have full employment and rising prices, if you cut the volume of construction down, you would not put a strain upon materials, you would not accelerate the forward movement of prices.

In short, shouldn't our target be construction of 1,050,000 homes in 7 years, rather than the construction of 150,000 each year? Should not any bill have large discretionary limits, so that the rate of construction could be accelerated in periods of depression and dampened off in periods of high employment?

Mr. FOLEY. First, bill S. 138 provides, as you will recall, Senator, a discretionary power in the President to increase the annual authorization of starts from 150,000 to 250,000 in a given year, that increase, of course, being geared to what might be the economic situation.

Your suggestion is that the escalator work both ways.

Senator DOUGLAS. That is right.

Mr. FOLEY. And that it be so set up that the President would have the authority to reduce it below the 150,000 per year.

As I understand your question, you base the argument as to the desirability of such a device entirely on the economics of the situation. If, Senator, I could feel, as the responsible housing official upon whom you are calling for an opinion, that all we had to consider in connection with a public housing program such as is suggested was the economic factor, I would readily agree with you.

However, it seems to me that we have delayed so long, that we have so many human values involved which we have been neglecting for many years, first, because of economic conditions; second, because of the war; and third, and perhaps most importantly, because of our inability to reach agreement—that actually a generation of children has grown up under slum conditions which everybody joins in saying are bad and should not be tolerated.

Consequently, I hesitate to say that the Congress of the United States should declare, in effect, that we are concerned with the production of housing for those unfortunate groups only insofar as it will represent for us no economic strain, or little economic strain.

It would seem to me that important values for the future of this country, social and economic, are involved in the fact that perhaps some two or three or four hundred thousand children might be condemned to more years of slum environment by such an evaluation of the program. That is an extremely important consideration. I believe it ought to be weighed equally with the question of whether we might have to pay some relatively small amount more per unit, because of some competitive situation created; or that we might—and I do not grant, as I said a while ago, that this price would be involved—we might put some handicap in the way of the utmost possible expansion of private production. I do not believe we would, but even at that price I think we would have to consider very seriously the human values I have outlined.

Mr. BUCHANAN. Mr. Foley, is there a shortage of mortgage credit for residential construction at this time?

Mr. FOLEY. I would say in the over-all, probably, no. I would say that there is, however, a spotty situation, both geographically and with respect to types. That is one of the things we are seeking to approach through the proposals for amendment of the law with respect to the RFC and the Federal National Market Association.

Mr. BUCHANAN. Do you have any figures to indicate under Public Law 901, which was passed in the summer of 1948, how much allocations for family dwellings picked up?

Mr. FOLEY. Does your question relate to the voluntary allocation of materials?

Mr. BUCHANAN. No.

Mr. FOLEY. Will you repeat it, please?

Mr. BUCHANAN. Available under 608—they made available additional allotments when Public Law 901 was passed in the special session this last summer.

Mr. FOLEY. You mean in the secondary market?

Mr. BUCHANAN. No, no.

Mr. FOLEY. You mean the use of 608 itself?

Mr. BUCHANAN. Yes.

Mr. FOLEY. The use of 608 is a special section relating to insurance and mortgages which makes possible the insuring of 90 percent loans on current cost, tied to a 1947 bench mark rather than value, for multifamily construction.

The fact of the matter is that the FHA has been having a continuing high volume of applications. Recently Commissioner Richards has advised me that that volume is stepping up. That is probably due to the usual situation. That law has a terminal date at the end of March, I think, and its extension is now being proposed. Always as we approach a terminal date we get an increase of applications, against the fear that it might not be extended.

But there, I think, an examination of the distribution of the applications would probably indicate what I have just said: a spottiness geographically in the availability of funds. They are not generally available throughout the country at the 4 percent rate; that is, as available as they would be if there were more secondary markets, either publicly or privately.

Does that answer your question, Congressman Buchanan?

Mr. BUCHANAN. Yes, sir.

Mr. RICH. May I ask another question before we are through?

The CHAIRMAN. Certainly.

Mr. RICH. Mr. Foley, I am very much interested in this slum clearance, and especially here in the District. But the thing on my mind now is this. Before we start out on slum clearance should we not build cheaper homes in a location where we do not have to disturb the slums immediately, until we can get additional homes? Then after we get more homes we can eliminate these slums in all cities in order to take care of our people. Should that not be our personal objective rather than the thought of slum clearance?

Mr. FOLEY. Actually, what is proposed in the legislation we have mentioned here a number of times is, for the first time, the application of a dual approach. That legislation would provide for a slum clearance program per se, as distinguished and separate from a public housing program. If enacted it would to a very large extent, I believe, meet the point that you are raising, Congressman.

Mr. RICH. I think we ought to try to get homes for our people first and then try to get rid of these slums just as quickly as we can get rid of them.

Mr. FOLEY. Actually, the provisions of S. 138 with respect to slum clearance make a stipulation for the delay of starting of clearance as against a housing shortage.

Mr. RICH. I have a letter here that I would like to have you see. It came from one of my constituents in Montgomery, Pa., a man 71 years of age who rents his house for $20. He says that other people have houses not as good as his who get $40, $50, and $60. He doesn't know why he cannot get a little bit more than $20 for his house, which he has been renting at a price set long before the war started.

If I can give this to you and get an answer from it I would appreciate it because I want to answer this gentleman. This comes to his Congressman.

Mr. FOLEY. Congressman Rich, I would suggest you hand it to the witness who follows me. He is the Housing Expediter and in control of rents.

Mr. RICH. I will give this to him, sir, and I hope he will give me a reply.

Mr. HUBER. Mr. Chairman.

The CHAIRMAN. Congressman Huber.

Mr. HUBER. Recently, Mr. Foley, I visited in Puerto Rico where I saw the largest housing project in the world, so I am told. I have been wondering, while we discussed slum clearance and all that, if that can be done in a country like poor little Puerto Rico which is without natural resources or any of the other advantages—and I understand there was Federal participation in the loans—would there be any reason why we could not do the same thing for Chicago, Pittsburgh, or some other place?

Mr. FOLEY. Yes, we could do things relatively the same. Whether you can meet the costs and prices involved there is a very serious question. I am very familiar with that project and have been since its beginning. Since you were there you saw the marked contrast between it and that famous slum in the mud of the creek.

Those new houses are built almost entirely of concrete. Under the tropical conditions that prevail there, of course, there can be adequate housing with a great deal less than is required in the northern parts of this country, or even in the South.

Mr. HUBER. I appreciate that.

Mr. FOLEY. Actually, they had a good deal of assistance from the insular government, particularly in relation to sites and development cost of land. But it is still a remarkable development and furnishes a remarkable contrast in living conditions.

It is interesting that many of the people who are buying those houses, I am told, are coming out of the slum—El Fengita—where they were living, not because they did not have an income that would justify living elsewhere, but because there was no other place available where they could live.

Yes, I think it is our duty, both privately and publicly, to explore every possibility. I think that is inherent in what I have been saying here today; namely, the development of the possibility of private enterprise building lower and lower down in the income scales of our people and still producing acceptable housing that will maintain decent living standards.

Our agency is devoting itself to that matter.

Mr. HUBER. Would that not be one of the best ways to stave off the threat of communism, to provide adequate homes for the American people?

Mr. FOLEY. It seems to me it would be perfectly clear that it would, Congressman.

Mr. HUBER. That is all.

The CHAIRMAN. Thank you very much, Mr. Foley. The committee is indebted to you for your presentation, and particularly for your good humor.

Mr. FOLEY. Thank you very much, Senators and Congressmen.

The CHAIRMAN. Mr. Woods.

May I say before the next witness opens his testimony that it will be the plan of the committee to reassemble at 2:30 this afternoon, at which time Secretary of the Interior J. A. Krug, will appear to testify.

Mr. Woods, you may proceed.

STATEMENT OF TIGHE E. WOODS, HOUSING EXPEDITER

Mr. WOODS. Mr. Chairman, I appreciate the opportunity of appearing before this committee to discuss the present housing shortage, as it relates to rent control. I am at present appearing before the House Banking and Currency Committee, concerning

House bill 1731, introduced by Congressman Spence, entitled, "To extend certain provisions of the Housing and Rent Act of 1947, as amended, and for other purposes."

I should like to summarize the facts and views on extension of rent control which I presented before that committee.

A critical shortage of rental housing accommodations continues to exist in the 600 defense-rental areas throughout the United States. This is one of the major shortages contributing to inflation in our economy.

One indication of the rental housing shortage is the extent to which the rent level for decontrolled housing accommodations exceeds the controlled rent level. The present rent control act automatically decontrolled a number of types of rental dwelling units, among which were new construction, conversions, units not rented for a 24-month period after February 1, 1945, and permanent units in hotels. Our area rent offices have, in the last 2 months, investigated 44,626 decontrolled dwelling units of these types in over 1,000 cities and towns in all 48 States.

They have reported for each unit the present rent and the last rent under rent control or the rent for a comparable controlled unit. For 7,946 of these units the present rent is more than double the last rent under rent control or comparable controlled rent, and the average rent for all 44,626 units is 55 percent higher. I recognize, of course, that increased material and labor costs would justify somewhat higher rents for newly constructed and converted units. However, the reports for 13,416 permanent hotel units and units not rented for a 2-year period show that their present average rent is 60 percent higher than their average previous rent or comparable controlled rent. It would apper, therefore, that the lack of rental housing is the principal factor which accounts for the exorbitantly high level of decontrolled rents.

Additional evidence of the shortage of rental housing is revealed by surveys made to determine the possibility of decontrolling areas or portions of areas. Within the past 9 months, members of my staff have made surveys in 906 counties throughout the United States. On the basis of all our surveys, I have been able to take only 26 decontrol actions. Also, since April 1, 1948, rent advisory boards have on their own initiative recommended decontrol of only 14 areas or portions of areas, and only one of these recommendations contained sufficient evidence to permit decontrol.

I should like to point out that there are 767 of these local rent advisory boards throughout the country. The total of 27 decontrol actions affected about 21,000 rental units in 25 areas or portions of areas. Decontrol has generally been possible only in "fringe communities" outside the main population centers. In all other areas surveyed, there was evidence of a continuing rental housing shortage which made decontrol impossible.

Recently I requested the Bureau of Labor Statistics to conduct a vacancy survey in Dallas, Texas, because I was told Dallas had 2,000 vacant units begging for tenants or purchasers. This survey, which was made in December 1948, shows that the vacancy rate was only 0.8 percent for habitable units offered for rent and only 0.5 percent for habitable units offered for sale. Of the vacant rental units, 88 percent had been completed within the last 6 months and the median monthly rent asked was $95 per month. Although the median rent for the older vacant units was $43 per month, three-fourths of these units lacked one or more standard facilities. Of the vacant sales units, 71 percent had been completed within the last 6 months and the median sales price was $11,500.

Evidence of the fact that the vacancies in Dallas are not adequate to meet the demand for rental housing is contained in a statement made recently to our area rent director in Dallas by the executive director of the Dallas Housing Authority. He said that the authority had 16,000 applications from tenants seeking units renting for $30 to $50 per month. This was a current list of applications none of which was over 90 days old. The tenants experiencing the greatest hardship and difficulty in finding rental units were those with children. A great many of the applicants were living doubled up with relatives or in single rooms with makeshift kitchen facilities. According to the executive director there is a minimum of 10,000 tenants lacking adequate shelter who need housing at rents they can afford to pay.

We also requested the Bureau of Labor Statistics to make a vacancy survey in Des Moines, Iowa. It was found that in December 1948 the vacancy rate for habitable units offered for rent was only 0.4 percent and for habitable units offered for sale only 0.5 percent.

Another indication of the housing shortage is provided by local estimates of the need for rental housing in our larger cities. We recently secured such estimates for 91 cities with a population of 100,000 and over from city officials, housing authorities, real-estate boards, veterans' organizations, home placement and welfare agencies, employers, research organizations, civic clubs and other responsible groups and individuals. A total of the more conservative estimates shows an immediate unfilled need at the end of 1948 for more than 1,000,000 rental dwelling units in these 91 cities.

Thus, all available evidence points to the fact that the demand for rental housing has not been reasonably met in most communities.

This rental-housing shortage exists despite the high volume of new construction during 1948. I might point out that relatively little of the new construction was offered for rent. For example, in the 91 cities surveyed, it is estimated that not more than 97,000 newly constructed units were offered for rent during the first 10 months of 1948 Most of these new rental units were in the $75 to $100 per month class, but the predominant demand was for units renting for $40 to $50 per month. In the entire United States during 1948, only about 17 percent, or less than 160,000, of the 930,000 non-farm-dwelling units started were rental-type units.

Mr. Rich. May I ask a question right there, Mr. Woods?

Mr. Woods. Yes, sir.

Mr. Rich. Have you made a study to find out whether it was feasible to build houses for rental at the figure of $40 to $50 in comparison to the ones that were being rented from $75 to $100?

Mr. Woods. No, sir, we have not made any such study. We have only the evidences of the demand and the supply available to fill that demand.

Mr. Rich. From your knowledge of the housing and rental situation are there many people going into the building of rental properties?

Mr. Woods. No, sir, I would say not.

Mr. Rich. Why?

Mr. Woods. Not nearly enough.

Mr. Rich. Why?

Mr. Woods. Because of the cost of construction of rental housing.

The outlook for new permanent non-farm-dwelling units to be started in 1949 is about 875,000, according to the Bureau of Labor Statistics. This is less than the present unfilled need for rental units alone in the 91 cities surveyed. If 17 percent of the new units started in 1949 are offered for rent, the total number of rental units started in 1949 will be less than 150,000. This total for the entire United States would not be enough to satisfy the need for rental housing in three or four of our larger cities.

It should be noted that the present need for more than 1,000,000 rental units in 91 cities is only a part of our total housing need. Other demand factors include: the present need for rental housing outside the 91 cities surveyed; the present demand for reasonably priced new houses for sale; additional housing demand due to new family formation; units needed to replace demolitions, disaster losses, and completely uninhabitable dwellings; and units needed to provide the minimum margin of vacancies necessary to relieve inflationary pressures and to provide a normal housing market. Taking all of these factors into account, it is apparent that the demand for rental housing will not be reasonably met within the next 2 years.

On July 1, 1947, the authority to bring treble damage actions, to apply criminal sanctions and to regulate evictions was taken away from the administrative agency. Since the removal of this authority, the acute housing shortage has led to a growing black market in rents.

For example, the Bureau of Labor Statistics recently made a comparison of actual rents and legal rents in Philadelphia, Pa., at our request. An overceiling rent was found for 1 out of every 4 units compared. The average overcharge was 34 percent above the legal rent. The actual rents were those reported in the Bureau's regular November 1948 survey. These rents were compared by BLS with maximum legal rents on record in our area rent office, but the identity of the individual units in the representative sample used by the Bureau is confidential and was not disclosed to us. A similar study made by BLS in March 1946 showed overcharges for less than 1 out of every 12 units compared.

Other evidence of widespread violations was revealed in recent surveys of rents paid by the personnel of eight military establishments. In the course of these surveys overcharges and illegal reductions in essential services were discovered in 20 percent of the privately owned rental units. Similar surveys were made from year to year prior to 1947. The results of the present surveys show a shocking increase in the number of violations.

For these reasons rent control should not only be continued but strengthened.

Veterans and their families are now given preference in the rental or purchase of all new residential construction. Hundreds of thousands of veterans returned to find a critical housing shortage and have been unable to obtain separate or adequate housing for themselves and their families. I believe that the desperate plight of the veterans amply justifies the continuation of the preference provision and I believe it is a sacred obligation of our Government to do all in its power to assure that they get first choice of new dwellings.

I should like to summarize the recommendations I made to the House Banking and Currency Committee on the extension and strengthening of rent control and on veterans' preference.

1. Rent controls should be extended for a 2-year period beyond the expiration date of the present act. It is my judgment that the demand for rental housing will not have been reasonably met within this period and that the inflationary pressures which would be exerted if controls were removed from the estimated 14,350,000 rental dwelling units now under control would be a serious blow to our economy.

2. In order to curb the growing black market in overceiling rents the Housing Expediter should be given authority to bring treble damage actions for willful overcharges, apply criminal sanctions for willful violations of the act, and regulate evictions.

Mr. RICH. May I ask a question right there?

Mr. WOODS. Yes, sir.

Mr. RICH. If a tenant and a landlord are perfectly willing and agree to a rental basis that might be out of your regulations, would you still want to bring charges against that individual?

Mr. WOODS. If they agreed to violate the act?

Mr. RICH. Yes, if they willingly agreed to have a rental that was satisfactory to the renter and to the rentee, yet it might be contrary to some of the rules and regulations laid down by the rent control board, would you want to bring treble damages against them for violating your regulations?

Mr. WOODS. We would like to bring damages. It may not necessarily be treble for this reason: In a situation of such acute shortage it is very hard to determine the willingness or voluntariness of the tenant to pay. He is not asked, he is told what he shall pay.

Mr. RICH. And in the same spirit you tell the landlord just what he can do, do you not?

Mr. WOODS. Yes, sir.

Mr. RICH. You force him. But you do not want the other fellow to have any degree of that. There may be some unwillingness on the part of the fellow to pay an increase in rent, yet he realizes that probably it should be done. You do not want him to think that he should have any idea in his own mind that he ought to give the fellow a little more rent, and therefore you want to punish him because he disobeys your rules and regulations?

Mr. WOODS. Only for an illegal rent. We have 15 grounds for adjustments in the rents. If the tenant, for example, asks the landlord to give him some service or piece of equipment that he has not had, or would like to have, it is perfectly legitimate for the landlord to come in and get an order increasing the rent. But the ones I would object to and feel we should have the right to stop are those that simply say, "I want so much more rent," simply because they have to rent that place or because you have to stay in it.

Mr. RICH. I appreciate that there are a lot of people like that. I know some people who, if it were opened up, would force the tenants out, even if they offered $200 and the landlord only wanted $100, because they have been at such loggerheads for the last 2 or 3 years. They would get rid of them at the first opportunity. There has been a lot of trouble on that.

Now, what I am interested in is this: Some of these people have had these properties since long before the war. Just like this letter I read a little while ago, I do not know anything about that but I get those complaints. Where an individual is renting a house, and he says he rented it to a man for $20 at the prewar level, and other people are getting two or three times that amount for a similar house, it seems to me he should get a little bit of consideration by your organization. That is the point I am trying to bring out now.

Mr. Woods. As I studied that letter in the few minutes I had to look at it, it seemed to me, without going into the facts, what that man is pointing out is what I would call one of the inadequacies of the present act. That is, that certain classes of accommodations, because of certain reasons, have been decontrolled. That is exactly like this man's property. He wonders why that fellow gets away with $50 or $60, and he is held to $20. Well, we can do two things. First, we can definitely look and see whether he is entitled to more rent and then——

Mr. Rich. What I hope you will get into the new law, if it is extended, is some rhyme and reason for all this. Right is right, and wrong is nobody. You ought to try to make it right and get these adjustments so that they are as near right between man and man as is possible.

Mr. Woods. Yes, sir.

3. Permanent dwelling units in hotels and housing units not rented for a 24-month period should be brought back under rent control because their decontrol has created inequities and evasive practices and has not served the intended purpose.

4. Units created by conversions should be decontrolled only upon order when the conversion results in additional self-contained family units.

5. The Housing Expediter should be authorized to recontrol areas and establish controls in new areas where this is warranted by the national defense program or other changing conditions.

6. Where rent advisory board recommendations are not approved by the Housing Expediter, the case should be reviewed by the Emergency Court of Appeals only upon complaint filed by the Board in order to eliminate unnecessary work where the Board does not desire such review. The time for review of board recommendations by the Emergency Court of Appeals should be extended from 30 to 60 days.

7. The provision for voluntary leases should be dropped because this provision was originally based upon the assumption of a rapid termination of controls, which is no longer true. There is ample provision in the law and regulations for justifiable rent increases.

Senator Douglas. Mr. Chairman.

The Chairman. Senator Douglas.

Senator Douglas. I wonder if Mr. Woods would expand on the point in his statement:

> There is ample provision in the law and regulations for justifiable rent increases.

Mr. Woods. Yes, sir.

Under the present regulations there are, I believe, 14 separate grounds for rent increases. They range all the way from increases for such things as major capital improvements, increases in service, financial hardship due to a change in the landlord's net income position, to a landlord operating at a loss, a landlord who has rents substantially below the generally pervailing rent for similar accommodations. There are a few others.

Senator DOUGLAS. What about the increased operating costs such as the increased cost of fuel, janitor service, and so on? What credence do you give those matters?

Mr. WOODS. We give them credence as they are reflected in each particular landlord's operation. In other words, we do not say in a community that because coal has gone up 50 percent, all landlords are entitled to a certain increase. But we do take the landlord's operating statement from a base year which he chooses, and in the current year we can reflect the increased costs of fuel, maintenance, repairs, decorating, or what have you.

Senator DOUGLAS. Don't misunderstand me. I am for rent controls, because I think there are not a sufficient number of units to meet the needs. If we were to take off controls we would have skyrocketing rents. But I wonder if this situation does not result in individual bargaining by the landlords, rather than collective bargaining. I wonder if you are not asking the individual landlord to come in and plead hardship. A good many small landlords are not in a position to do that, and then you may have the entire class of small landlords in a position where their net income is appreciably less than before, to say nothing of the fact that each dollar of that income has much less purchasing power than it had before.

Mr. WOODS. Senator, I would like to answer that in two ways:

First, for any community in which those increases have become so widespread we have under the act local rent advisory boards, which are appointed by me, as citizens to make recommendations where such a situation exists. In those cases we have given some area-wide increases.

Also for the small landlord, the one who may not have his records or may not have saved his bills. Last July we definitely separated the small landlords from the more professional ones. We gave the small landlord of one to four units an opportunity to fill out a simple form for a rent adjustment. It is true, he still must fill out a form, but it has been very much simplified. It is not difficult, because we use the items of increased expense and if he cannot produce his bills, the expenditure can be verified by checking the records of the various companies.

Senator DOUGLAS. Have you any figures on the rent profit margins of landlords now as compared to what they were, say, in 1931 or 1935?

Mr. WOODS. No; our only good figures would run from 1940 to 1946. I can give you that.

The OPA used to make detailed accounting surveys in 34 cities, using the same properties year after year. The figures showed that in 1946, the landlords' net operating position for those 34 cities—excuse me, it was 98 cities—was 24 percent, approximately, better than their position in 1940.

Senator DOUGLAS. That is dollar terms?

Mr. WOODS. Yes, sir.

Senator DOUGLAS. Real purchasing power, however, since the increase in the cost of living, has been about 30 percent, that would mean a decrease of 5 or 6 percent in his real purchasing power?

Mr. WOODS. Well, in the same studies they usually divided it between apartment houses and small structures, and it was even higher for the small structures, it was about 31 percent.

Senator DOUGLAS. Do you have any statistics on what has happened since 1946?

Mr. WOODS. No, sir; we do not. Excuse me, we do have for one city, New York. The survey that had been made at that time was brought up and made current through 1947. For the city of New York, we found the landlord's net position was nine-point-something better than it was in 1943, which, of course, was the year in New York when the rents were frozen.

That is the only city, and that was done at the request of the local rent advisory board.

Senator DOUGLAS. Was that after taxes?

Mr. WOODS. After real estate taxes; yes.

Senator DOUGLAS. And after operating costs?

Mr. WOODS. After all operating costs.

Senator DOUGLAS. After interest payments?

Mr. WOODS. No; not after interest payments. We do not take in interest.

Senator DOUGLAS. But of course the increase in the cost of living from 1943 to 1948, was definitely more than 9 percent, so that in practice, while the landlord might have received nine more dollars, those dollars had much less purchasing power?

Mr. WOODS. I have one other item on that which might be of interest to you, because it is very current. The rent advisory board in El Paso, Tex., felt that a certain class of property there, the cold-water flats or the tenement-property class, which I gather is very large in that city, was suffering from a hardship situation. They asked if it would be permissible to make a survey of the operating conditions of just that type of property, which was agreeable, since they could distinguish it as a class. They have just told us they are not going to make any recommendation, because they found that between the freeze date and the end of 1948 the landlord's position in that type of property had bettered itself by 11.2 or 3.

Senator DOUGLAS. I think you have a very difficult problem. On the one hand you want to protect the tenants from terrific rent increases which would come if the controls were removed. On the other hand, you do not want to do an injustice to the landlords.

Mr. WOODS. I agree with you, Senator. I think our toughest problem is to find equitable adjustments and be sure we give equitable adjustments to landlords.

Senator DOUGLAS. I wonder whether you are more or less forcing landlords to show hardship in individual cases; and don't you make it pretty tough for a small man and put him in the position of an individual worker before a union where he has to plead his case for an individual adjustment.

Mr. WOODS. I do recall our petitions—and I will concede they have to file a piece of paper—we have been granting over 73 percent of them currently and we are granting rent increases of about 19 percent in those cases.

We have granted about 1,800,000 rent increases. There were also a lot of landlords who were able to take advantage of the voluntary 15 percent rent-increase provision. A lot of them have been decontrolled. Altogether, I would say that out of the 17,000,000 units that have been under rent control since 1942, about 6,000,000 have a different rent than their freeze date rent or are no longer subject to rent control.

Senator DOUGLAS. Would it be accurate to say in military terms that you have been fighting a holding action against rent increases, having slight increases, and then falling back to more or less prepared positions?

Mr. WOODS. No; that is not our attitude. I feel if a landlord has the right to a rent increase, and I like it on the individual basis, we should give him all the assistance possible to get that legitimate increase.

Senator DOUGLAS. I did not mean to impugn your motives at all, Mr. Woods, but I wondered if that was not the effect of the regulations.

Mr. WOODS. No. I think we try to encourage rent increases where they are allowed, that is, where they belong.

The CHAIRMAN. The statistical information which has been presented to us with respect to price increases always shows that rents have remained practically level. As I recall it now, the increase is probably about 3.5 points. That increase has been most pronounced since the passage of the most recent control bill.

My question to you is: To what extent are those increases unjustifiable, and to what extent have they been justified? You have just said it is the policy of your agency to grant increases where the landlord can prove a case. In what proportion, therefore, of these increases may we infer that they were unjustifiable?

Mr. WOODS. The increases I gave you in our statistics as to the 1,800,000; those were actual rent increases obtained through the filing of petitions and getting an order.

The CHAIRMAN. Those were increases which you allowed?

Mr. WOODS. Yes, sir.

The CHAIRMAN. And therefore you felt they were justified?

Mr. WOODS. Yes, sir. The over-all rent-increase figure from the BLS, from the general date when rents were frozen in 1942 to the present, is 9.7. That might take in and could very well take in some illegitimate rent increases. We could not say that those were all legitimate because their reasons and methods of gathering information are different. They are not interested in seeing how many people are violating. They go to various places and get the information.

The CHAIRMAN. From your experience in dealing with these applications for rent increases, what, in your opinion, would be the result with respect to the over-all increase if rent control was abandoned?

Mr. WOODS. Based on experience with decontrolled types of property, I would say if we abandoned rent control suddenly we would have a sudden rent increase of at least 50 percent.

The CHAIRMAN. Where is the rental problem most acute, in what parts of the country, and in what types of communities?

Mr. WOODS. I think it is all over. We found it in small communities, as well as in the large cities. I do not think you can geographically point out any one place or any one section of the country.

The CHAIRMAN. Do you think, therefore, the rental housing problem is acute in all parts of the country, rural and urban alike?

Mr. WOODS. No, no; it is not.

The CHAIRMAN. When I speak of rural, I do not mean farms, you understand, I mean small towns.

Mr. WOODS. I believe there are somewhere in the neighborhood of 3,000 counties in the United States. At present there is rent control in about 1,120 or 1,150 of them. I would say that, in those 1,150 counties the situation is still acute.

However, one of the things I feel I must be personally responsible for is to see that as conditions change—and I believe they will change irregularly—that we survey an area and where the need is no longer necessary, to get out. That is why we are making continuous surveys.

Since April we have surveyed over 906 of those counties. As a result of those surveys, dismal as it sounds, we have only been able to take about 27 decontrol actions. So it is still in the small communities, as well as the large cities.

I would say the actual shortage is probably more acute in the large cities, but the need for rent control is still widespread.

The CHAIRMAN. The owner of rental property is subject to the adverse effects of inflation as well as any other person?

Mr. WOODS. Yes, sir.

The CHAIRMAN. What, in your opinion, as the result of your experience, is the position of the average landlord under the rents which are now allowed?

Mr. WOODS. All I can go on is the statistics we are able to gather on the net position. I do know that foreclosures, which are an indication of the condition or of the health of rental property, are down, way below what they have ever been since 1933. As an indicator of the general position from the figures up to 1946, I do know the position generally of landlords is better than when we froze them. I think possibly the position between 1946 and 1948 generally has gone down a little; how much, I do not know. I do not think it has dropped to an adverse position because in individual communities, when it drops to an adverse condition, we get a recommendation from these rent advisory boards, and we have been able to make some over-all rent increases. That has been on the same basis where, instead of dealing with an individual case, the landlord's position has gotten to an adverse spot, so we raise the entire community generally.

The CHAIRMAN. Congressman Buchanan.

Mr. BUCHANAN. You stated a while ago, Mr. Woods, that the average increase granted amounted to 19 percent?

Mr. WOODS. Yes, sir.

Mr. BUCHANAN. In what percentage of cases were adjustments allowed?

Mr. WOODS. Seventy-three percent.

Mr. BUCHANAN. Involving the entire 14,350,000?

Mr. WOODS. Well, that would be the total number of——

Mr. BUCHANAN. Applications?

Mr. WOODS. Applications granted. I can give you those figures accurately.

We have actually received over 750,000 petitions; processed 742,000, of which we have granted 542,000, or roughly 73 percent. That is not a cumulative total; that is since July 1947.

Mr. BUCHANAN. One further question. Would you say that the demand for decontrol has eased, especially since July 1, 1947, because of the removal of the action for treble damages?

Mr. WOODS. The demand?

Mr. BUCHANAN. Yes; the demand for decontrol, the number of appeal cases before your group, or for adjustments.

Mr. WOODS. Oh, yes.

Mr. Buchanan. Because of the laxity in enforcement of the law and because of a tenant's reluctance to bring action on his own part?

Mr. Woods. Definitely. Our figures for complaints have gone way down. Also our requests for adjustments are down since that time.

Mr. Buchanan. You would attribute it, then, largely to the relaxation of enforcement provisions since July 1947?

Mr. Woods. Yes, sir; I would.

Mr. Buchanan. I notice in the closing pages of your statement, Mr. Woods, that—

> multiple-unit apartment buildings can be built faster, cheaper, and with less material than the same number of single-family homes today.

Can you substantiate in some particular area where the experience of large-scale builders bears this out?

Mr. Woods. If I may, Congressman, I would like to complete my statement. Then I will be glad to try to answer that. I have two more points in my summary; then I will finish that conclusion.

8. All new residential construction for rental or for sale should continue to be offered to veterans of World War II and their families on the same preferential basis as required in the present law.

9. In conclusion, I would like to emphasize that I believe we should have rent control only as long as we fail to reach a reasonable balance in the supply and demand of housing. To reach this favorable balance quickly it is my opinion that we should concentrate on rental housing in multiple units.

The Chairman. Now, by that do you mean public housing, or public housing and the encouragement of private housing?

Mr. Woods. Both; definitely both.

If our total supply of manpower and building materials cannot be expanded rapidly enough to produce more than 1,000,000 units a year, then I would recommend temporarily the deliberate discouragement of the construction of single-family units for sale. A multiple-unit apartment building can be built faster, cheaper, and with less material than the same number of single-family homes. This necessary switch from single-family units to multiple-unit buildings could be brought about by a deliberate tightening of credit and risk-insurance requirements for homes and by giving additional incentives to builders of multiple-unit structures.

The Chairman. Any other questions?

Mr. Woods. Mr. Buchanan, may I have that question now on multiple dwellings?

Mr. Buchanan. The question I would like to ask you is this: Upon what experience do you base the statement that "A multiple-unit apartment building can be built faster, cheaper and with less material than the same number of single-family homes"? Is it based upon some large-scale builder's recent experience?

Mr. Woods. No; on past experience; since before I was in the Government.

Mr. Buchanan. How far back?

Mr. Woods. Well, 1938, 1939 and 1940.

Mr. Buchanan. I have recently run across experiences relative to the situation with regard to several specific contractors and builders in the west coast area, and likewise in the Chicago area, where they have gotten away from the construction of single-family units and have gone into multiple-family dwellings.

Mr. WOODS. I do know of a recent experience. You mention Chicago. Some friends of mine were large-scale operators and they have switched definitely for that very reason. They say that as long as they have met price resistance, they are going into the construction of multiple-family units, rather than single-family homes.

Mr. BUCHANAN. For-sale or for rent?

Mr. WOODS. For rent. They feel that new methods of construction can be applied more feasibly to a multiple-unit structure than individual family units.

I know there are a few large-scale builders of single-family homes using methods of on-site prefabrication, practically factory methods, who could keep up with most of the multiple builders. But we have thousands of builders of one, two, three, or more single-family homes. They are using a separate heating plant for each one of those homes; they are using mechanics of all kinds on small projects, where the fellow in the next block, who is building a 50-unit structure, I am quite sure, can compete with them; build them faster and cheaper. That would, of course, in my opinion, be reflected in the rent.

Mr. BUCHANAN. That is all.

The CHAIRMAN. There being no other questions, and our time of recess having come, I thank you, Mr. Woods.

I would, however, like to ask you this question before concluding: Do I understand your testimony to be definitely that the conditions are such that the normal situation prevents the building of adequate housing without some sort of Government aid?

Mr. WOODS. Yes, sir; that is my opinion.

The CHAIRMAN. In other words, your experience is that individuals in every class are like the witness who preceded you. They are not willing to build now, with their own resources, because of the inflated cost of construction?

Mr. WOODS. Yes, sir.

The CHAIRMAN. Thank you very much.

(Whereupon, at 12:40 p. m., a recess was taken until 2:30 p. m. of the same day.)

AFTERNOON SESSION

The CHAIRMAN. The committee will come to order.

Secretary Krug, we are glad to have you present to tell your part of the story of the background of this Economic Report and the recommendations of the President.

Let me take advantage of this opportunity to state for the record that the Committee has now received from the Government Printing Office the February issue of Economic Indicators. This is a monthly publication which was initiated during the last Congress by this committee under the chairmanship of Senator Taft.

In order to make available to the general public the statistical information upon which all of these decisions will ultimately have to be made, the Economic Indicators are prepared for the Joint Committee on the Economic Report by the Council of Economic Advisers and, of course, are printed for the use of the committee. We have found a large public demand for them and my understanding is that we have built up a regular service of about 3000 subscribers for each issue. The Indicators are sold by the Government Printing Office at 15 cents a copy.

You may proceed, Mr. Secretary.

STATEMENT OF HON. JULIUS A. KRUG, SECRETARY OF THE INTERIOR

Secretary Krug. Thank you, Mr. Chairman. If I may, I would like to read a prepared statement and, of course, answer questions, if I can.

I want first to joint those who have preceded me in expressing appreciation for the opportunity to appear before this committee to discuss the recommendations contained in the President's Economic Report.

I think that this hearing is particularly propitious. It is fortunate that the committee is directing its attention to an anlysis of economic conditions at a time when people throughout the Nation are confused and concerned about recent economic developments.

These developments impose a serious responsibility upon the committee.

Your conclusions could have a significant effect upon the economic future of the country. Businessmen, labor leaders, and the public, generally, can be expected to be influenced by what you gentlemen have to say.

The responsibilities of the Executive in presenting its views to you are equally serious. Our presentation is made with full cognizance of this responsibility.

I am not unmindful of the fear psychology that dictates that we are at long last on the economic skid, and that it is foolish now to talk about the inflation and the anti-inflation measures. Yet, this same psychology can forstall the activity needed to relieve the basic shortages that are currently threatening the continued strength of our economy. If this psychology prevails it will surely result in a serious economic set-back.

I am not unmindful, either, of the contention that the economic measures proposed by the President will lead to a managed or a socialized economy. I assert that the President's proposals to deal with divergent inflationary and deflationary trends are essential to the preservation of our free-enterprise system.

It may even be that free enterprise would not survive another serious depression. Yet, the persons who attack the President's proposals in the name of free enterprise support a policy which, in my mind, could lead us into a depression.

The President's proposals are designed to assure maximum employment, maximum production, and maximum purchasing power in accordance with the national policy established by the Full Employment Act of 1946.

I am confident that we can achieve these objectives if we apply ourselves with the same kind of determination that we exhibited during the last war. The stakes are equally high. To achieve these objectives requires most importantly an increase in supply and capacity in those critical areas which are impeding maximum production in an expanding economy.

It also requires limited controls where necessary to help increase supply and capacity, and to maintain economic balance until the maladjustments in our economy are corrected.

I will discuss the present economic situation and outlook with respect to energy and some of the more essential minerals and metals. These are areas, as Mr. Keyserling has already pointed out, where strong inflationary pressures are indicated by continuing shortages and sharply increasing prices.

Although prices in some of these areas have tended to soften a little in recent weeks, the shortages still exist and, consequently, there is a threat of further price increases.

These shortages constitute some of the most serious limitations on our economic growth. They involve primarily natural-resource problems.

Our high level of economic activity since the end of hostilities has resulted in a higher rate of consumption of natural resources than ever before in the history of the country. The maintenance of high levels of production and employment will mean ever-increasing demands for our raw materials.

As you know, Mr. Chairman, through the stock-piling program we have taken steps to assure supplies of raw materials needed for national security. We have not yet, as a Nation, however, faced up to the need for equally aggressive measures to assure the continuing supply of raw materials required for a dynamic and expanding economy.

The President proposed such measures in his economic report when he said:

> In order to have a yardstick for appraising strength and weakness in our economy and the adequacy of Government programs, we need concrete objectives for economic growth.

Current shortages of raw material in energy are seriously limiting economic expansion and output. An outstanding example is a shortage of electric power. Continued neglect of these shortages will impose absolute physical limitations upon our economy, with all of the economic maladjustments that such limitations imply.

Evidence of such maladjustments is already apparent in the increasing prices of metals and minerals.

In order to insure increasing national output and economic expansion we must determine what our needs and potentials are in terms of our natural resources, and gear our natural resources programs to those needs and potentials.

It would be of no avail, for example, to increase steel plant capacity if, at the same time, we could not assure the raw materials required to support that increased capacity.

It must be realized, however, that the Government responsibilities for natural resources are limited; that it shares its responsibility with State governments and with private enterprise.

Closely cooperative efforts are required to deal adequately with resource conservation and development. It must also be realized that Federal activities with respect to natural resources, while often very costly, return large dividends to the nation as a whole.

Appropriation policies do not always recognize this fact and thereby limit necessary Federal activity. These limitations can impede our economic growth as seriously as the holding back of necessary undertakings by private industry.

No one need be told that this winter the United States is suffering from an electric power shortage. For the second successive year since the war, various sections of the country are experiencing dim-outs, voluntary power rationing, and electric systems nearing the breaking point as a result of day after day overcapacity operation. The natural gas industry was simply unable to supply all demands. Although the oil experts have been reporting "no apparent shortage" in the last few months, no one can estimate the millions of barrels of additional unsatisfied demand represented by potential oil users who curtailed their requirements during the last 2 years in answer to official appeals for conservation. On the favorable side, it is true that coal demands at prevailing prices are being satisfied.

Despite a 10 percent increase in electric power output in 1948 over 1947, it is possible that the Nation in 1948 had 10 percent less electric energy than it could have used. This shortage affects at least 16 States. National reserve generating capacity shrank to less than 5 percent in 1948, which is less than one-third of what the industry counts as adequate reserve.

I remember from my own personal experience that even during World War II we never got down below 18 or 19 percent reserve capacity in our power systems.

Mr. RICH. Mr. Secretary, may I ask you a question right there: What is the reason for the power shortage?

Secretary KRUG. I intend to go into that just a little later, if I may. It is a shortage of certain materials, and I want to cover that in some detail, if you will bear with me.

Mr. RICH. Then I wish you would show us whether it is from the standpoint of private enterprise or whether the people are waiting to secure their power from Government projects, if you will give us that information.

Secretary KRUG. I think they would be glad to take their power, Mr. Rich, wherever they could get it.

At that point I do not think they are a bit choosy whether it comes from private enterprise or Federal enterprise.

Mr. RICH. I was wondering; my thought for that inquiry was this: Are they waiting on the Federal Government to furnish them power; is private enterprise depending on the Federal Government to furnish power?

Secretary KRUG. I think they are just waiting, period; and they will be very happy to get it wherever they can get it when capacity becomes available. As you know, the private companies are doing everything possible to expand their capacity, but there are certain limitations that I will come to when I discuss that in detail.

I think the power shortage seriously imperils national security and national economic well-being. For example, aluminum, needed for both civilian and defense requirements, is at least 30 percent short of demand, and today the industry operates at only about one-half of World War II capacity. The aluminum industry depends largely upon hydro power, 70 percent of which is provided by the Federal Government.

Both the aluminum producers and the Munitions Board have urged me to make more power available for aluminum. I have been forced to reply that additional power will not be available for aluminum unless power is restricted for other uses, or unless additional Federal hydro projects are built.

Mr. RICH. Mr. Secretary, may I ask you this question? You say that today the industry operates at about only one-half of World War II capacity. Where did they get the power in World War II to operate to such an extent?

Secretary KRUG. Well, we were not using as much power in World War II as we are using now. The consequence was that we were able to free very large blocks of power then that are presently being utilized for our everyday use.

Mr. RICH. Was it for the aluminum industry, or is it other industries that are making the demands?

Secretary KRUG. Both. All industries are making new demands in a rapidly increasing use of electric power.

Mr. RICH. What I am trying to find out is, if our capacity for aluminum was twice in World War II what it is now, then I wonder why they are not able to produce twice the amount of aluminum today; the same as they did in World War II. I am just trying to find out what is the cause of that.

Secretary KRUG. I would like to give you an example, Mr. Rich. One of the largest aluminum plants operating during the war was across the river, the East River, from Manhattan, operating on surplus power capacity, which was then available in the New York City area.

Now, that power is no longer available because the increasing use in that area has used it up so that the plant is there without the power supply to run it.

There is also a large plant north of Philadelphia, between Philadelphia and Trenton, which is in the same predicament. There is another one in California, in the Central Valley area of California, where there is no power supply to run it. So a good part of the capacity that we used during the war cannot be operated now because we do not have the electric power supply for it.

Mr. RICH. Thank you very much.

Secretary KRUG. Other industries vital to national security and national economic well-being which have been unable to obtain power in the amounts requested include ferro-alloys, abrasives, and phosphate fertilizer. The Nation is 40 percent short of phosphate fertilizer needs. Crops are taking phosphate out of the soil faster than it is replaced by fertilizers, and so diminishing the possibilities for maximum crop output. Yet, companies wishing to produce more phosphate fertilizer through electric furnace processes had to be turned down in 1948 by power suppliers.

Industries wishing to expand, but requiring large blocks of power, are now searching the Nation only to find that they must wait 2 years or more before power will be available.

Power shortages in varying degrees and for varying periods of time during 1948 have occurred in New York State, Pittsburgh, Cleveland, Chicago, St. Louis, the Tennessee Valley, countless rural areas, California, and the Pacific Northwest. Industrial customers have been asked to cut-back production and power use during the winter.

In the Tennessee Valley, and in the Pacific Northwest, new power loads have been discouraged or rejected. In rural areas, thousands of farmers are waiting for REA cooperative service which has been delayed either by deficiencies of generation supply or by lack of transmission materials. In the Pacific Northwest, radio and press campaigns urging consumers to cut down the use of electricity, and the cutting of industrial plants off the lines have enabled the overloaded transmission system barely to squeeze through without actual breakdown.

The CHAIRMAN. I take it, Mr. Secretary, that during the war we diverted from civilian use the power supplies available then so that that power might be used for war production purposes and, of course, we built additional power facilities in order to turn out the necessary raw products. I understand, therefore, that your testimony means that the resumption of ordinary civilian activity and the increasing demands of industry have been such as to absorb all of the power that was diverted during the war, and all of the additional power that has since been constructed, whether by private or public capital.

Secretary KRUG. That is right, Mr. Chairman.

There is one additional factor that is very important. When we went into the war, in the good old days when I was in the power business, most utilities thought you needed about a 25 percent reserve, so that reserve was utilized in part to help us through the war period. But now we have used up all of that reserve except a fringe of less than 5 percent, which in my opinion is far from adequate to protect the service. In many of these critical areas the operators are doing an unbelievable job in keeping their plants and transmission lines running with hardly enough capacity to carry the load without a thing in the world to spare should anything happen.

The CHAIRMAN. Well, this must mean that the total demand for power now is considerably greater than it was during the war, including the wartime war industry demand.

Secretary KRUG. Yes, indeed. It is very substantially ahead of the wartime demand. It crossed that peak again 2 years ago and has been going up steadily since that time.

The CHAIRMAN. Do you have the statistics showing that?

Secretary KRUG. I do not have them with me, but I can readily supply them. We have them in the office.

The CHAIRMAN. Put them in the record.

Secretary KRUG. We will put a table in the record that will show that.

(The following table was later submitted for the record:)

Total electric energy production: All utilities, public and private

[Production in 1,000,000 kilowatt-hours]

1948	[1] 282, 594	1943	217, 759
1947	255, 739	1942	185, 979
1946	223, 178	1941	164, 788
1945	222, 486	1940	141, 837
1944	228, 189		

[1] Preliminary, subject to change.

From FPC data.

Mr. RICH. Mr. Secretary, may I ask a question there?

I notice that where you say you have the shortage in the Tennessee Valley new power loads have been discouraged or rejected.

Now, let me ask you this in reference to these aluminum plants, the one in Philadelphia and the one in New York. Are they owned by the Government?

Secretary KRUG. I am not sure whether they are at the present time. They were built by the Defense Plants Corporation during the war. They have been put up for sale, and I think that the equipment has been purchased from some of them, but at the moment I could not tell you the status of their ownership.

Mr. RICH. Well, if they are owned by private individuals, are any of them constructing their own power plants to operate?

Secretary KRUG. No, they would not construct power plants in that area because of the cost which would be prohibitive for the long pull. You cannot very well produce aluminum where the power alone would cost you 15 cents a pound.

Mr. RICH. In other words, if you build a power plant down in Tennessee it will not cost you as much for power in Tennessee as it would for power in New Jersey, is that it?

Secretary KRUG. That is right; yes, sir. That is not the outstanding contrast, and there have been no recent developments in the Tennessee Valley area. They are faced with the same problem. The real pinch comes in low-cost hydro power that can be produced, whether you do it through the Federal Government or through private enterprise, in the Western States.

Mr. RICH. Can you produce manufactured power by coal in Tennessee cheaper than you can in New Jersey?

Secretary KRUG. No, sir; not by coal alone. You can at about the same price, but by combining the coal-generated power with the hydro power you get a cheaper over-all power cost than they have in New Jersey.

Mr. RICH. Well, if you have plenty of water power you do not need hydro power.

Secretary KRUG. Well, the ideal combination in many river basins is for some steam and some hydro. That is the way that you get the lowest total cost, because the steam plants permit you to use the hydro power which otherwise would go to waste. It is secondary or surplus power.

Shall I proceed, Mr. Chairman?

The CHAIRMAN. Please.

Secretary KRUG. There is every reason to believe that our needs for electric energy will double in the next 10 years or so. They have doubled on the average every decade in the last 40 years. They may increase even faster, and in my opinion they will.

Generation capacity must increase on the order of 80,000,000 kilowatts by about 1965 if true and full needs of the country are to be met. If we are to follow conservation principles, a large proportion of this increase should come from our undeveloped hydro resources, the only inexhaustible source of power.

We have approximately 77,000,000 kilowatts of undeveloped water power now wasting annually into the oceans, about two-thirds of this in States west of the Mississippi and about one-third in the eastern States. Controversy over the development of Federal hydro projects has obscured this tragic waste of undeveloped water power. Certainly in the next 15 years, at least 25,000,000 kilowatts of this hydro ought to be developed. This is the kind of target which the country needs to sustain an expanding economy operating at maximum employment, maximum production, and maximum purchasing power.

The CHAIRMAN. Do I understand you to mean that we need development, both by Federal programs and by private enterprise, to get the power that is needed, and that the two, working together, will have difficulty meeting the demands?

Secretary KRUG. That is exactly my view, sir. That is the kind of target that the President called for in his economic report—just what you are talking about, Mr. Chairman.

Mr. RICH. How about the conditions in certain locations of the country where adequate power is now provided by private power companies? Yet the Government agencies are desirous of constructing REA power plants in such locations.

Secretary KRUG. Well, Mr. Rich, that statement has been made repeatedly during the past 20 years. The statement is always to the effect that there is plenty of power now; why build any new plants? But the fact of the matter is there is not enough power now; and there is not a single place in this country where you can go if you have a plant that requires, say, 30,000 kilowatts—which is not a large industrial plant—and get that power supply. So, it is hard for me to see how any utility operators can say that we have plenty of power now.

Mr. RICH. Well, I am up in Pennsylvania, central Pennsylvania, and we are taken care of by the Pennsylvania Power & Light Co. I never heard anybody say they could not get all the power they wanted.

Secretary KRUG. Well, that particular part of the country has not been as bad off as some, but even in that part of Pennsylvania, I dare say, the power company could not supply any new large electric loads.

Mr. RICH. They will take on any company that comes in there.

Secretary KRUG. Would they give 100,000 kilowatts of power, which is a reasonable sized aluminum plant?

Mr. RICH. If there are any of them that want to move up there, you let me know, and I will give them the answer in 24 hours.

Secretary KRUG. I made the statement, Mr. Rich, that large companies have been searching the entire United States for a place where they can locate a large plant, and I would be amazed if they have overlooked Pennsylvania, but I will check up, and if they have overlooked Pennsylvania I will let them get in touch with you.

Mr. RICH. If you will give me the name of some company that wants 100,000 kilowatts to locate up in my district, I will do my best to see that they get power in a very short time. I think I can take care of it.

Secretary KRUG. I can give you the name of these companies right off the bat, and I am sure that I could find you the name of at least 10 others. The Aluminum Co. of America is already in Pittsburgh, and is desperately searching the country for power. The Reynolds Metals Co. is searching the country for power, and I do not think they have any prejudice against Pennsylvania.

Mr. RICH. If you know any that are trying to locate, you let me know, and I will take care of them.

The CHAIRMAN. The Chair suggests to the Congressman from Pennsylvania that instead of suggesting that the Secretary get in touch with them, that the Congressman from Pennsylvania write to the Pennsylvania Power Co. and ask them.

Mr. RICH. I know they are building a big power plant right now at Sunbury, and they will take care of anybody who comes in there.

The CHAIRMAN. Let us get it on the record from them. Let us write them a letter, let the Congressman write them a letter, and ask them how much surplus power they now have and how much surplus power they will have after they have finished the plant the Congressman talks about.

Mr. RICH. All right. Do you want that put in the record?

The CHAIRMAN. Certainly.

Mr. RICH. All right; I will try to get that for you.

(The following letters were later submitted for the record:)

CONGRESS OF THE UNITED STATES,
HOUSE OF REPRESENTATIVES,
Washington, D. C., February 17, 1949.

Hon. JULIUS A. KRUG,
Secretary of the Interior, Washington, D. C.

MY DEAR MR. KRUG: You will recall the other day at the meeting of the Joint Committee on the Economic Report you and I engaged in some discussion of power capacity and the possibility of supplying 100,000 kilowatts to a manufacturing concern that would build a plant in or near my district in north-central Pennsylvania. At that time I told you the Pennsylvania Power & Light Co. was taking care of that locality in a very satisfactory manner. On the day of our meeting, February 11, I took occasion to write the P. P. & L. as to whether they could care for a load of 100,000 kilowatts, along the lines of our discussion, and enclose herewith copy of reply received today from Mr. L. W. Heath, vice president.

You will note Mr. Heath states that in 1951 the Pennsylvania-New Jersey interconnection will have a reserve capacity of 969,000 kilowatts, indicating this is an up-to-date organization, with foresight and the desire to take care of the section they furnish power. But remember, Mr. Krug, this company must furnish power at cost plus a small margin of profit. No private enterprise can operate a business, pay taxes and all the expense in connection therewith, including machinery and equipment, in competition with Government-owned power plants built and controlled by the Government and operated with Government funds. For instance, in the TVA they are not charging enough to cover interest on the investment payment of a reasonable amount back to the Government, and the equivalent of taxes they would pay on the basis of a private company. No private enterprise could operate very long in that manner, and neither can the Government. When you take money away from the people of the country in the form of taxes to build power plants to serve power at less than cost, that spells trouble eventually. Yesterday, I regret to say, the House voted appropriations for building a steam plant at New Johnsonville, Tenn.—another step in the break-down of our private-enterprise system.

It gives me pleasure to send you this copy of Mr. Heath's letter, and to have him verify my statement to you. I hope you will be good enough to insert it in the record at the point where I replied to you that I thought the Pennsylvania Power & Light Co. could furnish the 100,000 kilowatts. I am happy to prove that private enterprise still takes care of the needs of this country, and will continue to do so as long as the Federal Government stays out and ceases to operate all kinds of business in competition. We are fast drifting into socialism, and a little more here and there added to what we already have will complete the job. I trust we have enough red blood in our veins that when we realize what this country has been able to produce for its people we will halt this trend toward socialism, which eventually will lead to communism.

It seems to me a letter from the Secretary of the Interior to the Pennsylvania Power & Light Co., Allentown, Pa., is in order, congratulating this company on conditions in their locality. It would be a mighty fine thing, and I would appreciate such a letter from you, particularly in view of the fact that it was stated there was not a place in the United States that would do what the people of Pennsylvania are doing.

Sincerely yours,

ROBERT F. RICH.

PENNSYLVANIA POWER & LIGHT CO.,
Allentown, Pa., February 15, 1949.

Hon. ROBERT F. RICH,
House of Representatives, Washington, D. C.

DEAR BOB: Answering yours of the eleventh as to the power-capacity situation in this area, as you perhaps know, this company has not failed to take care of the power requirements of its customers, either during the war or subsequently.

As to the specific question as to whether or not a load of 100,000 kilowatts could be cared for, I am sure that it could. It takes some time, of course, to design and build a power plant. It likewise takes time to design and build and complete the facilities of any customer having power requirements as great as 100,000 kilowatts. We can be ready when they are.

We expect to place in operation 150,000 kilowatts of additional generating capacity this year in a new power plant now nearing completion, and we have under way an additional 100,000 kilowatts of capacity for this same new plant which will be available in 1951.

The other Pennsylvania and New Jersey private-utility companies, who with this company make up an interconnected power pool, likewise have made very substantial increases in their generating capacity since the war and have plant-capacity increases now under way. The attached table shows at a glance the reserve-capacity situation of the interconnected Pennsylvania-New Jersey system. Note that in 1951 (which is the earliest date that any customer using 100,000 kilowatts could be ready with his own facilities) we will have a reserve capacity of 969,000 kilowatts.

The way to supply capacity quickly is by building steam-electric plants that can be brought into production much sooner than the massive structures of a hydro plant can be built.

The only two areas in this country that are now seriously short of power are the Pacific Northwest and the TVA area, the reason being in both cases that the Government sold the capacity, without allowing adequate reserves, to electrochemical industries. These are the real beneficiaries of Government subsidy.

In the past 3 years we have spent over $57,000,000 on our facilities for the generation, transmission, and distribution of electricity, and in the next 3 years we expect to spend an additional $75,000,000 for the same purposes. These expenditures, of course, do not include any contributions or subsidies by the Government, but are being made by a taxpaying public utility company with over 65,000 stockholders, operating under the American free-enterprise system.

Trusting the foregoing may be of service to you, and with kindest personal regards,

Yours sincerely,

L. W. Heath, *Vice President.*

Pennsylvania-New Jersy interconnection

[Thousand kilowatts]

Year	Installed capacity	Peak	Reserve available
1948	3,826	3,456	370
1949 [1]	4,217	3,540	677
1950 [1]	4,382	3,630	752
1951 [1]	4,840	3,871	969

[1] 1949, 1950, and 1951 estimated.

March 30, 1949.

Hon. Robert F. Rich,
House of Representatives, Washington, D. C.

Dear Mr. Rich: I have delayed answering your letter of February 17 enclosing a copy of the letter which you received from Mr. L. W. Heath of the Pennsylvania Power & Light Co., until I could recheck all of the facts.

This exchange of letters resulted from my statement before the Joint Committee on the Economic Report to the effect that no power company in the United States had capacity currently available to supply a new load of 100,000 kilowatts. You stated that this statement was incorrect insofar as it concerned your congressional district. You apparently submit Mr. Heath's letter as "proof" of your statement.

Rather than contradicting my statement, Mr. Heath, while claiming that a load of 100,000 kilowatts could be cared for, admits that this could not be done without constructing new power-generating facilities. He says, "It takes some time, of course, to design and build a power plant. It likewise takes time to design and build and complete the facilities of any customers having power requirements as great as 100,000 kilowatts. We can be ready when they are."

This statement just isn't true. Large users of power such as aluminum reduction plants and electric furnaces for producing ferro-alloys and phosphates can be constructed even in these days in less than a year, where new power facilities cannot be completed in less than 3 years. The reports show that the power systems in your area do not even have sufficient reserve capacity to assure continuous service to existing customers taking into account their expected increases in consumption of electricity not to say provision for substantial new industrial loads. The following are the facts:

The major portion of your congressional district is served by the West Penn Power Co. On December 31, 1947, this particular company had eight generating stations aggregating 559,475 kilowatts of capacity. Another 80,000 kilowatts of capacity is reported as being added in 1948. This would result in installed capacity of 639,475 kilowatts. The National Security Resources Board shows the power reserves for Federal Power Commission region I which embraces this area were only 5.8 percent in 1948. Thus, the West Penn Power share would be only 37,088 kilowatts which was all of the capacity that was available as its share to take care of all failure of equipment and all normal load growth, much less 100,000 kilowatts of new load.

The capacity of the West Penn Power Co. is all steam except the Lake Lynn hydro plant. It includes the 55,500-kilowatt Connellsville plant constructed in 1907 where the fuel costs during 1948 were 6.298 mills per kilowatt-hour. This capacity also included the 13,000-kilowatt Ridgeway steam plant where the fuel costs were 9.299 mills as compared to the efficient 290,000-kilowatt Springdale plant having a fuel cost of 1.775 mills. Obviously, no business-managed company would operate such high-cost plants unless badly short of capacity.

That part of your congressional district served by the Pennsylvania Power & Light Co. is in no better condition. This company has 37 generating plants with an aggregate capacity of 453,339 kilowatts. The Electric World lists this company as constructing 150,000 kilowatts more capacity in 1949 and 100,000 kilowatts additional in 1951. The area reserve of 5.8 percent as shown by the National Security Resources Board report amounts to 26,397 kilowatts. Only this amount of power is available for emergency and normal load growth, much less 100,000 kilowatts of new business.

Much of the capacity of this company was constructed in 1905, 1906, and 1908. By all normal operating standards the 150,000 kilowatts planned for this year should be absorbed as reserve capacity and for the retirement of obsolete equipment, not by new business.

Mr. Heath refers to the Pennsylvania-New Jersey interconnection. In doing so, Mr. Heath assumes there is available to his company the full capability of this pool. Actually, the figures used by Mr. Heath refer to capacity owned or controlled by—

Atlantic City Electric Co.
Delaware Power and Light Co.
Hershey Chocolate Co.
Jersey Central Power & Light Co.
Luzerne County Gas & Electric Co.
Metropolitan Edison Co.
New Jersey Power & Light Co.
Pennsylvania Power & Light Co.
Philadelphia Electric Co.
Picatinny Arsenal
Public Service Electric & Gas Co.
Rockland Light & Power Co.
The Scranton Electric Co.
Staten Island Edison Co.

Mr. Heath states that this pool in 1948 had an installed capacity of 3,826,000 kilowatts while the report filed with the Federal Power Commission by the above companies showed a peak load of 4,201,000 kilowatts in December 1948. This would indicate that rather than having any surplus capacity the pool had to receive 375,000 kilowatts more power than listed by Mr. Heath as the installed capacity. Mr. Heath states that the pool will have a capacity of 4,840,000 kilowatts in 1951. Assuming that there is no increase in load over the December 1948 peak of 4,201,000, there would only be a reserve of 640,000 kilowatts. This would be a reserve of 13 percent. Compare this peacetime reserve with the 16 to 20 percent reserve which was maintained throughout the war. Such an assumption as regards load growth, however, would be entirely inconsistent with the conditions which will actually exist.

Since 1920 the capacity requirements of the United States have increased 6.69 percent compounded yearly. If we assume that the utilities in the area will continue to supply the needs of the economy of the area, then the December peak load will become approximately 4,500,000 kilowatts in 1949, 4,800,000 in 1950, and 5,150,000 in 1951. The capacity predicted by Mr. Heath to be available will lack 300,000 kilowatts of taking care of the peak requirements in 1951. The pool would have only 75,000 kilowatts more reserve in 1951 than is available today.

I discussed in my testimony the relationship of power rates to opportunities for industrial expansion, and you also discussed this at some length. Without even discussing the question of alleged subsidy or the rates for public power, I think you will be interested in knowing that the rates of the Pennsylvania Power & Light Co., of which Mr. Heath is vice president, for 100 kilowatt-hours per month of residential service are among the highest in the Nation. Williamsport, Lock Haven, and Allentown are served by the Pennsylvania Power & Light Co. and are among the five highest electric-rate cities in the United States.

I have gone into some detail in this letter in order that you may have the facts. My statements made before the committee are fully substantiated. Inasmuch as you have placed your letter and that of Mr. Heath in the hearings of the Joint Committee on the Economic Report, I am sending a copy of this letter to that committee asking that it also be made a part of the hearings.

Sincerely yours,

J. A. KRUG, *Secretary of the Interior.*

(See p. 683 for an additional insertion on this subject by Representative Rich.)

Mr. HUBER. Have the Pennsylvania State Chamber of Commerce check into it. I think they have been negligent if that is a situation that exists and they do not know about it.

Secretary KRUG. Of course, I do not have to tell this committee that cost is a factor, and if you want to pay 2 or 3 cents a kilowatt-hour, you can run all the companies out of business because they cannot afford to pay any more than they pay now.

Mr. BERQUIST. How do you reconcile the estimate, Secretary Krug, compared with a report that was recently gotten out by the National Security Board?

Secretary KRUG. The estimate is not inconsistent with it.

Mr. BERQUIST. Yours was 1965, and they have a figure for 1960, but they would nevertheless be consistent one with the other.

Secretary KRUG. Yes; they are not in contradiction.

Mr. RICH. Mr. Chairman, one other question.

Mr. Krug, did I understand you to say that no plant would want to go and purchase power at a point where they had to pay 2 or 3 mills a kilowatt?

Secretary KRUG. I said 2 or 3 cents a kilowatt-hour. They would love to purchase some for 2 or 3 mills a kilowatt-hour.

Mr. RICH. Well, I wanted to get that. I misunderstood you then. They will not go unless they can get power at the cheapest possible rate, is that it?

Secretary KRUG. Oh, no; but they have to get power at a price that permits them to stay in business.

Mr. RICH. That is right. For that reason they want to go to the Government, where the Government furnishes the price, because they get a cheaper price if the Government has it than they do from anybody else, is that right?

Secretary KRUG. Generally speaking, the Government rates are lower than the private power company rates, but at the same time the shortage is so great that they would take any reasonably priced power, and they would not quibble about a couple of mills per kilowatt-hour.

Mr. RICH. Why can the Government furnish power cheaper than any private enterprise?

Secretary KRUG. The Government is producing its power from large multipurpose water-controlled works, and the economics of getting electric power in that way are basically more favorable, in my opinion, than burning up coal to get it. As I said before, a combination of coal and hydro for many regions gives you the very lowest cost power.

Mr. RICH. Do you take into consideration in that all the elements of cost that go into these power plants in figuring out the rates?

Secretary KRUG. I think so, Mr. Rich, although I have argued this for long periods of time with representatives of the industry without getting them to agree; but I feel that the Federal power rates are based on a fair consideration of all of the costs of producing the power, including interest and amortization of the Government's investment.

Mr. RICH. In other words, the men who put up their own money to build their own plants to furnish power to individuals are not able to furnish power as cheaply. Nor can they make the Government departments see that it costs more to do it that way than it would to have these plants built by Government employees, paid by the Federal Government, using taxpayers' money, to furnish power cheaper than can be furnished by private enterprise.

Secretary Krug. Well, if the private enterprise and the Government were building exactly the same plants the cost probably would not be very much apart. But the private enterprise generally is not in a position to raise the tremendous amount of capital needed for these very large plants.

Take the St. Lawrence River, as an example: If you develop the St. Lawrence for a waterway and for power, you can get power there in large quantities of power at about 2 mills a kilowatt-hour, including interest and return on the Government money. But I do not know of any private enterprise that would be able to undertake the development of the St. Lawrence.

Mr. RICH. It would not be permitted to. The Government would stop me—it has stopped others who tried to get permission.

Secretary KRUG. Probably not.

Mr. HUBER. Mr. Chairman, the House will consider the TVA appropriation on next Tuesday, and I imagine we will go around and around on that. And I bear in mind, despite the emergency of the matter as the Secretary outlined, the Eightieth Congress turned that down, and we will have a chance to rectify that mistake this following Tuesday.

Mr. RICH. Well, all Members of Congress who are interested in getting the Government into everything, socializing all things—well, I think they will vote for it.

The CHAIRMAN. Will you proceed, Mr. Secretary.

Secretary KRUG. If I may leave electric power, and turn to oil: Today, oil inventories are accumulating and it would appear that supply has caught up with demand. But we will never know to what extent the demands were cut back in 1947 and 1948 by policies to discourage installation of oil burners in homes. I do not mean that the demand has actually reduced, but the demand that might have been there did not eventuate, because people were told in just plain, bold, blunt language that they would not get the oil.

Civilian oil needs are growing steadily as the use of this fuel becomes more prevalent in house heating, power generation, and Diesel and gasoline motors in all forms of transportation.

Security requirements for oil are a constant sword hanging over our heads because today our excess capacity is zero compared with the 1,000,000 barrels a day reserve capacity with which we entered World War II.

You know, Mr. Chairman, how invaluable that reserve was in the last emergency.

Proved petroleum reserves within our continental borders are destined to diminish in the relatively near future. Our national security and welfare require positive measures now to secure our oil supplies of the future. The Federal Government should undertake its responsibility for rapid exploration of the reserves remaining on the public lands and the continental shelf. For that purpose, legislation is needed immediately. The Federal Government, in my opinion, should also foster the early development of a synthetic liquid fuels industry and encourage more adequate conservation laws in some of the States.

Mr. Rich. Mr. Krug, is it not a fact that money was appropriated for liquid fuels, for the liquid fuels industry, for experimental purposes at the last session of Congress?

Secretary Krug. Yes, sir. It started a number of years ago, and that experimental work has been going forward. It was increased and extended in the last session of Congress. I think that the pilot-plant work has now reached a stage where we should have at least one commercial-sized plant using each of the processes that seem favorable at this time.

Mr. Rich. We gave you $60,000,000 last year, or the year before last, for that purpose.

Secretary Krug. You gave us authority to spend $60,000,000 over a period of years.

I have forgotten the appropriation, that is, the exact amount of appropriation last year, but that is only for experimental and pilot-plant work.

Mr. Rich. Well, have you been able to produce anything?

Secretary Krug. Yes. It looks extremely encouraging. We think we have already developed processes for getting oil from shale, for example, at prices that will not exceed by very much, if at all, the present price of petroleum products from crude petroleum.

Mr. Rich. Have you issued a report on the results of that experiment?

Secretary Krug. Yes, sir; we submitted the last report to Congress only a few weeks ago, and I will be glad to see that you get a personal copy.

Mr. Rich. It might have come to my desk—I did not see it.

The Chairman. May I say, Mr. Secretary, that I was privileged to be present at the ceremonies at which the pilot plant at Bruceton, Pa., was opened. Judging from the audience that was assembled there, the initiation of that plant was welcomed by private industry because the leaders of all sorts of groups of private industry were gathered at that celebration and participated in the ceremonies.

Secretary Krug. That is right.

Mr. Chairman, as you know, we have been able to make contracts with several dozen of the most important coal and oil companies to carry on joint research and experimental work with them, and it looks to me as though very shortly one or more of those companies will go ahead with a commercial-sized plant using one or the other of these processes.

The Chairman. And since the question has been raised, I think it may be well to have the record show that the progress of the work at the demonstration plant at Rifle, Colo., on shale, has indeed demonstrated the fact that the deposits of oil shale in Wyoming, Utah, and Colorado are sufficient to produce more oil than is presently known to exist in the Near East, to say nothing of the petroleum reserves of the Continental United States. So that this enterprise has already demonstrated to business and industry as well as to the people of the United States that we have a source of liquid fuel in oil shale and in coal that renders this country actually independent of foreign sources?

Secretary KRUG. That is right. If I could just take a moment, I would like to tell about my personal inspection of that plant at Rifle. As I think the committee knows, there is a deposit of shale rock in Colorado and Utah, extending——

The CHAIRMAN. And Wyoming, do not forget that.

Secretary KRUG. I am just talking about the one. It extends practically in every Western State, and in most of the Eastern States. This one alone, and this is one of many, was at the bottom of an old ocean many, many millions of years ago. There is a deposit of shale rock that, by the forces of nature, has been moved up to the top of the mountains out there, and the richest band of shale in that deposit, some, perhaps, 100 feet at the most, contains over 100,000,000,000 barrels of oil.

As you know, our whole national reserve now that we know about in crude petroleum is only 22,000,000,000, so that the shale that you can see exposed in a side of the mountain is a reserve of over 100,000,000,000 barrels.

Now, we have opened a mine there through this money that Congress appropriated, and we have started a processing plant to get oil from that shale. In recent months it appears that a process is being worked out—and I would admit that private industry in this particular process has made the maximum achievement and the greatest contribution—but we now have a method of extracting that oil with a continuous retort process, and furthermore a method for refining the oil as it leaves the retort, to give us some excellent quality Diesel fuel, and, the way it looks now, some jet fuel for our airplanes. I think it is a tremendous step ahead.

Mr. RICH. From that statement, then, I do not think that we could figure that we are going to run out of oil if we can get those plants in operation.

Secretary KRUG. That is the way I look at it, sir. If we only plan intelligently we will find enough fuel for the country, because we have the basic natural wealth, if we are farsighted enough to develop it in time.

Mr. RICH. Well, with this $60,000,000 that we gave you we ought to find out everything there that can be worked. We ought to be able to get plants going to produce it, if and when they can produce it, as cheaply as they can the oil that we get from the ground.

Secretary KRUG. That $60,000,000 will cover the pilot plant and experimental work. We need the next step, Congressman Rich, which is to get somebody to build a commercial-sized plant, because you do not really know the economy of these methods until you get them into commercial production.

Mr. HUBER. Who owns that particular deposit that contains this enormous amount of shale?

Secretary KRUG. Well, a number of groups own part of it. Fortunately, the United States Government owns a vast chunk of it.

Mr. HUBER. That is fortunate.

Secretary KRUG. It is fortunate. Some of the oil companies have taken leases on the holdings that are in private hands, and it is quite a considerable area, and there are a large number of owners in addition to the United States Government.

The CHAIRMAN. Is there not a naval reserve?

Secretary KRUG. Yes. There is a naval reserve, and there is also public domain.

Mr. RICH. We are not going to let that get away from us, I hope, Mr. Secretary. And I hope that the oil land that is on the tidelands in this country is kept by the Federal Government.

Secretary KRUG. Thank you.

Mr. HUBER. May I say that I agree with the gentleman from Pennsylvania, and I hope that the House will not again pass it.

Mr. RICH. I hope so, too.

The CHAIRMAN. During the recess I assured the Congressman from Pennsylvania that there is a much greater area of agreement among the Senators and the Congressmen than a lot of people imagine. He has demonstrated it now on two successive days in this committee.

Mr. RICH. Mr. Secretary, if you come in here often, I will get those fellows on that side to agree with me at least once in a while. They know I am right most of the time. [Laughter.]

Secretary KRUG. I would be glad to come up here every day if I could get all of you to agree on what I want to do. [Laughter.] To talk about gas for a moment: As the committee knows, the supplies of natural gas cannot begin to meet consumer demand, although reserves of natural gas appear to be adequate for years to come. Why this difficulty? Because gas distributors cannot get steel pipe needed to bring the supplies from the fields to the consuming markets. Applications authorized by, or pending with, the Federal Power Commission represent a demand for additional pipeline facilities which will transport about 1,000 billion cubic feet of gas a year, only slightly more than the total gas moved in interstate commerce in 1946. This inability of existing long-distance pipe lines to transport adequate supplies of gas northward from the gas producing areas has resulted in curtailed service to many connected industrial plants and in rejection of applications of new customers for gas service.

Mr. RICH. Mr. Secretary, wasn't there some application made to you or through you for three or four million tons of pipe for the extension of lines for bringing gas from the gas fields into the areas? Wasn't there a demand for that?

Secretary KRUG. Yes, sir, I want to tell you all about that in just a moment. I have those figures right here.

Mr. BUCHANAN. That is one of the reasons that we need a mandatory allocation authority at this time, isn't it?

Secretary KRUG. I feel that way, sir, yes.

For the past several years the gas shortage has closed down many industrial plants in the North, and I think, Congressman Rich, you will recall in your State for several weeks during the peak winter-demand periods.

Today the waste of flared gas amounts to at least one-fifth of the annual well output. The States must adopt stronger conservation laws or enforce them more effectively, and the steel industry must make pipe available as rapidly as possible to the gas distribution industry.

I take up all of the steel question just a little later, Congressman Rich.

Now with respect to coal: Coal is still the largest source of energy in the country. The supply this past year has been adequate. It has reached comfortable proportions. I think we now have aboveground something like better than a 44-day supply, but we have a number of serious problems that we are neglecting.

Aside from the recurrent problems of labor relations in the country with respect to the coal industry, we have these problems:

First, wasteful mining practices leave 1 ton of coal in the ground for every 2 removed. Yet, at the same time, the steel industry is finding that the most economical sources of coking coal are drying up. Some geologists content that we may actually have much less economical coal than we had supposed. Instead of two or three thousand years of coal reserves, it is claimed that our reserves may last only 125 years and may be mined out in 45 years in our most important Eastern States. We have got to find out how long and at what relative costs we can draw upon our coal reserves and what will be the effects upon our industries.

The CHAIRMAN. What geologists make that new estimate?

Secretary KRUG. Well, they are the geologists, frequently, most of them, who are private geologists; some are in the employ of the coal companies, and I can give you their names.

To get down to the facts of that, Mr. Chairman, we have requested our National Coal Advisory Council to set up a committee to find the speediest way to get the facts on what our coal resources really are. Their preliminary report is now in, and I think shortly we will have a proposal made to modernize our estimate of what coal reserves we have. The last real study was made, I think, back in 1907; but now there is tremendous debate in every coal-mining State as to how many tons of minable coal is really left.

The CHAIRMAN. Well, the latest report I have received from the Bureau of Mines, I may add, is that in Wyoming alone there is coal enough to last for a much longer period than that.

Secretary KRUG. Yes, our own experts think that these figures are way too low, but we have to admit that we do not have the up-to-date information that is necessary to come out with a really factual forecast of what we have and how long it is going to last.

Second, within 25 years or less we should be producing large amounts of synthetic liquid fuels from coal that will substantially increase our annual mine output. It is, therefore, imperative that we consider the measures needed to stop wasteful mining practices. At a slight extra cost, it may be possible to recover this lost coal. Studies have indicated that one solution could be the imposition of a tax on each ton of coal mined, and the rebate of the tax to those producers who follow proper mining practices. I urge that this problem be faced now, and that steps be taken in the near future to stop the extravagant loss of coal in mining.

Third, we need to expand the work of Government and industry on underground gasification of coal, development of synthetic liquid fuels from coal and oil shale as a substitute for exhaustible oil and gas, and expansion of the work on methods of treating coal or altering it in order to increase the economies of using coal where consumers would otherwise substitute oil and other fuels.

The expansion of all of our energy supplies is limited by material shortages.

The electric power supply is handicapped by shortages of aluminum conductor, insulators and steel. Because of the shortage of aluminum conductor, over 20,000 miles of poles on R. E. A. cooperative distribution lines are standing without wire. Everything is done except stringing the conductor.

Over 40,000 farmers were waiting for power on these lines. The R. E. A. cooperatives alone expect to be short 30,000,000 pounds of aluminum conductor in 1949. In 1939, aluminum conductor could be obtained in 3 to 6 months from the date of placing an order. Today, delivery dates are 4 to 5 years. The shortage of aluminum will not end until new power generating plants are built. The shortage of conductor wire is therefore likely to continue.

Mr. RICH. Mr. Secretary, were it possible for us to have plants enough to manufacture aluminum to take care of that in 1 year, would we, in your judgment, have an overproduction in the second year?

Secretary KRUG. Well, it is true that as you get these power lines built the demand for conductors for new power lines may decrease. But the many uses of aluminum, in my opinion, are just now being realized, and I think with a little more experimental work we can find ways of using light metals, titanium, aluminum, and magnesium to save on some of our other metals that are getting in short supply, and I would think——

Mr. RICH. I think that there is a happy medium which you can arrive at where you could go on building plants to take care of our requirement, and when you go beyond that, then it may not be wise or sound for the Government or private enterprise to catch up with the demand that we have now on various commodities that are necessary. You can just go too far.

I recall back after World War I, a lot of people went out and built plants, bigger and bigger and bigger, and they got them so big they had such an overhead they went broke; they just could not stand it. That can happen to any private enterprise, and it also can happen to the Government.

Secretary KRUG. Well, I am very glad that you brought that up because, in my opinion, that is the entire substance of the President's report. He wants us to find out and to know what our economy will need and get it so that we do not build too much of one type of plant capacity and not have enough of another.

We ought to have a balanced economy from raw materials through to fabrication.

Mr. RICH. That is right.

Secretary KRUG. Federal power systems have also been short of steel and insulators for transmission towers. At present electrical-equipment manufacturers are able to obtain sufficient materials in order to sustain current output. But manufacturers are unanimous that any increase in production would result in shortages. The products they need most are heavy steel plate, sheet, tubes, and pipe. There is a genuine need for an increase in equipment orders and production to permit the replacement of obsolete power equipment. At present, few replacement orders have been placed for the next few years. But as failures increase, orders will increase. This situation will require very careful attention.

In addition, the further expansion of Federal hydropower has long been overdue. Hydro projects that would provide for 30,000,000 kilowatts of capacity should be planned and scheduled as soon as possible. And the capacity problems involved in the manufacture of the generating and transmission equipment required for this program should be surveyed. Such action would constitute a long step forward in reducing the waste of undeveloped hydro and in meeting long-term needs for such products as aluminum.

Mr. RICH. Mr. Secretary, you speak about the difficulty of getting steel for building these power plants. I know of concerns that build boilers for power plants, and they are unable to get steel for tubes; they are unable to get it and they are building power plants that would be built by private enterprise, and they are having a difficult time.

I have written to six or eight steel mills myself trying to get those fellows steel tubing. Is there any way in which you could help in that power shortage now by suggesting where steel tubing could be had for the operation—I am talking about a firm like E. Keeler & Co., in Williamsport, Pa. They are doing everything they can to get boilers for private plants, and because they cannot get them they cannot furnish these plants, and that will mean more power.

Secretary KRUG. Yes, sir, and after summarizing all the difficulties in getting materials, I come to the conclusion that we must allocate the materials those plants need for this vital expansion. If we cannot do it through voluntary means, we ought to do it through whatever means are required.

Mr. RICH. The name is E. Keeler & Co., in Williamsport, Pa., and I hope you can get them steel tubes.

Secretary KRUG. Thank you, sir.

Mr. RICH. Yes.

Secretary KRUG. As indicated by the increase in interstate movements in natural gas between 1939 and 1948, there has been an increase in the capacity of natural gas transmission systems. Pipe line construction has nevertheless fallen far short of demands due to the steel shortage. A recent Federal Power Commission survey shows that the tonnage of line pipe required for the projects under construction on August 31, 1948, totaled about 2,185,000 tons, of which about 1,363,000 tons were yet to be delivered. The bulk of the additional tonnage required was expected to be delivered during the balance of 1948, and during 1949 and 1950. These figures do not include line pipe which will be required for natural gas lines not yet authorized. On October 31, 1948, there were 55 applications pending with the FPC for new transmission facilities. Of these applications, 21 were for major projects requiring the use of approximately 2,500,000 tons of large diameter pipe.

Conservatively, at least 4,000,000 tons of pipe will be required by the gas industry alone during the next few years, and this estimate does not allow for the filing of additional applications. This estimate, together with the anticipated needs of the oil industry, is far in excess of the existing capacity of pipe-producing mills.

Production in line pipe in 1948 is estimated at about 2,200,000 tons and in 1949 at about 2,500,000 tons. These figures clearly indicate a continuing shortage. The combined demands for the oil and gas industry for line pipe from July 1, 1948 to June 30, 1949 are estimated at 3,700,000 tons. Assuming that the production for the fiscal year ending June 30, 1949 is realized, which is extremely doubtful, there would still be a deficit of over 1,300,000 tons to meet oil and gas requirements for that period. And the deficiency can be expected to increase rather than decrease in view of the expanding demands of the oil and gas industry. Some mills are not taking new orders, and others only for delivery as late as 1954.

Mr. RICH. May I ask a question there, for my information?

Secretary KRUG. Yes.

Mr. RICH. Is the Big and Little Inch being used to capacity for furnishing gas to consuming areas?

Secretary KRUG. Yes, sir, they are both being utilized to capacity at this time.

Mr. RICH. Thank you.

Secretary KRUG. Although line pipe has not been covered under the voluntary allocations program, allocations are clearly needed to assure priority of line pipe for the distribution of oil and gas to those areas where the need is most pressing.

In addition to shortages of line pipe, shortages of oil country goods and some items fabricated from steel plate are currently impeding oil production. Continuation of deliveries of other steel items at current rates appear adequate at the planned rate of petroleum output.

The bituminous coal industry is moving rapidly toward mechanization. Whether it can keep pace with technological developments depends entirely upon the availability of steel. The use of mechanical loading equipment in underground mines increased 32 percent between 1942 and 1947. Although coal cutting has been fairly well mechanized for a longer period than loading, the use of cutting machines increased 6.5 percent during the same period. Strip mining also increased from 11.5 percent of total production in 1942 to 22.1 percent in 1947. The most revolutionary development in the coal industry in recent years is the introduction of continuous mining machines, which are reportedly capable of mining about 100 tons of coal per man-day.

Because of the threat to mechanization during 1948, a voluntary allocation program for steel for the repair and manufacture of mining machinery was established. This program, as recently adjusted, includes about 31,000 tons of mill steel per month for all types of mining machinery, including coal mining machinery, but fails to include an additional 7,000 tons of mill steel per month, requested by the machinery industry.

We were able to get them 31,000 tons of mill steel out of the 38,000 that they needed.

More than 9,000 tons of warehouse steel was also excluded from the program for mining machinery, warehouse steel not having been covered under voluntary allocations for any purpose.

We are not too much worried about that though so far as mining machinery is concerned, because the steel industry has indicated that if warehouse steel for mining machinery falls heavily below requirements they will do something about it.

Steel supplies for maintenance, repairs and general operating purposes at the mines have likewise been inadequate. The 31,350 tons of steel per month requested for the bituminous industry for this purpose has not been covered under voluntary allocations, although it has long been under consideration. A large portion of the steel needed at the mines comes from warehouses and other facilities, rather than from the mills.

Mr. RICH. Mr. Secretary, are they not catching up now on the bituminous fields in furnishing coal for the industries? From the reports I have gotten in the papers the last day or so, the railroads are laying off their men—they have thousands of cars on the sidings, and they are not able to sell the coal.

Secretary KRUG. That is right. We are catching up with the demand, and as I mentioned before, the stock piles of coal are at a very comfortable level so long as no coal emergency exists. But, as you know, if you do not keep those mines operating pretty continuously it does not take long to use up those stock piles. So, in order to keep the mines operating so as to maintain those stock piles and to meet current burning requirements of the thousands of small consumers who cannot store large quantities of coal, we must be sure that mining equipment and supplies, including rails, pipe, and replacements, are adequate to maintain normal mining operations. That is the purpose of this program.

Mr. RICH. Do I understand from that, that they are using up the stock piles now instead of having the coal mined?

Secretary KRUG. Oh, no, they are mining it, not quite as fast as they did last year but still at a heavy tempo; but they have, by virtue of the production levels, built up comfortable stock piles in most industries.

Altogether, about 400,000 tons of warehouse steel per year, or between 33,000 and 35,000 tons per month, are required by all of the mining industries. How long the mines, the great preponderance of which are small mines, can continue operations without relief is problematical.

Development of a synthetic liquid-fuels industry is essential in order to conserve exhaustible supplies of oil and gas and as a security measure. The President's program calls for a very modest beginning. It would involve the construction of a few commercial-size plants utilizing the processes which appear most promising in the pilot plant stage. This exceedingly conservative program would require approximately 165,000 tons of steel over a 4-year period.

All of these unsatisfied demands for steel for machinery and equipment reflect the dynamics of an economy operating at full employment and full production levels. The inadequacy of steel for these as well as other purposes impose an artificial limitation upon continuing economic growth. Unless our industrial momentum is maintained, we must expect a slowing down of economic activity and the slowing down will be disproportionate to the shortages of steel for the industries affected because of its cumulative effect. This is the real significance of the current steel shortages. The unsatisfied demands are not postponable demands. They must be met if we are to have a balanced and expanding economy.

Allocations of steel will have to be continued and extended. For some needs, I am frankly of the opinion that voluntary allocations may not do the job and that mandatory allocations may be necessary.

Substantial increases in the output of steel will require corresponding increases in the supplies of raw materials, including scrap, iron ore, coking coal, manganese, or chromite.

At the end of 1948, the domestic stocks of purchased scrap were more satisfactory than at any time since 1942, but the stocks held by dealers and automobile wreckers were low and with the current high demand it is improbable that they will be able to build up large inventories.

Iron ore was available in 1948 to meet all demands, but inventories at blast furnaces at the opening of the 1949 Great Lakes shipping season are expected to be perilously low. The short-run limitation on iron-ore supplies is the capacity of ore carriers and handling facilities on the Great Lakes.

Supplies of coking coal were generally adequate to meet the steel industry's needs in 1948, but the low quality of coking coals undoubtedly curtailed pig iron output and this hampered steel production to some extent. The general decline in the quality of coking coal in recent years is due in part to the depletion of high-grade deposits and in part to the current competition of coking coal for other purposes.

Manganese and chromite supply, while not limiting steel output in 1948, are both scarce materials currently being sought for the Government stock pile. In addition to the amount that went into the stock pile, there was a deficit in manganese, which was made up by the steel industry drawing down industry stocks. The shortage of this commodity has resulted largely from the exhaustion of formerly important deposits in Cuba, and from transportation shortages in Brazil, South Africa, and India, together with the levying of an export tax in India.

Mr. BUCHANAN. At that point, Mr. Secretary, what proportion of our manganese do we get from Russia?

Secretary KRUG. About 30 percent.

Mr. BUCHANAN. About 30 percent?

Secretary KRUG. Yes, sir.

Chromite supplies in 1948 were adequate to meet domestic requirements and to provide considerable tonnage for stock piling and for the replenishment of industry stocks. Deliveries in 1948 will result in a surplus of metallurgical ore equivalent to 1 year's supply at current consumption rates. Although the U. S. S. R. furnished nearly one-half of the receipts in 1948 of chrome, minimum requirements could probably be met without this source of supply.

The outlook for increased supplies of steel raw materials differs for the various commodities. Iron-ore supplies are expected to increase sufficiently to provide a 3-percent increase in pig-iron output and some replenishment of stocks, although it is not certain that Great Lakes shipping facilities will be adequate to build up blast-furnace stocks to a safe level during the shipping season, while an unusually short shipping season could result in a curtailment of blast-furnace activities next winter. Before 1954, it will be necessary to increase imports of foreign ores and to increase domestic production of underground and lower-grade open-pit iron ores. The large reserves of low-grade taconite iron ore hold real potentialities for the future, but the program for the future ultimate construction of commercial plants for the benefication of taconite will require several years and large expenditures.

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Scrap supplies in 1949 are expected to be in close balance with increased requirements, assuming large imports from Germany and continued stringencies on exports. For the long run it is expected that industry will have to depend upon domestic sources of scrap and, to the extent that scrap supplies fall short, the demand for pig iron and hence for iron ore will be increased accordingly.

Mr. RICH. Mr. Secretary, are we getting any of the scrap?

I heard so much complaint last year about the scrap that was left by our armed forces in foreign countries. Are we doing anything to get any of that returned?

Secretary KRUG. Yes. During the past year or year and a half, the steel industry, in cooperation with the Department of Commerce and the Military Establishment, has worked out programs for returning to this country very substantial quantities of war scrap, and scrap from Germany. That has helped very considerably.

My point is we did not depend on that for the long pull, so our domestic sources are our only hope.

Mr. RICH. It would be of great help if we could bring a great deal of that back when we were in such short supply, and it would help tide us over and give us a stock pile, would it not?

Secretary KRUG. It has helped tide us over. Without it we would have been in very serious trouble. The representatives of the steel industry who worked out the program feel that we have taken from Europe about as much scrap as we could hope to get.

Mr. RICH. And we cannot figure then on any more?

Secretary KRUG. No, and that is running out. We are getting to the end of the scrap pile in Europe, too.

Mr. RICH. Well, how about those islands down in the South Pacific? I have heard so much about millions of tons of scrap metal in those sections. Has any of that been returned?

Secretary KRUG. I am not sure how much has been returned from there. I know that substantial amounts were returned, but the prospect of getting any more from there seems to be very remote indeed, and the steel industry people surveyed that area, too.

The CHAIRMAN. Have you anything to say about the development of the electrolytic process in connection with the low-grade iron deposits in this country?

Secretary KRUG. Well, Mr. Chairman, I do not think we will have any difficulty making use of our low-grade iron ores in this country, again assuming that we get at the job soon enough.

The CHAIRMAN. You may proceed, Mr. Secretary.

Secretary KRUG. Thank you.

Coking coal supplies should improve considerably in 1949, both in quality and quantity, as more coal cleaning plants and modern coke ovens are put into operation and coal exports are further reduced. Assuming no increase in coke requirements for other purposes, because of the replacement of coke by natural gas for domestic and other industrial uses, it is expected that the necessary quantity of coking coals could be available to meet the requirements of the steel industry. However, it would be necessary to increase oven coke capacity very substantially, including the replacement of over-age ovens which at the present time constitute about 40 percent of capacity.

Adequate supplies of manganese in 1949 will depend upon the possibility of increasing imports from sources other than the U. S. S. R.

Slight increase may be possible in imports from the Gold Coast and India. Unless long-range buying programs are entered into, however, it seems likely that imports for 1949 will fall short of the industry's requirements. The deficit will have to be made up out of industry stocks, reducing stocks below the minimum required for efficient operation. This deficit will be increased by any quantities that go into the stock pile.

Private and Government programs have been undertaken looking toward a considerable increase in our manganese supplies after 1950. These programs include the development of our domestic manganese deposits and furnish of mining and transportation equipment necessary to increase the output in Brazil, South Africa, and India. If these programs are pursued vigorously, the outlook after 1950 is for an ample supply independent of Russian production. In the meantime conservation of the use of manganese will be necessary.

The CHAIRMAN. How far have you proceeded in formulating a program for the development of the domestic supplies of manganese?

Secretary KRUG. Well, the over-all program as to what could be accomplished in 1950 was completed last week. I have forgotten the percentage that we would expect to get from domestic sources, but a certain percentage is programmed there from domestic ores.

As you know, Mr. Chairman, the only place now where we are actually getting it is out there in Montana in the Butte area, and this program would contemplate getting it out in some of the other areas, where we have tremendous ore deposits, but at the present time no concentrating facilities. If the committee would like to have that, I think a report on the program for this period would be interesting.

I do think at the moment it is a confidential document and should be treated that way by the committee.

The CHAIRMAN. Well, I do not think it is altogether relevant to the hearings of this committee, but the Committee on Public Lands of the House and the Committee on Interior of the Senate are both very much interested in that program.

Secretary KRUG. I think you will be pleased with the domestic program that is being set forth.

The CHAIRMAN. Thank you, Mr. Secretary.

Secretary KRUG. Chromite supplies are expected to be adequate for domestic demand and for substantial additions to the stock pile in 1949. Increased supplies of metallurgical chromite for 1954 should become available by obtaining maximum quantities from Southern Rhodesia and Turkey.

These are but a few of our raw materials problems. The shortages of copper, lead, and zinc and the accelerating prices of these materials have already been covered by other witnesses before this committee.

These and the raw materials that I have discussed are illustrative of the extent of the shortages in our economy and their limiting effect on our economic growth.

A sound course of action must be hammered out to meet each of these critical situations and this can be done only through aggressive leadership and intelligent cooperation from both industry and government.

Thank you, Mr. Chairman.

The CHAIRMAN. Are there any questions?

Mr. HUBER. I have no questions except to say that I think that is one of the most interesting and informative statements that I have heard in a long time, Mr. Secretary.

Secretary KRUG. Thank you, sir.

The CHAIRMAN. You should have heard the presentation by the whole Department of the Interior before the Interior Committee of the Senate.

Congressman Rich asked me to express his regrets that he was called out of the room before the conclusion of your testimony. He overstayed the time that he allotted himself, Mr. Secretary, which is a great compliment to you.

Secretary KRUG. Thank you, Mr. Chairman.

The CHAIRMAN. There being no questions, the next session of the committee will be in this room on Monday morning at 10 o'clock, when Federal Security Administrator Oscar R. Ewing, Secretary of Labor Maurice Tobin and Thomas B. McCabe, Chairman, Federal Reserve Board, will testify.

On Tuesday we hope to conclude the presentation of the direct case, so to speak, for the President's Economic Report. That will be followed on Wednesday and on Thursday by the round-table discussions which have been heretofore mentioned.

The committee now stands in recess until Monday morning at 10 o'clock.

(Whereupon, at 4 p. m., the committee adjourned, to reconvene at 10 a. m. Monday, February 14, 1949.)

JANUARY 1949 ECONOMIC REPORT OF THE PRESIDENT

MONDAY, FEBRUARY 14, 1949

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

The committee met, pursuant to adjournment, at 10:15 a. m., in the caucus room, Old House Office Building, Senator Joseph C. O'Mahoney (chairman) presiding.

Present: Senators O'Mahoney (chairman) and Myers.

Representatives Patman, Huber, Rich, and Herter.

The CHAIRMAN. The committee will come to order.

The first witness this morning is Mr. Oscar R. Ewing of the Federal Security Administration. Are you ready to proceed, Mr. Ewing?

Mr. EWING. Yes, Senator.

The CHAIRMAN. Very well, sir; the committee will be very glad to hear you.

STATEMENT OF OSCAR R. EWING, FEDERAL SECURITY ADMINISTRATOR, ACCOMPANIED BY WILBUR J. COHEN

Mr. EWING. I wish to thank the committee for this opportunity to discuss Federal education, health, and social-security programs in relation to the Nation's economy. I assume that your immediate concern is with the bearing that these programs will have on the Nation's economy in the immediate future.

The CHAIRMAN. I think we should go just a little bit further than that. This committee is endeavoring now to describe the picture of the whole economy and the impact upon it of the conditions that exist in each separate segment. Then, too, of course the committee is interested in the recommendations that have been made in the President's report, and what the outlook is with respect to those recommendations and their effect on the entire economy.

Mr. EWING. I feel that my statement meets that, Senator.

The CHAIRMAN. I felt sure it would.

Mr. EWING. I should, therefore, like to explain, at the outset, how the security, education, and health programs can assist in avoiding further inflationary pressures and in smoothing the transition to a stable economy at high levels of output and employment.

The economic effect of our programs during the coming year depends upon three major factors, the amount that will be spent for construction, the income and outgo under the social insurances—old-age and survivors insurance and unemployment insurance—and the volume of public-assistance payments financed by general revenues.

Because the construction industry is under inflationary pressures, our program proposals in this field have been held to the bare essentials. The few items that we do propose are so vitally important to the national welfare that they cannot safely be postponed. Of the total civil public works expenditures of $2,900,000,000 proposed for the entire Government during the fiscal year 1950, only $85,000,000, 3 percent of the total, will be accounted for by construction for education, health, and welfare programs. Practically all of this money will be spent for critically needed hospital and medical-research facilities.

We desperately need more doctors, and substantial expansion of the capacity of medical schools depends to a major degree upon Federal assistance in the construction of more facilities. Federal funds to aid States in construction of additional elementary and secondary schools are also badly needed. But no grants for these purposes have been requested for the coming year. All that we have requested in these instances is authorizations for programs which will require appropriations at a later time.

The CHAIRMAN. Have you made any investigation of the statistics with respect to probable and possible school construction as a result of the budgetary recommendations of the governors of the various States during the next fiscal year?

Mr. EWING. I think, Senator, we have recommended to the Budget that $500,000,000 be appropriated for aid to construction of primary and secondary schools. That, as I understand it, would be against the need as estimated—I think by the governors, I am not sure, but I think by them—of somewhere around nine or ten billion dollars.

The CHAIRMAN. Well, in many of the States, if not all of them, the deficiency in educational facilities seems to be pretty well recognized in the various State legislatures and by the recommendations of the governors. I have observed in reading press accounts of various State budgets, that considerable sums are being recommended for education, not only for aid to teachers, but also for the construction of schools.

That has been notably true in the State of New York and in the State of California, and in Connecticut, also, if my memory of the news reports that I read is correct. So my question was intended to elicit the information as to whether or not your agency has made any effort to get the facts with respect to those budgetary recommendations in the States.

Mr. EWING. They have. It just so happens that I don't know what that figure is, accurately. But as I recall the total budgetary needs as we have gathered them, they are somwhere between nine and ten billion dollars.

The CHAIRMAN. I might say that the Senators from Wyoming were invited to go to the seat of the State university at Laramie last week to participate in the ceremonies attendant on the laying of the cornerstone of a new State university building for which funds had been provided. It was not a Federal-aid program.

Unfortunately, because of the dreadful storm out there, the ceremony had to be postponed. But that, I think, is typical of the conditions that exist throughout the United States. If that is so, I think it would be valuable to this committee to have the exact figures, so far as you can determine them, in the record, and if you will have somebody on your staff look into that matter of the appropriations and recommendations by the States for the expansion of educational facilities, for aid to teachers, and the like, the committee will be very glad to have it.

Mr. EWING. You want both construction and operation?

The CHAIRMAN. Yes.

Mr. RICH. Mr. Chairman, may I ask a question?

Mr. Ewing, are there any construction operations in the various States going on now by the local governments, either State, county, townships, or school districts, in the construction of schools?

Mr. EWING. I am sure there are, Mr. Rich.

Mr. RICH. To what extent are they going ahead and building these schools with their own resources? Can you give us that information?

Mr. EWING. May I include that in this additional information?

Mr. RICH. I wish you would.

Mr. EWING. Yes, indeed.

Mr. RICH. Show which school districts are philanthropic enough to go ahead and construct their own schools without expecting to wait on the Federal Government to construct these schools for them.

Now, as long as we are talking about building schools and getting ready to spend eight or ten billion dollars for the construction of schools, how many of them are going to wait until the Federal Government makes these appropriations?

Mr. EWING. I do not know how detailed we have that information, Mr. Rich, but we will give you all we have.

Mr. RICH. I wish you would.

(The following tables were later submitted for the record:)

EXPENDITURES FOR PUBLIC EDUCATION

Expenditures for public education in the several States have increased considerably in the last decade (see tables 1, 2, and 3). An exception occurs in the case of capital outlay, but only during the war years.

Table 1 shows expenditures for public elementary and secondary education from 1935–36 to 1946–47. Table 2 shows expenditures for five individual States and the District of Columbia from 1935–36 to 1947–48. (The five States in table 2 include all the States for which data are now complete in the Office of Education.) Table 3 shows construction contracts awarded for public education, for 1947 and for 1948. The general impression left by the tables is that of a sharp increase in expenditures for public education, especially in the postwar period.

None of the figures in tables 1, 2, and 3 include Federal grants.

TABLE 1.—*Expenditures in public elementary and secondary schools,[1] for the years indicated*

Year	Current expense	Capital outlay	Interest	Summer, adult, and evening schools	Total
1935–36	$1, 656, 798, 938	$171, 321, 674	$132, 983, 153	$7, 794, 433	$1, 968, 898, 198
1937–38	1, 870, 089, 658	238, 853, 496	114, 102, 250	10, 064, 650	2, 233, 110, 054
1939–40	1, 941, 799, 228	257, 973, 601	130, 908, 959	13, 367, 139	2, 344, 048, 927
1940–41	1, 990, 477, 242	148, 824, 565	100, 685, 467	11, 035, 334	2, 251, 022, 608
1941–42	2, 067, 660, 387	137, 552, 326	108, 781, 446	8, 703, 529	2, 322, 697, 688
1942–43	2, 127, 755, 352	68, 765, 818	102, 940, 443	8, 636, 725	2, 308, 098, 338
1943–44	2, 293, 337, 099	53, 856, 462	96, 804, 865	8, 582, 610	2, 452, 581, 036
1944–45	2, 467, 015, 836	76, 133, 856	86, 789, 965	8, 726, 251	2, 638, 665, 908
1945–46	2, 707, 440, 760	111, 046, 088	76, 922, 958	11, 447, 415	2, 906, 857, 221
1946–47	3, 124, 550, 348	204, 739, 220	72, 194, 967	18, 509, 062	3, 419, 993, 597

[1] Expenditures in the 48 States and the District of Columbia.

Data from the Federal Security Agency, Office of Education, March 9, 1949.

TABLE 2.—*Expenditures in 5 States and the District of Columbia for public elementary and secondary education, for the years indicated*

State and year	Current expense	Capital outlay	Interest	Summer, adult, and evening schools	Total
Arizona:					
1935–36	$6, 641, 739	$260, 746	$618, 514	----------	$7, 520, 999
1937–38	8, 115, 301	959, 496	699, 059	----------	9, 773, 856
1939–40	8, 510, 619	1, 931, 921	510, 020	----------	10, 952, 560
1940–41	----------	----------	----------	----------	----------
1941–42	9, 373, 241	622, 851	363, 554	----------	10, 359, 646
1942–43	9, 540, 925	287, 000	328, 664	----------	10, 156, 589
1943–44	10, 472, 410	333, 732	297, 991	----------	11, 104, 133
1944–45	11, 663, 740	977, 025	258, 127	----------	12, 898, 892
1945–46	13, 135, 640	1, 494, 817	209, 193	----------	14, 839, 650
1946–47	16, 613, 100	3, 240, 131	285, 988	----------	20, 139, 219
1947–48	22, 553, 280	5, 918, 252	375, 244	----------	28, 846, 776
Massachusetts:					
1935–36	71, 781, 802	4, 175, 524	1, 886, 347	$775, 209	78, 618, 882
1937–38	73, 559, 862	2, 599, 098	1, 587, 719	779, 940	78, 526, 619
1939–40	72, 097, 294	4, 850, 413	1, 347, 963	666, 878	78, 962, 548
1940–41	73, 045, 732	1, 229, 124	[1] 1, 347, 963	356, 066	75, 978, 885
1941–42	75, 420, 507	1, 286, 281	688, 000	679, 776	78, 074, 564
1942–43	78, 246, 522	281, 827	[2] 688, 000	645, 924	79, 862, 273
1943–44	83, 375, 790	444, 819	651, 226	821, 805	85, 293, 640
1944–45	85, 723, 878	311, 249	[3 4] 651, 226	[3 4] 821, 805	87, 508, 158
1945–46	91, 923, 072	681, 440	275, 672	343, 585	93, 223, 769
1946–47	99, 863, 757	1, 313, 558	[4] 275, 672	445, 816	101, 898, 803
1947–48 [1 5]	109, 160, 000	3, 166, 343	[6] 300, 000	[6] 350, 000	112, 976, 343
North Dakota:					
1935–36	9, 503, 965	625, 399	710, 562	----------	10, 839, 926
1937–38	9, 281, 469	413, 616	630, 693	----------	10, 325, 778
1939–40	8, 614, 882	730, 275	728, 429	----------	10, 073, 586
1940–41	8, 577, 217	350, 139	233, 519	----------	9, 160, 875
1941–42	9, 432, 526	500, 238	387, 286	----------	10, 320, 050
1942–43	10, 316, 646	791, 188	365, 558	----------	11, 473, 392
1943–44	11, 943, 725	658, 590	433, 923	----------	13, 036, 238
1944–45	13, 359, 952	468, 601	295, 361	----------	14, 123, 814
1945–46	13, 978, 905	370, 248	244, 931	----------	14, 594, 084
1946–47	15, 645, 230	442, 702	339, 139	----------	16, 427, 071
1947–48 [5]	18, 182, 669	622, 197	147, 195	----------	18, 952, 061
Ohio:					
1935–36	96, 416, 743	7, 933, 991	10, 283, 901	817, 386	115, 452, 021
1937–38	98, 977, 662	12, 373, 344	9, 740, 015	730, 839	121, 821, 860
1939–40	108, 101, 023	19, 597, 665	8, 371, 820	966, 469	137, 036, 977
1940–41	107, 999, 271	5, 832, 901	7, 266, 406	342, 667	121, 441, 245
1941–42	113, 114, 353	5, 545, 565	6, 568, 836	1, 162, 603	126, 391, 357
1942–43	116, 277, 669	2, 102, 356	5, 992, 905	[2] 1, 162, 603	125, 535, 533
1943–44	124, 932, 416	1, 707, 587	5, 118, 894	376, 836	132, 135, 733
1944–45	139, 214, 296	3, 335, 227	4, 660, 273	408, 161	147, 617, 957
1945–46	148, 543, 920	5, 284, 376	4, 058, 219	492, 251	158, 378, 766
1946–47	157, 111, 760	8, 901, 456	3, 953, 671	775, 681	170, 742, 568
1947–48 [5]	198, 947, 431	18, 794, 755	4, 618, 556	715, 464	223, 076, 206
South Dakota:					
1935–36	10, 966, 969	1, 175, 884	594, 801	----------	12, 737, 654
1937–38	10, 071, 519	1, 133, 492	626, 704	----------	11, 831, 715
1939–40	10, 275, 730	1, 073, 873	626, 114	4, 383	11, 980, 100
1940–41	11, 848, 029	854, 064	526, 134	[1] 4, 383	13, 232, 610
1941–42	10, 784, 975	601, 618	492, 341	----------	11, 878, 934
1942–43	11, 704, 990	202, 778	470, 631	----------	12, 378, 399
1943–44	12, 762, 860	205, 072	272, 473	----------	13, 240, 405
1944–45	14, 109, 843	346, 808	241, 252	----------	14, 697, 903
1945–46	15, 068, 515	384, 026	230, 749	----------	15, 683, 290
1946–47	18, 150, 242	446, 267	195, 786	----------	18, 792, 295
1947–48 [5]	19, 552, 166	833, 340	235, 815	----------	20, 621, 321
District of Columbia:					
1935–36	9, 961, 092	1, 085, 014	----------	123, 498	11, 169, 604
1937–38	10, 271, 663	1, 611, 673	----------	133, 268	12, 016, 604
1939–40	10, 909, 662	1, 863, 459	----------	137, 941	12, 911, 062
1940–41	11, 373, 775	1, 312, 938	----------	[1] 137, 941	12, 824, 654
1941–42	11, 275, 993	1, 865, 222	----------	163, 949	13, 305, 164
1942–43	12, 119, 391	642, 124	----------	[2] 163, 949	12, 925, 464
1943–44	12, 573, 787	118, 632	----------	149, 895	12, 842, 314
1944–45	12, 521, 006	526, 916	----------	165, 998	13, 213, 920
1945–46	13, 507, 527	291, 869	----------	231, 521	14, 030, 917
1946–47	16, 168, 570	1, 104, 324	----------	232, 819	17, 505, 713
1947–48 [5]	18, 411, 965	9, 181, 048	----------	387, 540	27, 980, 553

[1] Statistics of 1939–40.
[2] Statistics of 1941–42.
[3] Statistics of 1943–44.
[4] Statistics of 1945–46.
[5] Subject to final audit.
[6] Estimated.

All data from the Federal Security Agency, Office of Education.

TABLE 3.—*Contracts awarded for construction of public educational buildings* [1]

	1947	1948
I. According to period:		
First quarter	$38,390,000	$108,625,000
Second quarter	73,117,000	178,429,000
Third quarter	94,783,000	203,050,000
Fourth quarter	108,834,000	164,651,000
Total	315,124,000	654,755,000
II. According to jurisdiction: [2]		
State	61,863,000	110,652,000
Municipal	197,385,000	407,803,000
County	55,876,000	136,300,000
Total	315,124,000	654,755,000
III. According to region:		
New England	11,534,000	33,789,000
Middle Atlantic	46,042,000	79,963,000
East North Central	50,264,000	114,634,000
West North Central	15,321,000	35,393,000
South Atlantic	43,758,000	82,350,000
East South Central	16,048,000	43,185,000
West South Central	33,057,000	69,854,000
Mountain	10,286,000	29,566,000
Pacific	57,051,000	98,155,000
Total for 11 months	283,361,000	586,889,000
Dec. (all regions)	31,763,000	67,866,000
Total for year	315,124,000	654,755,000

[1] Source of data: State and Local Public Construction: Contracts Awarded. Public Construction, No. 67, February 1949 (tables III, IV, VII, and VIII). Federal Works Agency, Washington, D. C. Original data from the F. W. Dodge Corp., the Engineering News-Record, and the Daily Pacific Builder.

[2] Data not available for elementary and secondary education, apart from higher and special education. It may be assumed, however, that State contracts are primarily for higher and special education, and that municipal and county contracts are primarily for elementary and secondary education.

Mr. EWING. Let me turn now to the social insurances. Both the old-age and survivors insurance and the unemployment insurance programs are now financed by pay-roll taxes earmarked for payment of these benefits. During 1950, total tax collections will exceed total benefit payments by about $2,200,000,000.

Mr. HERTER. Mr. Chairman, I wonder if we could have a breakdown as to how that calculation was arrived at.

Mr. EWING. I think I have that here, Congressman Herter.

Mr. HERTER. The 1950 you speak of—is that the calendar year or the fiscal year?

Mr. EWING. The calendar year. The old-age and survivors insurance, under the present program, those contributions are $2,700,000,000; the disbursements are $800,000,000, leaving an excess of collections over payments of $1,900,000,000.

Mr. HERTER. May I ask at that point, Are those funds segregated from the unemployment funds?

Mr. EWING. Oh, yes. They are separate trust funds.

Unemployment insurance, those contributions are $1,400,000,000; the disbursements are $1,100,000,000, leaving an excess of collections of $300,000,000.

Mr. HERTER. Thank you.

Mr. EWING. Temporary disability insurance is $100,000,000 and disbursements are $100,000,000.

Now, for the total insurance program the contributions are $4,100,000,000; the disbursements are $1,900,000,000, leaving the total collections over disbursements of $2,200,000,000.

Mr. HERTER. Mr. Chairman, I would like to get these figures clear in my head.

The CHAIRMAN. Certainly.

Mr. HERTER. Your disbursements in the year 1948, when presumably we were at the peak of employment, for unemployment insurance ran about $750,000,000, did they not, in the year 1948?

Mr. EWING. That is about right.

Mr. HERTER. In other words, with full employment your unemployment insurance payments were $750,000,000. Now, you projected this 2 years ahead of that, that is, beyond the calendar year 1949, for the year 1950, and you say that the unemployment insurance payments will only exceed the period of full employment by roughly $400,000,000?

Mr. EWING. $300,000,000.

Mr. HERTER. In other words, for the year 1950 you expect almost full employment?

Mr. EWING. Yes.

Mr. HERTER. But your margin of excess receipts over disbursements in that particular category is only about $300,000,000?

Mr. EWING. That is correct.

Mr. HERTER. With the present tax level?

Mr. EWING. That is correct.

Mr. HERTER. So that in the event of even a mild recession, your receipts under that particular trust fund would be very inadequate to meet any kind of a depression?

Mr. EWING. We have a reserve there of around $7,000,000,000, as I recall.

Mr. HERTER. You have that reserve of roughly $7,000,000,000, but obviously in order to cash in on that reserve you have to sell bonds, or the Treasury has to, because you have to make good on the pieces of paper that you hold in the trust fund.

Mr. EWING. That is correct.

Mr. HERTER. Now, on your old-age and survivors trust fund you have a considerable margin there.

Mr. EWING. I think it is around $11,000,000,000 there.

Mr. HERTER. But it has been estimated that when you get to your peak in 1980, under the existing law, that your excess of disbursements over intake will be very, very great, so that you are going to have to jack that up considerably.

Mr. EWING. Increase the tax.

Mr. HERTER. It is not figured on an actuarial basis at all, is it?

Mr. EWING. As I understand it, those figures are on an actuarial basis, based on present tax rates. Obviously, if the load becomes heavier in the future, it may be necessary to increase the tax.

Mr. HERTER. Then from the point of view of increasing the tax take on the survivors insurance you feel we are running at an adequate rate at the present time?

Mr. EWING. And have so recommended.

Mr. HERTER. So there will be a sufficient reserve when your maximum liability is incurred in 1980, provided none of the rates are jacked at all?

Mr. EWING. I understood you to say "inadequate," but you said "adequate;" did you not?

Mr. HERTER. Adequate.

Mr. EWING. No; I think the rates have to be raised.

Mr. HERTER. Then they are not on an actuarial basis. If they were on an actuarial basis they would not be adequate, would they?

Mr. EWING. The figures I gave are on an actuarial basis, on present rates. You asked me if I considered them adequate, and I said, "No;" I think it will show a deficit at that time, and that there will have to be increased taxing.

Mr. HERTER. At the present rate of disbursement, or the projected rate of disbursement?

Mr. EWING. Yes; projected rate of disbursement.

Mr. HERTER. Then it is not on an actuarial basis. On an actuarial basis you would have a margin or cushion in there to meet your maximum liability when it becomes due.

Mr. EWING. I dare say I am not using the words in perhaps the same sense you are. By "actuarial basis" I meant they were computed in the light of the best experience that they had on which to build those figures.

The CHAIRMAN. Are you not disagreeing only about the rates? Your statement about the actuarial basis of these figures is predicated upon the present rates.

Mr. EWING. That is right.

The CHAIRMAN. Your contention is that rates ought to be different and upon that different basis of rates the payments or the expenditures would have to be greater; is that the point?

Mr. EWING. Yes. I would feel, as I am using the term, if your actuarial figures show a deficit they are still actuarial figures, and that is what these figures would show.

The CHAIRMAN. You were talking from your own belief that there ought to be an increase in the rates?

Mr. EWING. That is correct.

The CHAIRMAN. I understand the Congressman's question was based upon your answer in which you said that the expenditures were actuarially figured on present rates?

Mr. EWING. That is right.

Mr. RICH. But, Mr. Chairman, if he has a surplus of 11 billion dollars now, and if the rates have increased up to this time, do you think he is going to expend all those funds and still want increased rates?

Mr. EWING. Mr. Rich, the load on the old-age and survivors' insurance increases year by year, as more and more people become entitled to its benefits. That is the reason why, if in due course the rates are not raised, as more and more people become entitled to benefits the present tax would not be adequate to meet the payments and eventually the reserves would be eaten up. Therefore, we think increased taxes will have to come.

Mr. RICH. When do you figure this reserve of 11 billion dollars is going to be consumed?

Mr. EWING. I understand from Mr. Cohen that if the present tax rate is retained the reserve would probably begin to be used up in from 7 to 10 years.

Mr. RICH. Then who are the ones figuring this out on the present tax load that you have to carry. Who does that?

Mr. EWING. Our actuaries at the Federal Security Administration.

Mr. RICH. What experience have they had in insurance business of that character?

Mr. EWING. Mr. Cohen, can you answer that?

Mr. COHEN. Well, sir——

The CHAIRMAN. Is this gentleman one of the actuaries?

Mr. COHEN. No, sir; I am not.

The CHAIRMAN. What is your position?

Mr. COHEN. I am the technical adviser to the Commissioner for Social Security.

The CHAIRMAN. What is your name?

Mr. COHEN. Wilbur J. Cohen.

The CHAIRMAN. How long have you been in that position?

Mr. COHEN. Fifteen years.

The CHAIRMAN. How did you enter the service?

Mr. COHEN. I entered the service in 1934 as a staff member of the President's Committee on Economic Security that drafted the original Social Security Act.

The CHAIRMAN. Very well. Now, answer the Congressman's question.

Mr. HERTER. May I get one thing straight for the record? You spoke of the fact that as the program progressed the more people would receive the benefits. Is it not also true that those who today are entitled to benefits receive additional benefits year by year, depending on the length of time that they have been making contributions?

Mr. EWING. Oh, yes.

Mr. HERTER. In other words, a person who was 21 when the law first went into effect becomes eligible for benefits, say, in 1980, and that is when you expect your peak load, so to speak, except as more people would come in, to bring the totals up?

Mr. EWING. Quite right.

Mr. COHEN. Our actuarial estimates are made by the chief actuary of the Social Security Administration. They are reviewed by an actuarial advisory committee which consists of the actuary of the Metropolitan Life Insurance Co., an independent actuary of the University of Pennsylvania, and two additional actuaries.

The actuarial estimates have also been reviewed from time to time by independent actuaries in connection with investigations made by the House Ways and Means Committee.

On the whole, all those independent surveys of our actuarial estimates indicate that the range of estimates we have submitted are reasonable in the light of experience that we have had so far. But, in answer to your question, no one, I believe, is willing to say specifically and without any qualification whatsoever, that there might not be a substantial margin of error in it when you project these estimates 40 and 50 years hence, because the primary element of variation in them is not actuarial, but what the level of economic conditions will be.

Mr. Rich. Well, as we are going now with full employment, or as we have been going in the last few years with the great amount of employment, we are continually increasing this fund. I am wondering, if we are able to continue to do that, how do you figure we are going to use up this $11,000,000,000 of surplus, because that is a lot of money. If we start to use that up and then have to increase our social security taxes, I think you are going to depend greatly on the extent of employment that we have. That is going to be more important than the increase in rates.

Mr. Ewing. There is no question about that, Mr. Rich. For instance, as of today, there are about as many people who, if they were not employed, could draw down old-age and survivors' insurance benefits as there are who are actually drawing them. In other words, they are continuing in employment; whereas, if they were unemployed they could draw these benefits. That group just about equals the other.

Now, if you get a slump in employment, the older people are the ones dropped first, and they would put an additional drain on these resources.

Mr. Rich. Have these actuaries made any suggestions or recommendations as to increasing the amount of taxes that could be placed on the workers?

Mr. Cohen. Yes. The actuarial estimates that have been made show what the amount of contribution would have to be to keep the system self-supporting. Those estimates have been presented to a recent advisory committee that the Senate appointed, which consisted of representatives of business and the insurance companies.

Mr. Rich. Then you have that in the form of a chart?

Mr. Cohen. We have that in the form of a chart.

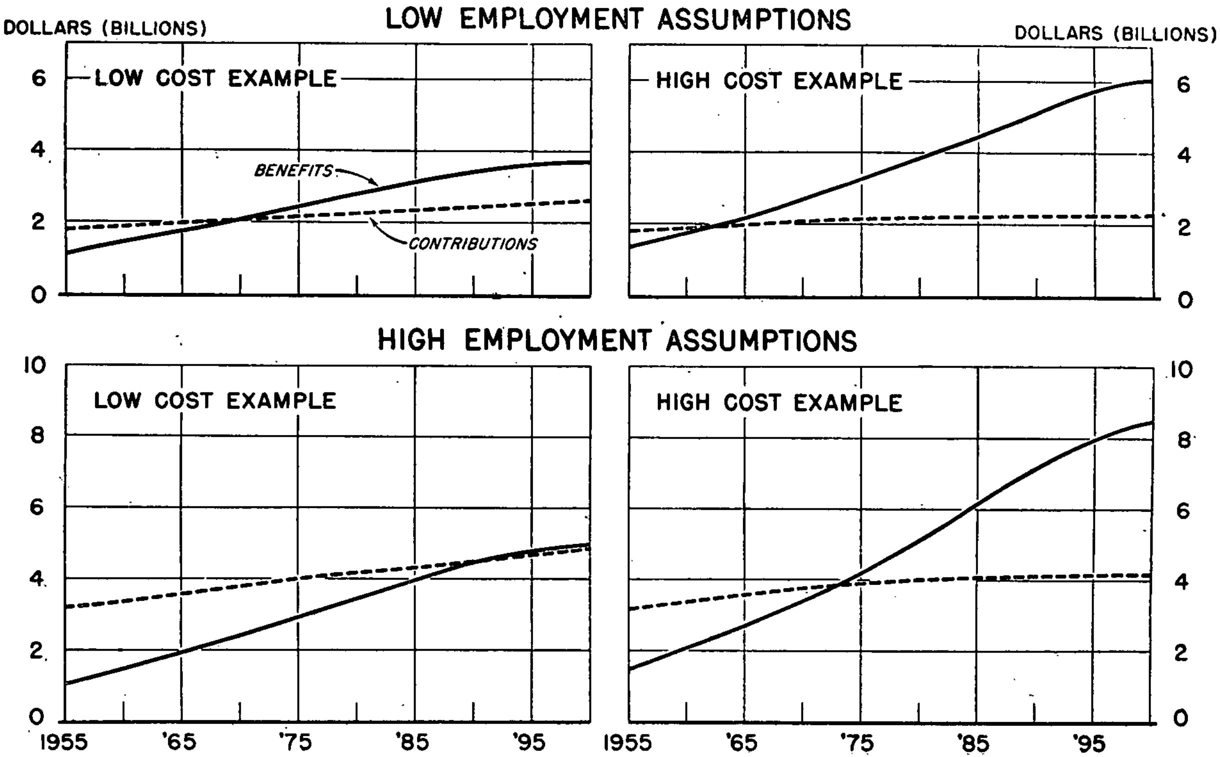
Mr. Rich. Could you put that chart in the record at this point?

Mr. Cohen. Yes, sir.

(The chart referred to is as follows:)

ILLUSTRATIVE LONG-TERM TRENDS OF OLD-AGE AND SURVIVORS INSURANCE BENEFITS AND CONTRIBUTIONS

(Subject to the limitations stated in the text)[1]



SOCIAL SECURITY ADMINISTRATION
OFFICE OF THE ACTUARY

AUGUST 1947
C-44.3

[1] Source: S. Doc. 160, 80th Cong., 2d sess., p. 28.

Mr. RICH. That is all. Oh, pardon me, there is just one other question. I do not want it to interfere with any questions on this subject, but I do want to turn back and ask Mr. Ewing a question with reference to the statement:

> We desperately need more doctors, and substantial expansion of the capacity of medical schools depends to a major degree upon Federal assistance in the construction of more facilities.

I would like to have you enlarge on that. Who has come to the Federal Government and asked them to increase the medical school system of this country of ours? Or do we want to establish Federal Government medical schools?

Mr. EWING. No. Here is the picture on that, Mr. Rich. Everywhere we turn in the health program we find a shortage of medical personnel, not enough doctors, dentists, nurses, and assistants, that is, the technical assistants necessary. If we are to make much progress we have to get more personnel.

We have been meeting with the deans of the medical schools—we had some 40 or 50 out of 78 schools here in the last week of December. I have also had conferences with representatives of the committee of the Association of College Presidents. The medical schools are in a very serious financial condition. I am only giving average figures now, rather than as relating to any specific school. The average cost of educating a medical student today is about $2,200 per year. The average tuition paid by the medical student is $500 per year, leaving $1,700 which has to be paid out of some other source.

That has resulted in very serious drains on the resources of many of the very wealthy colleges, such as Harvard, Yale, and others.

Mr. RICH. That has been happening all these past years. The endowments of these schools have been able to maintain them and carry over that load with the gifts they have received from men who wanted to make philanthropic gifts to these schools. Are these generous gifts becoming less and less?

Mr. EWING. Yes, sir, there is not anything like as much of it as there used to be.

Mr. RICH. Why?

Mr. EWING. Because under the present tax situation the accumulation of great wealth just does not take place any more.

Mr. RICH. In other words, we are cleaning up these men that have money and now they are not able to support these institutions; therefore you have to go back on the Government in some way to get the money, money formerly given by these individuals who wanted to support these various charitable institutions?

Mr. HUBER. At that point may I interrupt to say that even in the so-called good old days we never had adequate medical attention for all the American people. Isn't it true that when a person calls a doctor today he is asked whether he is an old patient, and if he is not he is told the doctor is unable to take on new patients, which turns to a definite need for more doctors?

Mr. EWING. I think there is a serious shortage, Mr. Huber.

Mr. HUBER. I know sections of this country where there are more veterinarians than there are doctors; in other words, the animals get a better break than the people.

Mr. EWING. I don't know about that.

The CHAIRMAN. Mr. Ewing, may I interrupt at this point?

Mr. EWING. Yes, sir.

The CHAIRMAN. I am inclined to believe that your response to Congressman Rich was not in accordance with the facts, at least it is not in accordance with my recollection of the facts. I am inclined to believe that if we make an examination of the gifts by wealthy persons for charitable purposes and for education, we will find that the sum total of those gifts is greater now than it ever was in the past. That I state merely as an impression.

Mr. RICH. You mean charitable gifts to institutions today are greater than they were in the past?

The CHAIRMAN. Precisely. Now, if the Congressman will bear with me, please. We are merely trying to get the facts. I do not know what they are, but I am stating my impression.

Mr. RICH. You will find out, Mr. Chairman, that you will soon have all the people with money cleaned up, and you are not going to get anything. That is what you are headed for.

The CHAIRMAN. The difference between the Congressman and the chairman is that the Congressman has already reached a conclusion without the facts. My impression is that since charitable gifts are deductible from the income taxes, we will find that as a result of these heavy taxes—which were levied not for the purpose of wasteful spending by the Government, but for the purpose of enabling this country to fight the war—these deductions for charitable purposes represent a very large sum.

That is a matter which can be easily determined. There are statistical sources of information, and I hope that you will detail somebody on your staff to get the facts and put them in the record. I do not care whether they are in accord with the impression that I have, or the conclusion which the Congressman from Pennsylvania has reached.

It is clear, and it ought to be clear to everybody who reads this record, that 76 percent of the budget for the fiscal year 1950 goes for war-connected expenditures, which cannot be avoided. So that the heavy taxes which have been levied upon the people have not been levied for the purpose of milking the rich, but for the purpose of enabling the Government to provide the Army and the Navy with what was necessary to win the war and now being spent for the purpose of national defense and our peace program.

Mr. RICH. Now, Mr. Chairman, may I say something?

When you get the figures, Mr. Ewing, you will find out that the Congressman was not so far off from the statement that you agreed with. You take this from the Congressman: Eventually, as you go on now you will have everybody cleaned up in this country who has any money, and there won't be anybody with anything left to give to charity. You are going to find out that the Government has to pay more and more if you want to keep these institutions up as you have in the past. So you have to come to the Federal Government to get the money to keep things going like they have been in the last few years. That eventually means a Government where everybody in this country has to come to Washington to see the bureaucrats in order to handle the affairs of medical schools and most everything that goes on in this country. That is the ultimate destination to which we are driving.

But I want to stop it before it gets to that point because it means a socialized government, and it means a Government that is dictated from 1600 Pennsylvania Avenue and from the bureaucrats in the various departments of Government. I do not want to see it happen.

The CHAIRMAN. In those good old days to which Congressman Rich wants to return, only a very small proportion of the boys and girls of the United States were able to go to school. When I was a student at Columbia University, in the city of New York, the school population was extremely low. It was only a fraction of what it is now. So the conditions which existed in those good old days were conditions which did not afford to the masses of the people of the United States the opportunities for education and for advancement and health that we now desire.

Mr. EWING. I want to say I will be glad to get the facts on these contributions to endowment funds and gifts to universities. I was under the impression that they were less than they had been, but the Senator may be perfectly right.

But I also want to subscribe to the chairman's statement that the cause of the high taxes is largely due to the military situation, past and future.

(The following statement and tables were later submitted for the record:)

PRIVATE GIFTS AND GRANTS TO PRIVATELY CONTROLLED DEGREE-GRANTING INSTITUTIONS OF HIGHER EDUCATION

There is interest in the question whether private gifts and grants to colleges and universities have increased or fallen off in recent years. Data concerning this question are presented in tables 4 and 5, for 10 large colleges or universities and for 10 small colleges, respectively, for the period 1940–48. This sample of colleges or universities is intended to be representative geographically, and in other respects. The institutions were not selected on the basis either of present endowments or of gifts received.

Table 4 shows that, for the large institutions, (*a*) endowment income (rising from approximately 15½ to 18½ million dollars) has failed to keep pace with the shrinking purchasing-value of the dollar; (*b*) income from private gifts and grants for current use (rising from approximately 4½ to over 9½ million dollars) has more than doubled between 1940 and 1948, leaving a slight margin after due account is taken of the change in purchasing power of the dollar; but that (*c*) total income from endowment and private gifts and grants (rising from approximately 20 to 28 million dollars) has failed to keep pace with the change in purchasing power of the dollar. The smaller colleges—for which data are presented in the lower half of table 3—appear to have fared better than the large institutions.

Table 5, relating to permanent funds or assets, presents a less favorable picture than table 4, both for the large and the small institutions. For the large universities, the total gifts (for endowment and additions to physical plant) rose only from approximately 8 million dollars to less than 11 million dollars, between 1940 and 1948. In the case of the small colleges, an actual drop is recorded between 1940 and 1948. It would not be wise to generalize very widely on the basis of a small sample of colleges (in particular, a larger sample of the small colleges would be desirable); nevertheless it seems clear that the volume of gifts for endowment funds and additions to the physical plant of colleges and universities has failed to keep pace with the decreasing purchasing power of the dollar.

TABLE 4.—*Endowment income and private gifts and grants for current use, in 20 privately controlled degree-granting institutions of higher education, for the fiscal years 1940, 1944, and 1948*

10 LARGE COLLEGES OR UNIVERSITIES

Institution	Endowment income			Private gifts and grants for current use			Total		
	1940	1944	1948	1940	1944	1948	1940	1944	1948
Stanford (California)	$2, 298, 330	$3, 099, 352	$1, 489, 270	$382, 315	$291, 261	$1, 017, 953	$2, 680, 645	$3, 390, 613	$2, 507, 223
Northwestern (Illinois)	960, 506	1, 214 176	2, 504. 365	202, 930	222, 270	1, 372, 992	1, 163, 436	1, 436, 446	3, 877, 357
University of Chicago (Illinois)	2, 980, 754	2, 937, 840	4 080, 469	1, 731, 517	757, 702	3, 075, 169	4, 712, 271	3, 695, 542	7, 155, 638
Washington University (Missouri)	828, 177	691, 651	970, 964	498, 078	300, 549	739, 558	1, 326, 255	992, 200	1, 710, 522
Dartmouth (New Hampshire)	804, 474	503, 763	725, 594	177, 079	72 508	460, 007	981, 553	576, 271	1, 185, 601
Princeton (New Jersey)	1, 191, 519	1, 234, 415	1, 328. 343	298, 569	375, 048	545, 889	1, 490, 118	1, 609, 463	1. 874, 232
Columbia [1] (New York)	5, 688, 965	5, 668, 894	6, 320, 755	990, 023	747, 675	1, 793, 322	6, 678, 988	6, 416, 569	8. 114 077
Western Reserve (Ohio)	520, 111	456, 360	644, 617	205, 068	297, 233	745, 590	725 179	753, 602	1, 390, 207
George Peabody (Tennessee)	189 518	188, 422	172, 284	----------	2, 950	40, 000	189 518	191, 372	212, 284
Washington and Lee (Virginia)	119, 941	121, 110	140, 643	----------	----------	5. 185	119, 941	121, 110	145. 828
Total, 10 large institutions	15, 582, 325	16, 115, 992	18, 377, 304	4, 485, 579	3, 067, 196	9, 795, 665	20, 067, 904	19, 183, 188	28, 172, 969

10 SMALL COLLEGES

Institution	Endowment income			Private gifts and grants for current use			Total		
	1940	1944	1948	1940	1944	1948	1940	1944	1948
Hanover (Indiana)	$19, 649	$39, 665	$46, 297	$4, 978	$12. 713	$5, 500	$24, 627	$52, 378	$51, 797
Louisiana College (Louisiana)	14, 226	8, 679	19. 816	26, 474	50, 837	46, 910	40, 700	59, 516	66, 726
Augsburg (Minnesota)	1. 606	1, 436	1, 722	25, 901	100, 830	58, 697	27, 507	102, 266	60. 419
Belhaven (Mississippi)	8, 681	13, 531	15, 690	3. 572	9, 509	----------	12. 253	23, 040	15. 690
Doane (Nebraska)	30, 434	44. 100	48, 813	7. 820	7, 541	7. 259	38, 254	51, 641	56, 072
Houghton (New York)	2, 022	2, 499	673	11, 192	21, 640	17, 557	13, 214	24, 139	18. 230
Ursinus (Pennsylvania)	20, 260	18, 467	21, 418	835	20, 162	12. 310	21, 095	38, 629	33, 728
Huron (South Dakota)	7, 626	46. 633	50, 323	9, 123	19, 659	20, 875	16, 749	66. 292	71, 198
Pacific Lutheran (Washington)	2, 948	3 000	2, 685	24, 821	45. 000	46, 924	27. 769	48, 000	49, 609
Northland (Wisconsin)	4, 527	3, 871	1, 877	23, 050	12. 438	43, 329	27, 577	16, 309	45, 206
Total, 10 small institutions	111, 979	181, 881	209, 314	137, 766	300, 329	259, 361	249, 745	482, 210	468, 675

[1] Includes only the university proper, Barnard College, and Teachers College.

Data from the Federal Security Agency, Office of Education.

TABLE 5.—*Private gifts and grants for endowment and for additions to physical plant, in 20 privately controlled degree-granting institutions of higher education, for the fiscal years 1940, 1944, and 1948*

10 LARGE COLLEGES OR UNIVERSITIES

Institution	Private gifts and grants for endowment			Private gifts and grants for physical plant			Total		
	1940	1944	1948	1940	1944	1948	1940	1944	1948
Stanford (California)	$119,743	$575,050	$718,367	$398,456	—	$294,571	$518,199	$575,050	$1,012,938
Northwestern (Illinois)	1,828,075	4,888,581	768,728	415,735	$49,425	176,935	2,243,810	4,938,105	945,663
University of Chicago (Illinois)	2,641,090	711,736	326,374	—	—	1,400,659	2,641,090	711,736	1,727,033
Washington University (Missouri)	48,016	711,188	983,766	—	—	167,334	48,016	711,188	1,151,100
Dartmouth (New Hampshire)	383,499	697,132	584,382	168,170	—	359	551,669	697,132	584,741
Princeton (New Jersey)	640,448	1,189,537	1,481,618	10,084	29,330	1,348,062	650,532	1,218,867	2,829,680
Columbia (New York)[1]	1,239,739	185,871	832,798	26,060	9,989	37,196	1,265,799	195,860	869,994
Western Reserve (Ohio)	53,336	264,053	855,152	—	19,466	92,288	53,336	283,519	947,440
George Peabody (Tennessee)	—	—	42,830	—	—	—	—	—	42,830
Washington and Lee (Virginia)	14,055	36,760	607,555	—	—	—	14,055	36,760	607,555
Total, 10 large institutions	6,968,001	9,259,908	7,201,570	1,018,505	108,309	3,517,404	7,986,506	9,368,217	10,718,974

10 SMALL COLLEGES

Institution	Endowment 1940	Endowment 1944	Endowment 1948	Physical plant 1940	Physical plant 1944	Physical plant 1948	Total 1940	Total 1944	Total 1948
Hanover (Indiana)	—	—	$126,403	$267,000	—	$52,516	$267,000	—	$178,919
Louisiana College (Louisiana)	$8,540	$2,902	—	100,000	—	—	108,540	$2,902	—
Augsburg (Minnesota)	—	—	—	—	$8,694	22,706	—	8,694	22,706
Belhaven (Mississippi)	—	74,777	—	653	—	—	653	74,777	—
Doan (Nebraska)	—	63,852	7,259	—	29,550	—	—	93,402	7,259
Houghton (New York)	287	1,863	6,982	—	—	7,423	287	1,863	14,405
Ursinus (Pennsylvania)	6,813	7,107	14,872	6,349	1,334	22,633	13,162	8,441	37,505
Huron (South Dakota)	—	—	—	—	—	7,520	—	—	7,520
Pacific Lutheran (Washington)	—	—	59,931	—	50,000	—	15,975	50,000	59,931
Northland (Wisconsin)	389	435	—	15,586	—	—	15,975	—	—
Total, 10 small institutions	16,029	150,936	215,447	389,588	89,578	112,798	405,617	240,514	328,245

[1] Includes only the university proper, Barnard College, and Teachers College.

Data from the Federal Security Agency, Office of Education.

Mr. HUBER. Mr. Ewing, it is not fair to expect us to depend on the whims and generosity of those who may have acquired great wealth to make it possible for us to provide adequate health for the people, is it?

Mr. EWING. I personally would take all I could get from them, but if it was not adequate I would feel that you had to make it up.

Mr. HUBER. In other words, it is a charity proposition if we have to depend on contributions from those who have acquired great wealth to look after any program that we may have.

Mr. EWING. I do not know that I would term it "charity." A man has accumulated a great deal of wealth and perhaps sincerely desires to devote it to the best uses that he can.

It just would not fit into my definition of "charity."

Mr. RICH. Mr. Ewing, they cannot take any of it with them when they die, can they?

Mr. EWING. No.

Mr. HUBER. Some of them try awfully hard. [Laughter.]

Mr. EWING. The dead hand tries to control it, very often.

May I proceed, sir?

The CHAIRMAN. If you will, please.

Mr. EWING. I think my last statement was that during 1950, total tax collections will exceed total benefit payments by about $2,200,000,-000. More will be taken out of the stream of purchasing power in pay-roll taxes than is paid out in benefits. The unemployment reserves are building up to finance benefits in the case of need and the old-age and survivors' insurance reserve is building up to take care of increasing liabilities as the population ages. The current program will therefore act to reduce inflationary pressures.

We are recommending changes in both of these programs—principally increases in benefits and expansion of coverage—and the adoption of disability and health insurances. These proposals are not inflationary. Their adoption would mean that the excess of tax collections over benefit payments in 1950 would be at least $3,000,-000,000, rather than the $2,200,000,000 excess under the current programs.

Mr. HERTER. Mr. Chairman, might I there ask for the record, you presumably have charts projecting the increases that will take in the disbursements as against receipts for these new programs that you are recommending?

Mr. EWING. Yes, sir.

Mr. HERTER. Could we have charts in the record at this point to indicate that trend?

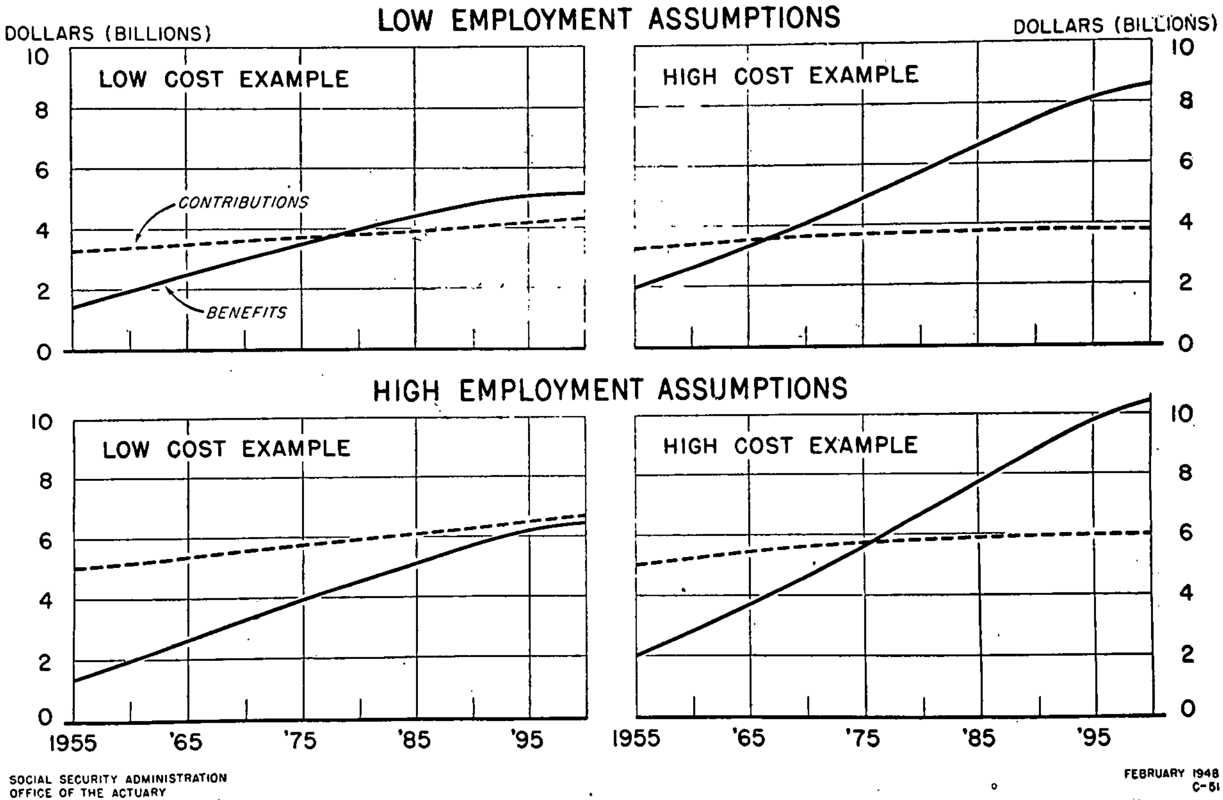
Mr. EWING. I can give you that right now for the calendar year 1950, if you would like it. That is what I gave you before on the present program, Mr. Herter.

Mr. HERTER. That would be for the first year, and, after all, the first year is never an index. Presumably you have that projected ahead. I think your projections would be interesting in the record.

Mr. EWING. Yes, sir.

(The following chart is based on present old-age and survivors insurance benefits with universal coverage. Charts are not yet available showing the changes in the amount of benefits:)

ILLUSTRATIVE LONG-TERM TRENDS OF OLD-AGE AND SURVIVORS INSURANCE BENEFITS AND CONTRIBUTIONS UNDER UNIVERSAL COVERAGE[1]



[1] Source: Actuarial study No. 23, Social Security Administration, p. 31.

Mr. Ewing. Finally, we have public assistance, Federal grants to States to help them provide aid to the needy aged, blind, and to dependent children. In fiscal year 1949 the grants totaled $977,-000,000. In fiscal year 1950, these grants to States for these people will approximate a billion dollars if Congress approves our request for this small increase. This expansion will have virtually no economic effect.

Mr. Rich. Mr. Ewing, would you call $1,000,000,000 a small increase?

Mr. Ewing. Oh, no. It is a $23,000,000 increase, bringing it from $977,000,000 up to $1,000,000,000.

Even if it did, however, I cannot see how the country can in good conscience shift the burden of fighting inflation to the destitute, aged, the blind, and dependent children.

When the effects of all Federal security programs, limited construction, the social insurances, public assistance, education, and health, are combined, the upshot is that the pay-roll-tax intake exceeds all expenditures for these purposes by approximately $1,000,000,000. If the programs were expanded, as we recommend, this excess would be approximately $1,500,000,000. Thus, the net economic effect of these programs during the coming year will be counterinflationary as long as economic activity continues at a high level.

The social-insurance and public-assistance programs put a strong brake on the swings of the business cycle. When times are good, as they are now, relatively few people are unemployed and unemployment-insurance benefits are low. But simultaneously with an increase in unemployment, the volume of unemployment benefits rises.

The Chairman. Of course, one of the objectives of the act under which we are proceeding is to prevent unemployment.

Mr. Ewing. Exactly.

The Chairman. Now, to the extent that we succeed in maintaining maximum employment, maximum production, and maximum purchasing power, the expansion of such services as those you are talking about now would be unnecessary, would it not?

Mr. Ewing. Well, they would help obtain that objective. In other words, these unemployment benefits, these old-age and survivors benefits create a purchasing power in the case of a depression which is directly conducive to the ends that the legislation is designed to achieve, as I understand it.

The Chairman. Yes, of course, that is true, but I am pointing out that during the war many aged people were employed.

Mr. Ewing. Exactly.

The Chairman. Many people now above the social-security age limit are still employed. The latest figures that we had from the Department of Commerce and the Census Bureau would indicate that even in January 1949, 57,700,000 persons, approximately, were employed in the United States. I assume that means a large number of people in the upper age brackets are still at work.

So the conclusion is that if we maintain employment at that relative level we, to that extent, decrease the demand for expenditures from the social-security, the old-age, and survivors funds.

Mr. Ewing. Definitely. As I said a while ago, as of today only about half of the people who are entitled to old-age and survivors insurance are drawing it, for the simple reason that they are still employed.

Mr. HERTER. Mr. Chairman, might I clear up one point from the economic point of view on this?

When you think of the value of these payments in time of mild recession when you have larger unemployment, you speak of that as a leveling factor. At the same time, is it not true that your reserves are not in the form of cash, they are in the form of promissory notes of one kind or another? In order to turn them into cash the Treasury Department has got to sell those obligations or other obligations either to the American public or through the banking system, in order to raise the money which you disburse in cash. In order to do that, the Treasury is then faced by either the inflationary process of selling the money through the banking system, or obtaining the money through the banking system, or if they are sold to individuals you withdraw from the purchasing power the very amount that you pay out. Is that not correct?

Mr. EWING. Yes, I think as you have stated it, Mr. Herter, I would say "Yes" to your question. The point is, though, that right now we are collecting more than we are paying out, so that it has a deflationary effect as of this time.

Mr. HERTER. At the present time it has. It saves the Treasury in its cash position at the present time, when you take in more cash than you are paying out. The Treasury does not have to then finance through short-term notes other governmental expenditures by borrowing the money or securing it through other tax revenues.

But when you begin to pay out in excess of your income, at that point the Treasury has to make up its mind whether it is going to do it by inflationary bank credit, or whether it is going to do it by taking the same purchasing power from people by selling those securities to them

Mr. EWING. Yes, sir.

Mr. HERTER. So there is not necessarily a leveling off from the point of view of the over-all purchasing power, if every one of your excess expenditures over receipts has got to be financed by taking the money out of something else or by expanding your bank credit.

The CHAIRMAN. Are we not dealing here with the system precisely as it was outlined when it was first established, namely, that in times of full employment or maximum employment or large employment, when the tax receipts under this system are greater than the expenditures, we have an anti-inflationary effect. That is what we sought.

Mr. EWING. That is right.

The CHAIRMAN. But when unemployment appears and these benefits are withdrawn, the Government then pays out, and if it pays out more than it takes in, then it is on the other side of the picture creating the purchasing power and thereby bringing about an inflationary aspect which, of course, was precisely what was desired.

In other words, the theory, as I understand it, can be simply stated that when the expenditures of private citizens and business organizations for business expansion and for production of goods are enough to keep the machine going, Government expenditures are not needed. But when private spending withdraws from the economic scene, then, unless you have a collapse, the Government must come in. Is that not the whole theory?

Mr. EWING. That is true.

Mr. HERTER. Mr. Chairman, may I say just a word at that point? I would agree with you 100 percent if these were cash transactions but they are not cash transactions. The excess as taken in today under the trust funds goes into your Treasury cash balance and relieves the Treasury of having to take more money out of the purchasing power. To that extent there is no over-all deflationary effect. If this was an isolated fund, that would be one thing, but when you include it in the entire Treasury balance it is not an isolated thing, and you have exactly the reverse taking place at the time. It is merely a difference there as to who has the purchasing power at a given time.

The CHAIRMAN. The cash position of the Treasury and the budgetary position of the Treasury are two separate things.

Mr. HERTER. Yes, but the Treasury does not retain this money in cash as reserve; it spends it, puts it out, and then does not take other cash from the taxpayer or from the bloodstream of the country.

Mr. EWING. The cash is invested in Government bonds, and those bonds are held in trust.

Mr. HERTER. Yes, but a bond is merely a piece of paper for later payment.

Mr. EWING. Yes.

Mr. HERTER. Sometime somebody has got to find the money to pay that off when it is due.

Mr. EWING. I do not profess to be a very profound economist, but I would say this, I should think it would depend entirely upon how those bonds in the trust fund were used. If they were sold to the banks it would definitely be an inflationary thing.

Mr. HERTER. That is correct.

Mr. EWING. Whereas, if they were resold to the public it would be deflationary. So I think when the time comes the Treasury can, depending on what economic conditions are at that time and whether it wants inflationary or deflationary pressures, meet that situation by the way it disposes of those bonds.

The CHAIRMAN. You may proceed.

Mr. EWING. No new laws need be passed and no special appropriations made. The nature of the system itself is such that the volume of payments moves automatically with the volume of unemployment. During 1943, for example, when virtually the only unemployment in the country was caused by shifting of labor from civilian to war jobs and by job changes as the urgency of war programs altered, only $79,000,000 was paid out in unemployment benefits. But in 1945, when we went through the most abrupt shift from war to civilian production and unemployment levels were quite high for a few months, unemployment benefits rose to over $1,000,000,000.

If employment declines, unemployment benefits will automatically increase. As they rise, they will replace part of the wages lost by unemployment and thus help to maintain consumer expenditures and thereby support production and employment.

The old-age and survivors insurance program also acts automatically to even out the swings of the business cycle. Workers entitled to old-age benefits can remain at work if they so choose and many do so in prosperous times. Right now, for example, there are just about as many workers entitled to old-age benefits at work as there are workers retired on old-age benefits. By choosing to stay at work, they add to the labor force and contribute to production. But if jobs become scarcer, the old-age insurance program permits older workers to leave the labor market with some small income to fall back on. This tends to keep wage levels up, and to sustain purchasing power.

If a depression should come, the social insurances cannot bear the entire burden of staving off destitution for unemployed workers and their families. The amount and duration of unemployment insurance benefits are related to the resources of the accumulated reserves—which now approximate $7,000,000,000. Our public-assistance program, therefore, serves as the second line of defense behind the social insurance. As is true of the social insurances, public-assistance payments are relatively low in prosperity and rise during periods of adversity.

The public assistance programs should be revamped if they are to serve us effectively. Federal grants should be adjusted to the economic needs of the States. Moreover, public assistance should be available to persons who are destitute no matter what the cause of their destitution, rather than to those who are needy because they are aged, blind, or dependent children, which are the limits at the present time. If this is done, we can establish in prosperous times the framework of a planned, logical, well administered system that can carry a heavy load if extensive unemployment of long duration should ever again develop. If this is not done, we face the certainty that the experience in the last depression will be repeated in any future slump—a series of improvised, shifting, uncoordinated programs.

Attainment of stability is in itself an incomplete and unsatisfactory goal. We want not only stability, but stability at a high level of output. This has always been our national goal and we surpass the world in production. This is true for a number of basic reasons, rich natural resources, a political structure that makes the Nation one economic unit, our transportation system, machine production, and so forth. But none of these alone or in combination are sufficient. They would not give us high levels of output unless we had a highly competent and alert citizenry.

The capacity of our citizens to produce in our free economy depends directly upon their education, health, and vigor. Literally, our strength, economic as well as moral and spiritual, comes from our people. This is why Federal support for education is vitally important as an economic measure. That is why we must continue the fight against disease as a means of raising the levels of physical well being and the capacity of the work force to produce. Extended public-health services, disease-control measures and medical research are indispensable if the startling advances of the past decades are to continue.

I have dwelt upon the economic effects of social security, education, and health programs because they are the primary concern of your committee. I should be most reluctant, however, to leave the impression that I view the content or the objectives of these programs solely from the economic point of view.

While economic consideration should be and are weighed in designing social programs, they should not be governing. Our proposals for 1950 will, on balance, have a salutary economic effect. But even if they had no such economic repercussions, I should urge that they be adopted in the national interest.

This Nation needs more than high levels of output. The survival of our democracy depends upon universal understanding, acceptance and faith in the values that make a democratic State possible. This means that standards of education must continue to move steadily upward. Freedom from illness and disease is an end desirable in its own right. The ordinary man must be convinced that his contribution to the output of the Nation is rewarded by reasonable security for him and his family against economic risks beyond his control. Without this conviction, the door is opened to basic conflicts that can endanger our way of life. Through the democratic process, it has become clear that people want to tax themselves to provide protection against unemployment, old age and ill health through social insurance, and to aid the unfortunate through public assistance. Attainment of these goals cannot and should not be subordinated to purely economic objectives.

The CHAIRMAN. Any questions?

Mr. HERTER. Just one question. I am glad that you stressed the economic side of this. But your conclusions at the end are certainly very desirable social conclusions. On the other hand, I think it was President Roosevelt who said back in 1935 or so, that more good intentions from a social point of view have been wrecked on loose fiscal policy. The more that we see happening in the rest of the world, the more convincing that statement becomes. You cannot very well extend these policies without regard to your over-all economic picture and your over-all productivity. If you do, you are likely to wreck the entire program and have a complete reversal, rather than an extension, as you want to see it extended. Therefore, I question a little the conclusions in your last two paragraphs.

Mr. EWING. I feel what I said is correct, Mr. Herter, for the simple reason that I think on the whole, over a period of years, these programs are absolutely justified from an economic point of view. I merely said that even if they were not, I would still be for them, although I would hesitate to say that I think they would wreck the economy, because I do not think they would.

Mr. HERTER. You would be for them if you thought they were going to wreck the economy?——

Mr. EWING. No.

Mr. HERTER. Or were a seriously retarding factor in the economy? They have really got to keep step with the expansion of our economy.

Mr. EWING. By and large that is true.

Mr. RICH. Mr. Chairman.

Mr. Ewing, do you think all these things you summed up in your conclusion—and I quite agree with you—do you believe we should come to the Federal Government for all these things, or do you think a good many of them should be worked out back home in our local communities? Don't you believe it would be better, that we would get more personal contact with the people and greater objectives if they were worked out back home than if everyone had to come to Washington to secure the benefits that you are trying to give to the people of this country?

Mr. EWING. Mr. Rich, I think of all these programs as of today, the only one federally administered is the old-age and survivors program.

Mr. RICH. Throughout your whole essay here you have suggested that the Federal Government has to do this and has to do that. I am questioning whether a great deal of it should not be done back home, that is, the building of our schools and taking care of our educational facilities, rather than asking the Federal Government to do it.

Mr. EWING. As to most of those things, Mr. Rich, I feel that many of the States simply could not carry the load alone.

Mr. RICH. Is it not a fact, Mr. Ewing, that there is not a State in the United States but what is more sound financially than the Federal Government?

Mr. EWING. Oh, no.

Mr. RICH. Well, name one. Name the States that are not better off financially than the Federal Government.

Mr. EWING. For my money the Federal Government is the most sound financial institution in the world.

Mr. RICH. It won't be very long. [Laughter.]

Senator MYERS. Mr. Ewing, I might indicate that in Pennsylvania the buget for Pennsylvania is the largest in the history of the State, just recommended by the Governor, and the Governor, too, is recommending increased taxes for the State of Pennsylvania. I do not say at the moment that I disagree with him, but I only pointed out the fact that in Pennsylvania taxes are being advanced as they were advanced last year, and advanced the year before, and the budget is the largest in the history of the State.

So, although the Congressman and I come from the same State, I do not believe Pennsylvania is any sounder nor has more stability financially than does the Federal Government.

Mr. RICH. Why, the debt of the State of Pennsylvania is almost nil in comparison to the debt of the Federal Government. The Senator ought to go back and review that just a little bit and he would find that out.

Mr. EWING. It may be, by comparison of dollar amount, but as between debt and resources, I don't know how it would compare.

Mr. HUBER. Mr. Ewing, I would like to state for the record, for instance, State compensation to injured workmen: If my recollection is correct it was the State of Ohio that first enacted it in 1910. I believe Mississippi finally adopted it recently. It has taken 38 years for the States to take care of this recognized need of the workers. I think that answers some part of the question as to whether or not the States can or the States will help.

Mr. EWING. It is certainly both.

Mr. RICH. Just one statement in reference to Pennsylvania, Mr. Ewing. I want Pennsylvania to get out and do the things that you suggest here. I am interested in doing that; I think Pennsylvania should do it. I think back there is where most of it should be done. We should spend more money in Pennsylvania to do it instead of having Pennsylvania come down here and ask the Federal Government to do more of these things. That is the trouble. They are all coming here to the Federal Government and they should stay back in their own State—and Pennsylvania is one of them that should do that—and spend more money taking care of those who need assistance and help.

I am for it. But I do not want them to come down to Washington, because Washington is just about wrecked now.

Senator MYERS. I might indicate there, Mr. Ewing, that the Congressman has some very fine flood-control projects in his district. I know that he and I have been constantly calling upon the committees of Congress, the Appropriations Committee, to appropriate more money for flood control in the Congressman's district and other districts of Pennsylvania.

I am sure the State of Pennsylvania cannot carry forward that flood-control program which is badly needed in Pennsylvania. We have had tremendous floods and it just so happens that that is one Federal project that the State of Pennsylvania cannot carry on all by itself.

I have joined the Congressman many times in asking the House and Senate Appropriations Committees to keep those projects going, to appropriate further funds for planning in that district, and for further construction funds in that district.

Mr. RICH. Mr. Ewing, the Senator from Pennsylvania knows that when the Federal Government dams the water up in Pennsylvania it holds it back all down the Mississippi River. It helps all those States. Therefore, that is a Federal project. But there are a lot of these things that do not enter into it. The State of Pennsylvania is now spending its own money up there on a lot of those projects in an effort to relieve the situation, so Pennsylvania will do its share if it is given a chance. I think if all the other States would work under the same ideas that Governor Duff is working with now in the State of Pennsylvania we would have a better government to live under, and we would have a better State to live in.

Mr. EWING. Mr. Chairman, I am in an unfortunate position, being between two distinguished gentlemen from Pennsylvania.

The CHAIRMAN. I was just about to remind you that you might get the impression you were the judge here and that you were to make a decision between these two gentlemen. You cannot make that decision, and the Chair will therefore excuse you.

Mr. EWING. Thank you very much, Senator.

The CHAIRMAN. The Secretary of Labor is in the room. We would be very happy to have him come forward.

The committee will be very glad to have you proceed with your statement, Secretary Tobin.

Secretary TOBIN. Thank you very much, Mr. Chairman.

STATEMENT BY HON. MAURICE J. TOBIN,[1] SECRETARY OF LABOR

Secretary TOBIN. Mr. Chairman and gentlemen of the committee, in the Economic Report, the President said:

> In 1949 we are entering a period of harder economic tests. The momentum of war-created demand and war-created purchasing power has waned, and we must now rely more fully on currently generated purchasing power to absorb a full output of goods and services. We must be more than ever on the alert, to make sure that withdrawal or lessening of temporary demand factors is not accompanied by a reduction of productive activity and the mounting unemployment to which this would lead.

[1] Tables and charts referred to follow Secretary Tobin's testimony.

This hearing today is part of the procedure established by the Employment Act of 1946 for consideration of economic trends and economic policy by the legislative and executive branches of the Government. I am happy, Mr. Chairman, to appear before this committee today to help in whatever way I can in the furtherance of the objectives of the Employment Act of 1946.

The problem of current economic analysis is today more difficult, for the reasons suggested by the President, than at any time since the end of the war. We have had over 3 years of unprecedented postwar boom, with high levels of employment, production, and income, and very high prices and profits. Our policy for the next years—indeed for this year—should be flexible enough to prevent the kind of inflationary rise in prices that we experienced in 1947 and 1948, on the one hand, or to prevent any major drop in economic activity. For the long pull, our policies should be designed to assure balanced economic growth and stability in the future—exactly the kind of problems, objectives, and policies which were contemplated under the Employment Act of 1946.

The Employment Act of 1946 calls upon the President to present an economic program aimed at continuous "maximum employment, production, and purchasing power." In my testimony today I wish to consider employment and unemployment developments, questions of wages and living standards, and changes in the cost of living, in relation to these objectives of economic policy.

I want, first, to address my remarks to the principal problem raised by this act, namely full employment.

Ever since the early war years, with the exception of a few months during the reconversion period, for all practical purposes we have had full employment. For the last 3 years, employment has increased more or less steadily, the available active labor force has expanded, and unemployment has not exceeded a figure of 2.7 million. As shown by table I, the rate of unemployment has not exceeded an average of 3.7 percent of the labor force in the postwar years.

Our expanding population and labor force is one of the great sources of our economic strength, provided, of course, that it is productively employed. During the 1930's, as shown by the chart and table, the labor force rose by about 6 million persons, largely as a result of population growth. But total employment was below the 1929 figure of 47.6 million during the whole decade. The result was unemployment ranging between 7 and 13 million persons.

The labor force is capable of expansion and contraction to a considerable degree. Under the extreme pressures of the war years, the total labor force, including the armed forces, expanded by 10,000,000 in the course of only a few years. After the end of the war it decreased from an average figure of over 65,000,000 in 1945 to less than 61,000,000 on the average in 1946.

Mr. HERTER. Mr. Chairman, I wonder if I might interrupt right at this point.

When you compute the labor force, how do you make that computation?

Secretary TOBIN. When I gave you the 65 million, that included nonagriculture, agriculture, the armed forces, and the unemployed.

Mr. HERTER. What I had in mind is this: During a war period, for instance, a great many women went into the labor forces, under the patriotic motives and pressures of that time. When you make your computation for carrying on in the future, do you include them as a potential part of your labor force, or do you make allowances for a great many of them going back to their homes?

Secretary TOBIN. On the tables that you have before you, a woman would be in the labor force while she was working, but if she voluntarily retired from work—which about 4 to 5 million of them have done since the war—they are no longer included in the table.

Mr. HERTER. You deduct them from the labor force?

Secretary TOBIN. Yes.

Mr. HERTER. Now, we had testimony this morning from Mr. Ewing that at least half of the people eligible for old-age benefits today, that is, Federal old-age benefits, are still working and not drawing money. They are included in the labor force while they are working, and the minute they drop out they are no longer included in the labor force?

Secretary TOBIN. They would be excluded from the labor force once they permanently withdrew. If a person retired and accepted an old-age pension or old-age compensation they would no longer be in the labor force. It would be the same with a married woman who was working and permanently withdrew herself for purposes of homemaking. She would be withdrawn from the labor force.

Mr. HERTER. But the figure today which you consider a maximum labor force would run, say, around 60,000,000 or 61,000,000?

Secretary TOBIN. The actual force for 1948 was 62,748,000.

Mr. HERTER. And that figure is already adjusted by taking off the women who worked during the war whom you feel are not a part of the labor force?

Secretary TOBIN. That is correct, and the people who went off because of old-age assistance.

Mr. HERTER. But it does include the other women still working?

Secretary TOBIN. Correct.

Mr. HERTER. Thank you.

Mr. RICH. Mr. Tobin, you made the statement that the force unemployed was about 3.7 percent of the labor. At what date was that, today, or as of December 31?

Secretary TOBIN. That would be for the year 1946.

Mr. RICH. Do you have any figures on what it might be at this time?

Secretary TOBIN. Well, you realize January is the highest month of unemployment—always January and February. For the month of January I would say that it was around 4.4 percent.

Mr. RICH. Thank you.

Senator MYERS. Is that seasonal, Mr. Tobin?

Secretary TOBIN. Well, January and February your agricultural employment is at a very low level. January and February in the industrial fields are also at a low point.

Senator MYERS. Unemployment usually rises in those months?

Secretary TOBIN. Well, in the month of December in the retail areas you will have hundreds of thousands of college and high school students working on sales forces and in warehouses in connection with the Christmas retail rush. Then, of course, at the termination of the Christmas holidays they return to school and they are dropped from the employment rolls.

Since demobilization, the civilian labor force has been greater than ever before in our history, but there has been so far no serious problem of unemployment. Even during the reconversion period, unemployment did not exceed 2.7 million. Large-scale unemployment was avoided in the reconversion period partly because of the quickness of the recovery in production, and partly because of the voluntary withdrawals from the labor force that took place during this period.

There is now some indication that the rise in employment that has taken place in the past 3 years is slowing down. At the same time it is quite certain that the labor force during the year, and in the years ahead, will increase at a rate of at least one-half million persons per year. In terms of employment, the problem that this suggests is the problem of demand and production that will use this increasing labor force to enrich our economy.

Unemployment has been increasing steadily since the seasonally low figure of 1,640,000 reported for last October. In early January, unemployment was reported at 2,660,000 by the Bureau of the Census—about 600,000 more than in January a year ago and almost as high as in any postwar month. A large proportion of the increased unemployment is due to the return of prewar patterns of seasonal operations, including curtailed production during inventory-taking, in many industries. Substantial seasonal declines of this kind have been reported in many industries for the first time since 1940.

Mr. HERTER. Mr. Tobin, I wonder if you could tell us how an unemployment census is taken? Could you do that without unnecessarily delaying us?

Secretary TOBIN. The unemployment census is taken by the Census Bureau. The Census Bureau goes into selected areas. They check with a given number of families to determine the number who were working, say, a month ago, and who were working a year ago. They go into 68 typical counties in the country. That is the manner in which we get our unemployment figures.

Mr. HERTER. It is done through the family, rather than the pay roll figures of industry?

Secretary TOBIN. Well, then, on the other hand, the Bureau of Labor Statistics of the Labor Department procures directly from industry itself the number of people on pay roll.

Mr. HERTER. So you have found that over a long period of years these figures are reasonably accurate using those small samples?

Secretary TOBIN. I would say that a sample from 68 counties in the country would give you a figure as accurate as you could get, without taking a complete over-all census. But I would say for the over-all practical purpose they do fairly accurately reflect unemployment in the country.

It is obvious, however, that the market situation of many consumers' goods industries has changed appreciably in recent months. As a matter of fact, not all industries and areas were enjoying high prosperity at all times during the past 3 years. Economic crosscurrents were at work creating difficulties for individual companies and even entire industries.

Yet, despite the leveling off of production and employment in response to reduced demand in many industries, both continue very high for this time of year. Total employment as reported by the

Census Bureau was at a level of 57.4 million this January, about 300,000 higher than a year ago. Employment in nonagricultural establishments, as reported by the Bureau of Labor Statistics, fell substantially, but even so was only slightly below the January 1948 level—the highest January figure on record.

Mr. HERTER. I am sorry to ask so many questions, but may I ask a question right there?

You say "was at a level of 57.4 million in January." But you said that the level before was 62.7 million. The difference between those two, as I read it, is 4.7 million.

Secretary TOBIN. I gave you the 1948 figure. Now I can give you the January figure. The total labor force is now 61,546,000 as of January. The original figure for 1948 was the average for the year 1948, for the 12 months. You have your armed forces included in that, roughly 1,400,000, and your unemployed running roughly at 2,600,000.

Mr. HERTER. You take the armed forces as a separate item?

Secretary TOBIN. Yes.

While unemployment continued to rise in January and probably into February, the rate of increase appears to have slackened. Reemployment has taken place at the same time that lay-offs are occurring. About 1¼ million people, or roughly one-third of State unemployment compensation claimants, left the unemployment rolls during January. There was, however, a slight upturn in initial unemployment compensation claims reported in the first week in February.

The course of employment in the next few months will, of course, depend upon the level of business activity, and upon the extent to which demand by industrial buyers and by consumers is sustained or increased by lower prices. It is too early to assess the extent of the readjustment to postwar conditions which is now in progress. It is certain that there have been substantial readjustments in many of the light industries and that some of the heavy industries are now feeling the effect of curtailment of orders. Different parts of the country are affected very differently. In New England, for example, we have had a lot of unemployment and shorter hours throughout the entire autumn and winter, while the centers of heavy industry have continued to have very high levels of activity.

While the volume of unemployment at the present time is not large, the situation is one which should be closely watched with a view to making sure that adequate measures are available both to assist workers laid off in the readjustments in industry now going on, and to head off a recession should one begin to threaten.

We wish to avoid unnecessary unemployment because we wish to avoid the social and economic losses accompanying large-scale unemployment. We wish to achieve economic growth in terms of increased per capita output as well as total output. In brief, our objective is to raise the real income—the level of living—of the American people.

I now wish to turn to these questions of wages and standards of living. Since prewar days, when unemployment exceeded 9,000,000, as in 1939, the level of living of the American people has improved substantially—as a result of the increase in employment and higher real earnings. This is reflected in the large rise in the value of the aggregate national product. In dollar terms, the gross national product has increased from $90,400,000,000 in 1939 to $252,700,000,000 in 1948. If we make a rough adjustment for prices, it is clear that the real value of the national product has increased by as much as 50 percent.

Most American families have shared in this gain in total production through more regular employment, by employment of more members of the family, and by increases in money wages, compared with their situation in 1939. Per capita personal income, after taxes, adjusted for changes in the cost of living, rose by about 50 percent from 1939 to a peak in 1944–45, when many people were working long hours to turn out war products. Since that time real per capita personal income has declined by about 6 percent, but is still 40 percent above the 1939 level.

The Economic Report of the President emphasizes the need for increased per capita output in the years ahead if we are to raise the level of living still further under conditions of full employment in the post-war years.

I am confident we can succeed in lifting the level of living for all the American people—if we take whatever action may be necessary to avoid economic depressions. The gains we have made in the past give me confidence that we can make further gains in the future.

The rising level of living within our own lifetime is apparent on every hand. The factory worker, who earned on the average $11 per week in 1914, is hardly a generation removed from the average factory worker today who earns $55 per week. As indicated by table II, the level of weekly earnings in manufacturing increased 383 percent over the 35-year period from 1914 to 1948. The level of hourly earnings during these years rose almost 500 percent. Average weekly earnings, adjusted for changes in the cost of living, are shown in the chart.

Between 1914 and 1948, real hourly earnings in manufacturing advanced by about 150 percent, and real weekly earnings about doubled. During the same period, average weekly hours of work declined by almost 20 percent, and this gain in leisure in itself has significantly enhanced the well-being of the working population.

The rise in real earnings and the reduction in hours of work over these decades has been possible because of the underlying rise in per capita output resulting from a combination of new and improved technology, initiative, ingenuity, and a trained and resourceful labor force. It is upon these fundamental factors that we must rely for continued advances in living standards.

I should like now to discuss more specifically the movement of wages during the period since 1939. The changes that have occurred during this extraordinary decade probably are more immediately relevant to current problems than the longer trends that I have touched upon.

Three principal influences have shaped wage movements during this period. First, the economy has been operating at full employment levels since mid-1942. During much of this period, indeed, there has been excess demand for labor, in the sense that there were more jobs than could be filled at going rates of pay.

Second, the economy has been subjected to heavy inflationary pressures growing primarily out of the nature of war production and war finance. This factor, in turn, helps largely to explain the excessive demand for labor, the ease with which upward price adjustments

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could be made in the postwar period, and the high profitability of business enterprise.

Third, for the first time in American history, organized labor has had effective strength in many of the basic industries of the economy, as the great union organizing drives of the 1930's extended into the defense and war periods.

The level of money wages began to move decisively upward in the spring of 1941. During the period of effective wage control, from October 1942 to the end of the war in August 1945, this upward movement was very measurably slowed down. But it did not stop, because even under wage control, increases could be granted on the basis of substandards of living and to correct certain types of wage inequities. These allowable increases served to raise the general level of rates during the war period. With the end of the war, and the relaxation of wage controls, the first of the great postwar wage movements began.

The increase in money wages during the past decade has affected all sections of the wage-earning population. In manufacturing, the level of hourly earnings increased by 110 percent between 1939 and 1948. Weekly earnings during the same period, on the basis of a somewhat longer average workweek, advanced by 123 percent. In wholesale trade, hourly earnings have increased by about 90 percent; in retail trade, by 99 percent. Weekly earnings were about 90 percent higher in both.

The real significance of the large increases in money wages, of course, must be considered in the light of changes in the level of consumers' prices. Real earnings have advanced appreciably since before the war—that is, from 1939 to 1948. In manufacturing, for example, the level of real hourly earnings increased about 22 percent and real weekly earnings, 29 percent. The increases in real earnings were smaller in trade. Since the end of price control in 1946, wages in manufacturing have about kept pace with consumers' prices. From June 1946 to December 1948, average weekly money wages have increased 27 percent as against a 28.6 percent rise in the Consumers' Price Index. The comparatively small decline in consumers' prices during recent months, coupled with continuing advance in the level of wages, is tending to raise real purchasing power at the present time.

Mr. RICH. Mr. Tobin, may I ask this question in reference to prices, the decline in prices since the first of the year: Has there been a decline in prices since the first of the year?

Secretary TOBIN. There has been a decline in prices since the first of the year.

Mr. RICH. There has been no decline in wages during that time?

Secretary TOBIN. No. I have given you the figures here which show that the cost of living index was up around 31 percent from June 1946. It has now slacked off to 28.6 percent. Factory wages since June of 1946 have gone up 27 percent, so that the factory wage-earners of the country are, right at the moment, 1.6 percentage points behind the cost of living since OPA went off, for all practical purposes. In September, which was the peak, wages at that time had gone up 21 percent, and the cost of living had gone up 31 percent, so at last September they were really 10 percentage points behind.

Now, wages have come up in the interim, the cost of living has come down, and in factory employment there is a gap of about 1.6 percent between wages and the cost of living, with the cost of living higher.

Mr. RICH. Still higher?

Secretary TOBIN. Yes, sir.

That is just in factory employment.

In this brief review, several other points require emphasis. The wage studies of the Bureau of Labor Statistics indicate that regional differences in wages have tended to decline during the past decade. There also has been an apparent narrowing of the differentials in pay for unskilled versus skilled labor. The wage rates of helpers and laborers in the construction industry, for example, have increased more in percentage terms than the wages of skilled building trades workers. Finally, the wage advances of recent years have not wholly eliminated low wages, although, as I have indicated, the general wage position of labor has been measurably improved. Even in manufacturing, the Bureau of Labor Statistics estimates that currently about 850,000 workers—out of a total of more than 13,000,000—receive less than 75 cents an hour. At a later point I want to comment specifically on the minimum wage problem.

Before doing so, however, the immediate wage situation requires general review. Going into 1949, we can see that the general pressure that raised money wages all along the line during the postwar years is now no longer so general. The factors that generated much of this upward pressure have changed. The cost of living, a key factor in wage developments during the past 2 years, has recently declined. The high levels of demand enjoyed by almost all industries during the postwar period are now slackening in some industries where they are laying off men. Others are active. What this means for the immediate future is that the pattern of wage developments will become more varied.

Signs of this in negotiations are already apparent. During the past few weeks, requests for wage increases on the part of shoe and textile workers in New England have been denied, either through negotiation or arbitration. Clothing workers offered no proposals for wage adjustments on the anniversary of their last increase. On the other hand, there were many more situations in which substantial wage increases were negotiated, apparently without any strong opposition on the part of the employers. To make the record complete, there were even instances of wage reductions in accordance with union contracts or wage plans tying rates to changes in the consumers' price index.

Mr. RICH. Mr. Tobin, wasn't it a fact that in many disputes which they had, both sides were willing to work together in trying to settle their differences in order that they should keep on working?

Secretary TOBIN. I would say that that has been true in textiles and in shoes. Soft goods have been particularly adversely affected, and the northeastern and southeastern sections of the country have been most adversely affected because they are the soft goods producing areas of the country.

Mr. RICH. They have had a difficult time in securing business?

Secretary TOBIN. Although I was amazed and surprised at the colossal earnings of American Woolens, which was reported on the other day for 1948.

Mr. Rich. So was I. The strike they are having in Philadelphia right now tying things up over there, is it not possible for us to have that strike settled without shutting down all the industries in Philadelphia?

Secretary Tobin. Is that streetcar employment?

Mr. Rich. Yes, the transportation system.

Secretary Tobin. Under our free economic system there has to be a meeting of the minds between free labor and free management. I am sure we should not have the Government go in and tell the employer that he has to give away his property.

On the other hand, you cannot tell the worker that he is not entitled to use the economic weapon. Eventually it will be settled and I don't think it will tie the economy up to too great an extent. They will always find a way to get to work.

Mr. Rich. Well, they always find a way, but the public over there is going to suffer until that happens.

Secretary Tobin. That is one of the prices we have to pay for American freedom. They had stabilized labor-management relations in Germany and Japan. They have it now, stabilized labor relations in Russia. But all freedom is gone.

Mr. Rich. That is right. We don't want anything like what they had in either Germany or Japan, because we know what we had to do to settle some of those things. Heaven help us if we ever get them here.

Secretary Tobin. That is right, sir.

The downward trend in consumers' price indexes, even though it has not proceeded very far, will undoubtedly be an important factor in wage negotiations this year. It would be unrealistic, however, to expect the pressure for wage advances to subside automatically as the cost of living slowly drops. Many establishments are still operating under the conditions that permitted previous wage increases. Moreover, the aspirations of trade-unions and their members will not be satisfied without the progressive improvement in living standards that our economy makes possible.

Most of organized labor, perhaps the vast majority, has managed to secure wage rate increases during the postwar period roughly commensurate with the rise in living costs during the same period. It should be noted, however, that average weekly earnings in manufacturing have increased about 16 percent from the wartime peak in January 1945, when considerable overtime was still being worked, against a 35 percent increase in the consumers' price index. The momentum of the wage movements and the small labor reserves of the postwar years carried many unorganized workers along. Many others, however, particularly among the so-called white collar occupations, fared poorly indeed. What are their prospects? It seems plain that the likelihood of bridging the gap between their wages and price levels by means of pay increases now appears less probable. The momentum is dissipating, the unfilled jobs are fewer. One way to improve their situation lies in a reduction in living costs. Another, particularly helpful to those at the lower wage levels and therefore most in need of assistance, lies in the adoption of higher minimum-wage standards and the extension of minimum-wage coverage.

The wide difference in the way in which wage earners have shared in postwar wage advances, together with the possibility that this disparity may increase further as individual industries are affected differently by the course of future economic conditions, calls for special attention to the situation of the Nation's lowest-paid workers. These groups, generally those with the least bargaining power, have not shared fully in the country's prosperity. On the average, it is true, even our lower-wage industries have increased wages under the pressure of manpower shortages. These averages include some cases of real increases in standards. The textile industry, once a minimum-wage problem child, has made great progress in raising the level of the wages of its workers. Increases in many other low-wage industries have merely kept pace with the rise in prices; real wage standards are still low. They will not improve unless the Federal Government and the States make certain that they do, through the enactment of reasonable minimum-wage legislation. To make this legislation effective, the coverage of the legislation will have to be extended.

Fortunately, we can act today to assure a reasonable minimum without disturbing our generally high economic level. Only 6½ percent of the wage earners in manufacturing industry, for example, were earning less than 75 cents an hour in November 1948. At least three times this proportion were earning less than 40 cents an hour at the time the Fair Labor Standards Act was enacted. In the same month of November 1948 approximately 21 percent of manufacturing wage earners were estimated to be getting less than $1 an hour. In comparison with the situation in 1938, $1 an hour becomes a reasonable minimum wage goal for realization in the future. It is my belief that we should proceed rapidly to the achievement of this goal. If we can do this now, we will have fulfilled what I believe is one of the Government's most important obligations to the people of the country, and by improving the purchasing power of wage earners in the lower-income levels we will have taken a further step toward strengthening our economy.

The CHAIRMAN. To what proportion of the entire labor force do you believe that these raised levels of minimum wages should be applied? I have in mind particularly the difference between the conditions that exist in highly organized manufacturing industry and the conditions which exist in small, rural communities. The report of Dr. Kaplan, working for the C. E. D., published by McGraw-Hill within the past 2 or 3 months, gave statistical information to the effect that considerably less than 1 percent of all the employers in the United States employed more than 54 percent of all the workers. In your testimony today you have carefully differentiated between employment and unemployment conditions in manufacturing industries and in the agricultural industries.

I am sure that all Members of the Congress, in both Houses, have been receiving letters from small employers in local communities, local laundries, for example, and small hotels, to the effect that a minimum wage which would be suitable enough in a manufacturing industry, with very large employment and concentrated managerial control, is very different from conditions of employment in small groups.

Secretary TOBIN. Well, Senator, in the bill which presented the Fair Labor Standards bill for 1949, there is provision for exclusion of all retail establishments whose sales are less than a half million dollars a year, with one exception. There was included chain-retail outlets of employers having more than four units—five units or more. For others, exclusion from the act is provided unless they have total annual retail sales of a half million dollars or more. So I think that would exclude most of the situations you have referred to.

The CHAIRMAN. You refer to retail establishments?

Secretary TOBIN. I would say that this provision would apply to hotel establishments also, hotel or service.

The CHAIRMAN. It is intended to apply to either retail or service institutions?

Secretary TOBIN. Yes.

The CHAIRMAN. That would cover laundries, hotels, and that type of employment, would it?

Secretary TOBIN. Correct, if their total sales were less than a half million dollars a year.

The CHAIRMAN. So that the purpose of the bill as presented by the administration is not to include the local retail and service industries. How about manufacturing industries?

Secretary TOBIN. Manufacturing is so clearly in commerce that I believe they would all be included.

The CHAIRMAN. In past legislation some agricultural processing plants, such as canning establishments, have been excluded because in those instances the work is highly seasonal, and the total volume in particular establishments which are independent and not part of a chain is below the $500,000 limit that you apply to retail establishments.

Secretary TOBIN. In the administration bill there are provisions to protect industries of that character by allowing overtime for a period or periods aggregating 14 weeks in the calendar year without the payment at the rate of time and a half. Of course, that would not apply to the large canners that make it a 52-week-a-year business. But anything along cooperative lines comes under that exemption.

The CHAIRMAN. In other words, the bill as presented undertakes to recognize the difference between highly concentrated industry and independent, small business?

Secretary TOBIN. Well, in agriculture, anything that is strictly local, handling within a limited area, the materials produced on local farms are granted that exclusion for the period of 14 weeks during the high season—that is, at any time, 14 weeks to be determined by the people themselves, the operators of the processing plants.

The CHAIRMAN. You may proceed.

Secretary TOBIN. I have already referred to the present height of the cost of living and the fact that real wages of factory workers—and indeed of most other workers—have not increased, and in many cases have actually diminished since 1946. This diminution in purchasing power is the result in part of the rapid rise of prices which occurred after price controls were suspended in June of 1946, following the removal of rationing controls a year earlier.

The decontrol of prices and the removal of subsidies in the latter half of 1946 were the occasion for the most rapid price rise of which we have record. This rise, as it affected consumers' prices, wiped out all of the gains in purchasing power of the second half of the war period. The

Consumers Price Index of the Bureau of Labor Statistics, which had risen by less than 7 percent, or at a rate of 2.2 percent per year, from the hold-the-line order in May 1943 until most price controls were lifted in July 1946 rose nearly 18 percent in the succeeding year. This is illustrated on the accompanying chart and table.

It certainly should have surprised no one that prices increased as rapidly as they did after the summer of 1946. Supplies of goods were still short; purchasing power stored up during the war by both businesses and individuals was enormous; so were demands for the limited supply of consumer goods. It was simply impossible to step up production fast enough to meet these demands. High prices couldn't and didn't bring out enough goods fast enough. It was a seller's market, and prices shot up in what was almost pure inflation.

The rapid increase in prices touched all items in the wage earner's family budget quite generally, except for rents which remained relatively stable under rent control. The most phenomenal increase, and the one which consumers felt most keenly, was in prices of foods. Under the pressure of consumers' demands, particularly for the higher priced foods such as meats, dairy products, and fresh fruits and produce, retail food prices advanced by nearly one-third between June 1946 and June 1947.

Because of the importance of foods in the expenditures of all families, sharply rising food prices generated immediate and insistent demands for higher wages, which, in turn, were readily passed on in the rapid inflationary rise in prices of manufactured goods of all kinds, including apparel, housefurnishings, and manufactured foods. Clothing and housefurnishings prices, which had not been so tightly controlled early in 1946, rose by more than one-sixth in the first year following decontrol. Thus, the rise in the cost of living was a matter of the gravest concern for economic stability, since it threatened to generate a continuous spiral of price-wage increases.

For a time in the early part of 1947, it appeared that prices might level off, but in the middle of 1947, the short corn crop in the United States and in grains throughout the world were immediately reflected in sharp advances in the prices of all grains and soon thereafter in the prices of livestock, meats, and dairy products. Increases in coal and steel prices following—but generally exceeding—wage increases in those industries, and rising freight rates, accelerated the upward movement of prices. The same inflationary forces that were at work on farm and food prices had their effect on other prices as well, as consumers competed for goods in a seller's market. This was nowhere more evident than in the market for houses, where prices rose beyond the reach of many families in need of homes. Thus in the latter half of 1947 we experienced again a sharp rise in prices, followed by a new wave of wage increases.

The experience of the first year after decontrol made it quite clear that we had acted too hastily in lifting controls and that higher prices would not quickly correct themselves by stimulating production. And when the situation was aggravated late in 1947 by shortages of feed.

with the certain prospect that higher prices of meats and dairy products would follow, the President summoned the Congress to enact remedial or preventive legislation.

In the absence of restraints, the price rise followed its predicted course into 1948. Early in the year there was a temporary decline in the prices of meats, following a heavy slaughter because of the feed shortage. This coincided with a severe but brief drop in grain prices, as traders recognized that a drastic adjustment was necessary in view of the extraordinarily good crop prospects. But the decline in living costs was slight and short-lived. After a dip of about 1 percent in February and March, the Consumers Price Index climbed steadily to an all-time peak in August and September.

In this second postcontrol rise, from June 1947 to September 1948, not only food, clothing, and house furnishings, but also fuels and rent contributed significantly. With the easing of rent controls under the amended law, rents rose more in those 15 months than in the 8 years preceding. With almost everything in the family budget going up, the cost of living as a whole rose by over 30 percent from the June 1946 level.

Now, in the last few months, retail prices have again begun to decline.

The crop prospects of 1948 were realized beyond expectations, and lower grain prices had an effect on the cost of living. Beginning about 6 months ago, meat prices again began to fall. Prices of fruits and vegetables also declined as a result of abundant crops. This downward trend in food prices has been clear for the past 6 months and accounts largely for the decline in recent months in the Consumers Price Index—from 174.5 of the 1935–39 average in August and September, to 171.4 in December—or about 2 percent.

Mr. HERTER. Are the January figures yet available?

Secretary TOBIN. It will take about 1 week more.

Mr. HERTER. One week more?

Secretary TOBIN. Yes, and from all indications there is going to be a further drop.

It is possible that the January reports, which will be available in about 10 days, will show some further decline in food prices, though it is unlikely that they will be as large as those of last fall. While we have all been conscious of the continued decline in meat prices, increases have apparently recurred in prices of fresh produce as a result of the unusually cold weather in the South and in California.

Toward the end of 1948, there were also signs of declining prices in certain kinds of clothing and house furnishings—principally those made of cotton. The prices of cotton textiles had risen spectacularly through 1946 and 1947 as consumers replenished their supplies depleted by the war. The first signs of weakness in the cotton textile markets appeared early in 1948, and culminated in a series of price reductions in cotton apparel and household cottons late in 1948 and early this year. Reductions appeared also in the retail prices of shoes, and of men's woolen clothing, as retailers and manufacturers reduced their inventories after a disappointing fall season. Unlike the decline in cottons, however, the price cuts in woolen clothing were not accompanied by reductions in prices of raw wool and woolen goods.

It would be easy to exaggerate the prevalence and the effects of these price reductions. The reappearance of year-end clearance sales, after so many years of seller's markets, would in itself have occasioned a great deal of comment; and it is hard to distinguish in such short perspective between the return to the prewar seasonal pattern and the genuine reductions in regular prices. In collecting prices for the Consumers Price Index in January and February, the Bureau of Labor Statistics has taken particular pains to distinguish as best it can between the clearing out of odds and ends—which may be bargains to individual consumers but are not available to consumers generally—and those genuine reductions in prices which affect all consumers. Although we will not have the precise results of the Consumers Price Index for January available for about 10 days, observations up to now had led us to conclude that the genuine price reductions are less than a casual reading of newspaper advertising or a passing glance at window displays would lead us to believe.

Since the latter part of 1948, also, there have been signs that the market for high-priced housing may be wearing thin. More new homes—at high prices—are reported without buyers than at any time since the war. Unless we succeed in building homes, for rent as well as for sale, at prices within the reach of average families, our housing program may suffer a set-back.

All of us have been hoping that the cost of living would come down as a result of larger supplies of goods. That will increase real incomes. But while we are passing through a period of readjustment which may lead to lower price levels, we can by no means be sure that living costs will continue to fall or, indeed, that they may not rise again. Rents can only rise; how rapidly or how slowly they rise depends entirely on what measures are taken by the Congress to control them. Housing costs are still very high. Some consumer goods and services have probably not run the course of their rise. Many commodities, especially metals, are still at peak prices and these high prices of materials may still find their way into retail prices. Neither can we be sure that food prices will continue their downward course. It may still be too early to assess the losses of cattle resulting from the storms in the western part of the country and to predict what the effect on meat prices may be later this year. In the same way, unfavorable growing weather could suddenly create crop shortages which would reverse the direction of food prices in 1949, as they did in 1947.

Thus it is against a background of mixed economic developments that the President has submitted his economic report to the Congress. By wise action, taken in time, we can harness the economic forces which in the past have led to economic instability and economic loss. We have seen in the past 8 years what the full employment of our manpower and economic resources can mean, both at home and abroad, in terms of economic strength and economic welfare. The maintenance of "maximum employment, production, and purchasing power" in the United States is a matter of the highest importance for the whole Nation, and for the world, and one commanding the greatest care and effort we can give to it.

(The charts and tables referred to above are as follows:)

TABLE I.—*Total labor force, classified by employment status, 1929–48* [1]

[Annual averages, in thousands]

Year	Total labor force [2]	Armed forces [2]	Civilian labor force: Total	Employed: Total	Employed: Agricultural	Employed: Nonagricultural	Unemployed	Percent unemployed
1929	49,440	260	49,180	47,630	10,450	37,180	1,550	3.1
1930	50,080	260	49,820	45,480	10,340	35,140	4,340	8.7
1931	50,680	260	50,420	42,400	10,290	32,110	8,020	15.8
1932	51,250	250	51,000	38,940	10,170	28,770	12,060	23.5
1933	51,840	250	51,590	38,760	10,090	28,670	12,830	24.7
1934	52,490	260	52,230	40,890	9,900	30,990	11,340	21.6
1935	53,140	270	52,870	42,260	10,110	32,150	10,610	20.0
1936	53,740	300	53,440	44,410	10,000	34,410	9,030	16.8
1937	54,320	320	54,000	46,300	9,820	36,480	7,700	14.2
1938	54,950	340	54,610	44,220	9,690	34,530	10,390	18.9
1939	55,600	370	55,230	45,750	9,610	36,140	9,480	17.1
1940	56,180	540	55,640	47,520	9,540	37,980	8,120	14.5
1941	57,530	1,620	55,910	50,350	9,100	41,250	5,560	9.7
1942	60,380	3,970	56,410	53,750	9,250	44,500	2,660	4.4
1943	64,560	9,020	55,540	54,470	9,080	45,390	1,070	1.7
1944	66,040	11,410	54,630	53,960	8,950	45,010	670	1.0
1945	65,290	11,430	53,860	52,820	8,580	44,240	1,040	1.6
1946	60,970	3,450	57,520	55,250	8,320	46,930	2,270	3.7
1947	61,760	1,590	60,170	58,030	8,260	59,770	2,140	3.5
1948	62,748	1,307	61,442	59,378	7,973	51,403	2,064	3.3

[1] Estimates for the period 1929–39 were prepared by the Bureau of Labor Statistics. Estimates for the period 1940–48 were adapted from U. S. Bureau of the Census, Labor Force Bulletin, Series P–50, No. 2.

[2] Total labor force includes civilian labor force and the armed forces. The estimates of total labor force and of the armed forces were adjusted upward to include about 150,000 members of the armed forces stationed outside the continental United States in March 1940, and who were not enumerated in the census of that date. The Census Bureau reduces its current estimates of the total labor force by this number in order to maintain comparability with the 1940 census.

TABLE II.—*Earnings and hours of work in manufacturing and the movement of consumers' prices, 1914–48* [1]

Year	Average hourly earnings	Average weekly earnings	Average weekly hours	Consumers' price index (1939=100)	Indexes (1939=100): Actual hourly earnings	Actual weekly earnings	Real hourly earnings [2]	Real weekly earnings [2]
1914	$0.223	$11.01	49.4	72.2	35.2	46.1	48.8	63.9
1919	.477	22.08	46.3	124.5	75.4	92.5	60.6	74.3
1923	.522	23.82	45.6	122.6	82.5	99.8	67.3	81.4
1924	.547	23.93	43.7	122.9	86.4	100.3	70.3	81.6
1925	.547	24.37	44.5	126.2	86.4	102.1	68.5	80.9
1926	.548	24.65	45.0	127.2	86.6	103.3	68.1	81.2
1927	.550	24.74	45.0	124.7	86.9	103.7	69.7	83.2
1928	.562	24.97	44.4	123.3	88.8	104.7	72.0	84.9
1929	.566	25.03	44.2	123.2	89.4	104.9	72.6	85.1
1930	.552	23.25	42.1	120.1	87.2	97.4	72.6	81.1
1931	.515	20.87	40.5	109.4	81.4	87.5	74.4	80.0
1932	.446	17.05	38.3	98.2	70.5	71.5	71.8	72.8
1933	.442	16.73	38.1	93.0	69.8	70.1	75.1	75.4
1934	.532	18.40	34.6	96.3	84.0	77.1	87.2	80.1
1935	.550	20.13	36.6	98.7	86.9	84.4	88.0	85.5
1936	.556	21.78	39.2	99.7	87.8	91.3	88.1	91.6
1937	.624	24.05	38.6	103.3	98.6	100.8	95.5	97.6
1938	.627	22.30	35.6	101.4	99.1	93.5	97.7	92.2
1939	.633	23.86	37.7	100.0	100.0	100.0	100.0	100.0
1940	.661	25.20	38.1	100.8	104.4	105.6	103.6	104.8
1941	.729	29.58	40.6	105.8	115.2	124.0	108.9	117.2
1942	.853	36.65	42.9	117.2	134.8	153.6	115.0	131.1
1943	.961	43.14	44.9	124.3	151.8	180.8	122.1	145.5
1944	1.019	46.08	45.2	126.3	161.0	193.1	127.5	152.9
1945	1.023	44.41	43.4	129.2	161.6	186.1	125.1	144.0
1946	1.084	43.74	40.4	140.1	171.2	183.3	122.2	130.8
1947	1.221	49.25	40.3	160.2	192.9	206.4	120.4	128.8
1948 [3]	1.327	53.13	40.0	172.2	209.6	222.7	121.7	129.3

[1] Based on revision and extension of data in Wages, Hours, and Productivity of Industrial Labor, 1909–39, Monthly Labor Review, September 1940. The earnings shown are "gross" in that they are affected by such factors as premium pay for overtime and late-shift work. Changes among firms, industries, and areas in the distribution of employment also affect the general level of earnings.

[2] Money earnings adjusted by Consumers' Price Index.

[3] Preliminary.

Source: Bureau of Labor Statistics.

CHART 1

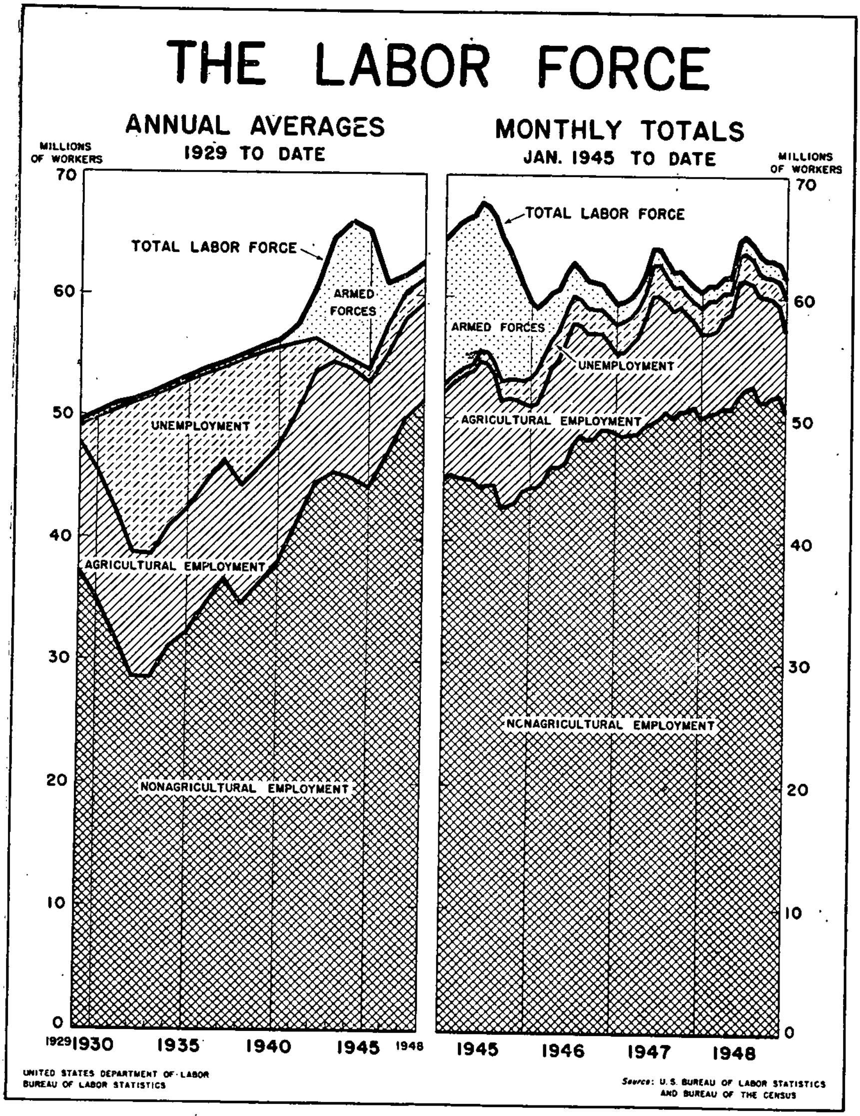
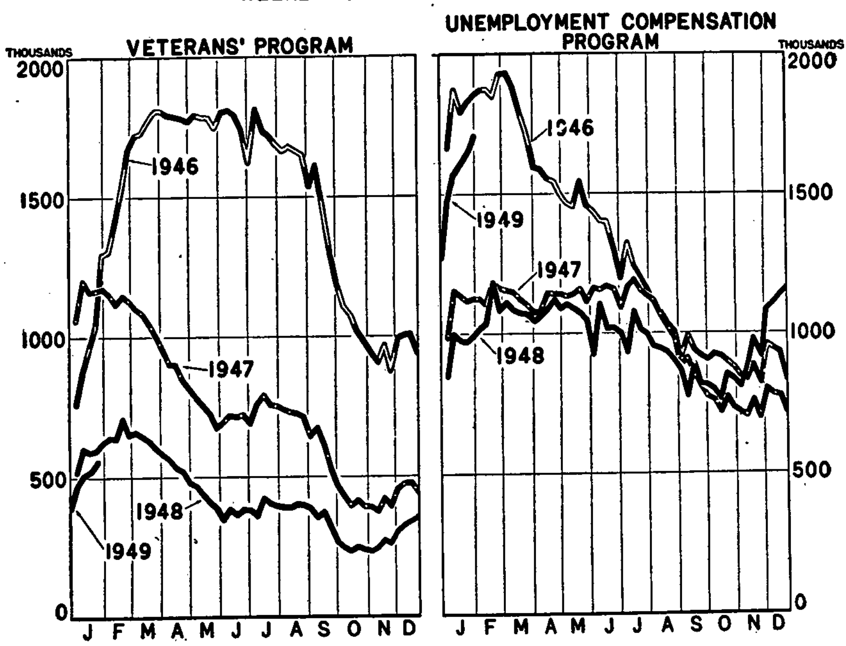

THE LABOR FORCE
ANNUAL AVERAGES
1929 TO DATE
MONTHLY TOTALS
JAN. 1945 TO DATE
MILLIONS OF WORKERS
70
60
50
40
30
20
10
0
TOTAL LABOR FORCE
ARMED FORCES
UNEMPLOYMENT
AGRICULTURAL EMPLOYMENT
NONAGRICULTURAL EMPLOYMENT
1929 1930
1935
1940
1945
1948
1945
1946
1947
1948
UNITED STATES DEPARTMENT OF LABOR
BUREAU OF LABOR STATISTICS
Source: U.S. BUREAU OF LABOR STATISTICS AND BUREAU OF THE CENSUS

CHART 2

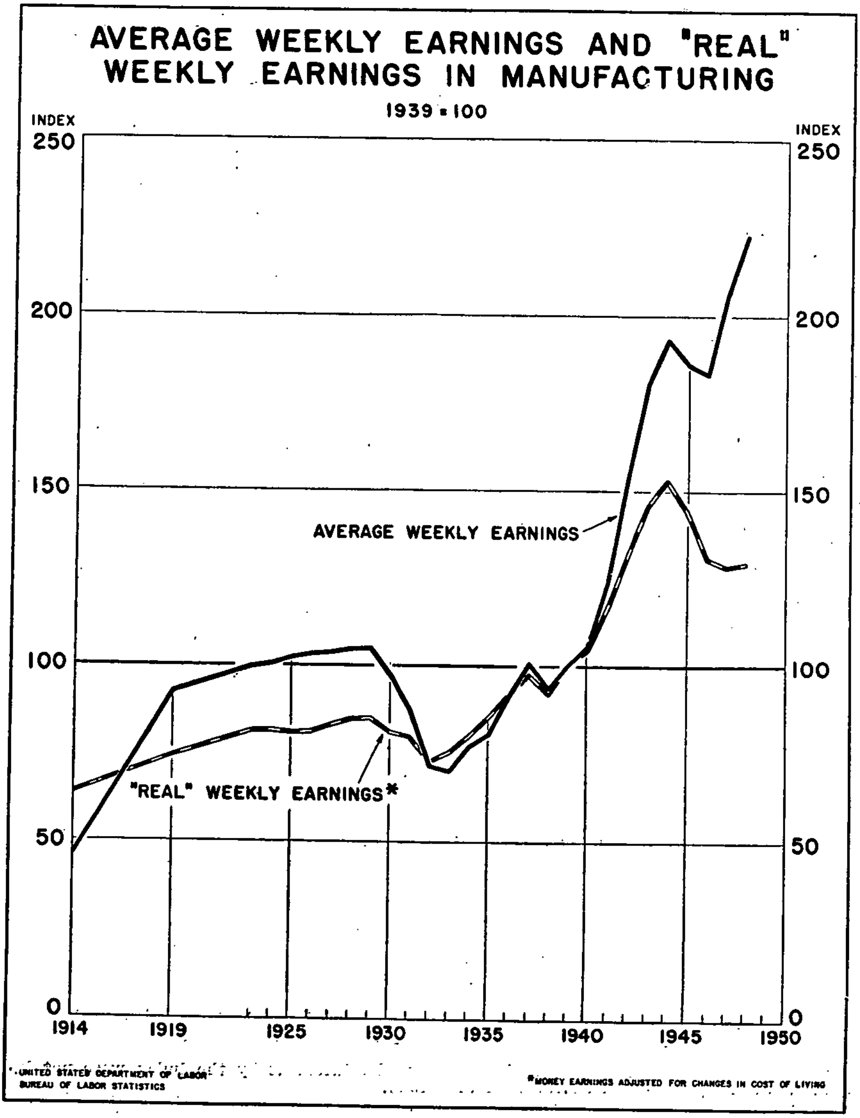
CONTINUED CLAIMS FOR UNEMPLOYMENT BENEFITS

WEEKLY TOTALS FROM JANUARY 1946



Source: Veterans' Administration and Federal Security Agency.

CHART 3


AVERAGE WEEKLY EARNINGS AND "REAL" WEEKLY EARNINGS IN MANUFACTURING
1939 = 100
INDEX
250
200
150
100
50
0
INDEX
250
200
150
100
50
0
AVERAGE WEEKLY EARNINGS
"REAL" WEEKLY EARNINGS*
1914
1919
1925
1930
1935
1940
1945
1950
UNITED STATES DEPARTMENT OF LABOR
BUREAU OF LABOR STATISTICS
*MONEY EARNINGS ADJUSTED FOR CHANGES IN COST OF LIVING

CONSUMERS' PRICE INDEX

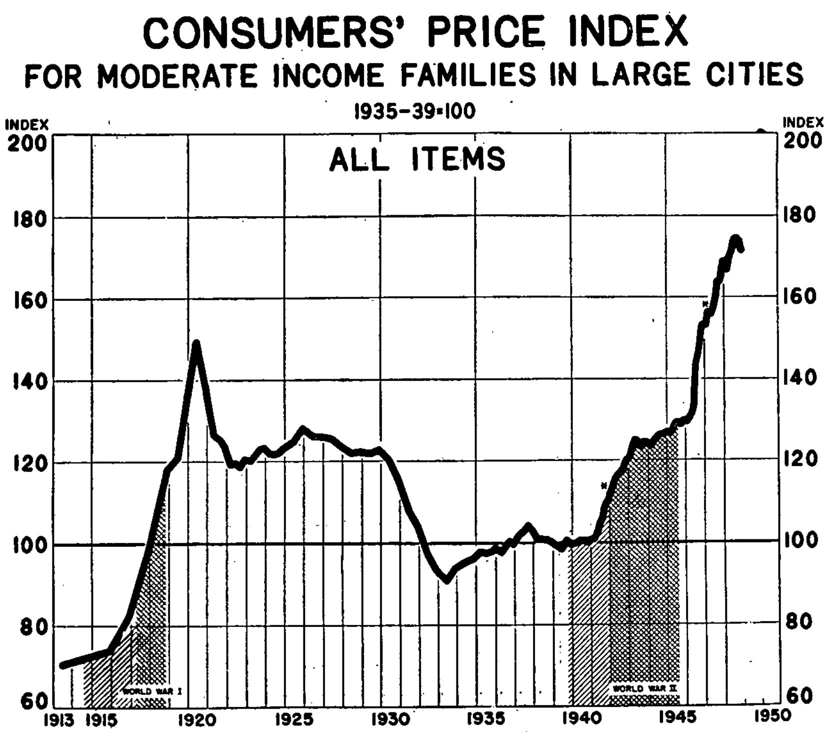
TABLE III.—*Percent changes for selected periods*

[Percent change]

Group	45 months, August 1939 to May 1943 (hold the line)	37 months, May 1943 to June 1946 (decontrol)	12 months, June 1946 to June 1947 (corn-crop failure)	15 months, June 1947 to September 1948 (postwar peak)	3 months, September 1948 to December 1948	112 months, August 1939 to December 1948	30 months, June 1946 to December 1948
All items	26.9	6.6	17.9	11.1	−1.8	73.8	28.6
Food	52.9	1.8	30.8	13.0	−4.7	119.3	40.8
Apparel	27.5	22.9	18.1	8.2	−.3	99.8	27.5
Rent	3.5	.5	.6	8.5	+.8	14.6	10.1
Fuel, electricity, and refrigeration	10.4	2.7	6.5	16.7	+.4	41.3	24.7
Housefurnishings	24.4	24.8	17.0	8.5	+.3	97.4	27.2
Miscellaneous	14.8	10.9	8.8	9.8	+.9	53.4	20.4

Source: U. S. Department of Labor, Bureau of Labor Statistics, Washington, D. C., Feb. 11, 1949.

CHART 4



*Estimates of World War II and postwar understatement by the index were not included. See Monthly Labor Review for March 1947.

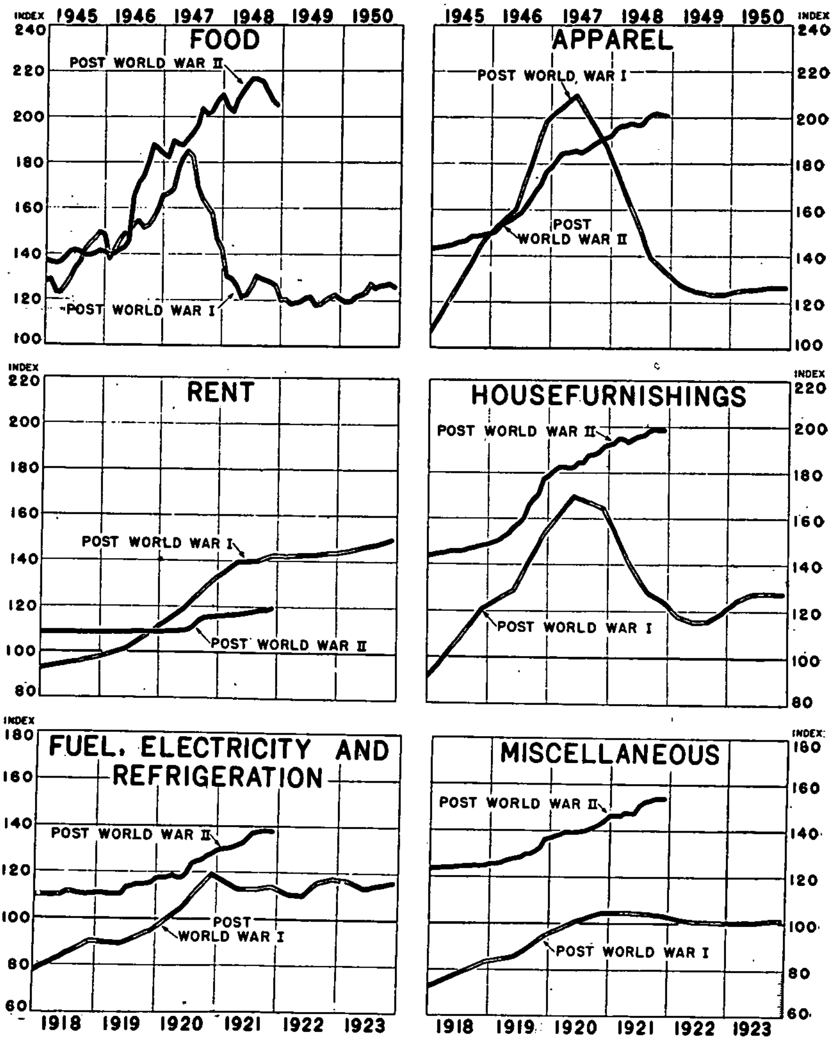
CHART 5

CONSUMERS' PRICE INDEX

FOLLOWING TWO WORLD WARS

FOR MODERATE INCOME FAMILIES IN LARGE CITIES

1935-39=100



The CHAIRMAN. Secretary Tobin, the committee is very much obliged to you for your statement. There are apparently no questions to be addressed to you at this time.

When the committee recesses today, it will recess until 2:30 this afternoon in this room. At that time Mr. McCabe of the Federal Reserve Board will appear to testify.

Tomorrow the sessions will be held in the Interior Committee Room, in the Senate Office Building, Room 224. Assistant Secretary of State Willard Thorpe will be the first witness. He will be followed by Dr. John D. Clark of the Council of Economic Advisers, whose statement the other day was not completed because of pressure of time.

Following that, on Wednesday and Thursday, the committee will have the round table discussions which were announced at the outset of the hearings. I am glad to be able to say that considerable interest has been expressed in this new opportunity which has been extended by the committee to economists and fiscal experts representing all the segments of the economy.

I confess it is an experiment, and the Chair does not know exactly how it is going to turn out. The Chair is unable to predict at this time whether he will be able to moderate such a group. But the effort is here to secure the broadest possible agreement. We want to find out what those things are upon which we agree, what facts there are with respect to which there is no dispute, and then to assess the divergent conclusions that may be drawn from the facts.

The committee now stands in recess until 2:30 this afternoon.

(Whereupon, at 12:20 p. m., a recess was taken until 2:30 p. m. of the same day.

AFTERNOON SESSION

The CHAIRMAN. The hearing will be in session.

We have the pleasure this afternoon of listening to the Chairman of the Board of Governors of the Federal Reserve System. Mr. McCabe, you are at liberty to begin your statement.

STATEMENT OF THOMAS B. McCABE, CHAIRMAN BOARD OF GOVERNORS, FEDERAL RESERVE SYSTEM, ACCOMPANIED BY GEORGE B. VEST, GENERAL COUNSEL AND OTHERS

Mr. McCABE. Mr. Chairman and Members of the Joint Committee on the Economic Report, I want to thank you for this opportunity to appear here today to testify on behalf of the Board of Governors of the Federal Reserve System in regard to the recommendations contained in the Economic Report of the President with respect to bank reserve requirements and regulation of consumer installment credit. The Board of Governors unanimously favors both recommendations.

Inasmuch as I have just returned from an 8,000-mile trip on which I visited the offices of the Reserve System in Seattle, Portland, San Francisco, Los Angeles, El Paso, Dallas, and Houston, it may be of interest to this committee if I preface what I have to say on credit policy by summarizing the impressions I brought back from this trip.

You are aware, I think, of the unique nature of this Reserve System, with its 12 banks and their 24 branches spread throughout this country, a system tailor made for the economic expansion of our country. I have often referred to it as a great pyramid with its base in the grass roots of our economy and its apex in the Board of Governors. The breadth and strength is in the base, with the member banks and the Reserve banks as elevations in the slope toward the top. There are more than 250 directors, who serve without compensation and represent not only banking but most of the widely diversified industrial, commercial, agricultural, educational, and other occupations of this country.

The Board in Washington has the very great advantage of close contact with the vast fabric of the entire economy, by direct communication with these men, with the presidents, other officers and staffs of the 36 System offices, through periodic meetings with the presidents, with the chairmen of the banks, with the Federal Advisory Council consisting of representative bankers from each Federal Reserve district, and through frequent System staff meetings.

I might interrupt here to say, Mr. Chairman, that the members of the Federal Advisory Council, who are meeting here in Washington today and tomorrow, are present here this afternoon.

The CHAIRMAN. Mr. McCabe, I think that the presence of the members of the Federal Advisory Council at this session is worthy of specific and individual notation in the record. Would you be good enough to call the roll, please?

Mr. McCABE. I will ask Mr. Edward Brown, the president of the First National Bank of Chicago, if he will call the roll of the members of the Federal Advisory Council who are here

Mr. BROWN. Senator O'Mahoney, we have Mr. Beal, an alternate for Mr. Spencer; Mr. Traphagen, who is an alternate for Mr. Burgess——

Mr. McCABE. Mr. Brown, would you please come up to the microphone?

Mr. BROWN. Having been witnesses here before, we thought we would like to see the Chairman of the Board examined.

Mr. Beal, who is alternate for Mr. Spencer, from the Boston District; Mr. Traphagen——

The CHAIRMAN. Will these gentlemen please rise as their names are called, and I will ask that the full name be inserted in the record.

Mr. BROWN. Mr. Beal.

Mr. BEAL. Thomas B. Beal, Boston.

Mr. BROWN. Mr. Traphagen of New York.

Mr. TRAPHAGEN. My first name is John.

Mr. BROWN. Mr. Fleming of Washington, D. C.

Mr. FLEMING. Robert V. Fleming.

Mr. BROWN. Mr. Hemingway of St. Louis.

Mr. HEMINGWAY. W. L. Hemingway.

Mr. BROWN. Mr. Congdon of Cleveland.

Mr. CONGDON. Sidney B. Congdon.

Mr. BROWN. Mr. Potts of Philadelphia.

Mr. POTTS. Frederick A. Potts.

87727—49——23

Mr. Brown. Mr. John C. Williams, substituting for Mr. Kemper from Kansas City.

Mr. Williams. John C. Williams.

Mr. Brown. Mr. James T. Brown of Jackson, Miss.

Mr. Brown. Mr. Atwood of Minneapolis.

Mr. Atwood. Henry E. Atwood.

Mr. Brown. I think that is all, Mr. Chairman. One of our members was caught in the snowdrifts in Idaho and has been unable to get here as yet.

The Chairman. Well, that is not surprising.

Thank you very much. The Chair will say that I am sure the committee would recommend any remarks that any of these gentlemen might care to make with respect to the subject matter here this afternoon.

Mr. McCabe. I might say, Mr. Chairman, that the Advisory Council here meets with the Board of Governors tomorrow. I cannot vouch for what the recommendations will be to the Board on the subject matters, but I thought it was particularly interesting to have them here and have the Chairman introduce them.

The Chairman. We welcome your presence here, gentlemen. As I said, if you do care to volunteer any statement, I am sure we would be glad to have it in the record.

Mr. Brown. Mr. Chairman, the Council meets with the Federal Reserve Board tomorrow. I think our position on this matter is apt to be quite radically different from that of the Federal ReserveBoard. I do not think that the members of the council should testify until we have first discussed it with the Board. I think, if this legislation is introduced and pressed, that the members of the Council would like to have an invitation to appear before this committee and other appropriate committees at a later date and express their position.

The Chairman. I am sure you will get the invitation all right, because the committee wants all the illumination it can get.

Mr. McCabe. The System has constantly available current information, factual and statistical, drawn from this great network. This is in addition to the masses of economic data regularly compiled and analyzed by the Board's staff. I am sure that all members of the Board in Washington feel as I do: that the accumulation of facts, figures, as well as opinions, which we are thus able to assemble, is invaluable. It is supplemented from time to time by visits such as the one I have just made, which gave me an opportunity for frank, face-to-face discussions with informed men in business, banking, agriculture, and the many different interests linked together in this Reserve System. Since I took office less than a year ago, I have visited 10 Federal Reserve Banks and seven of their branches, primarily for this purpose. In addition, I have talked in different cities with scores of business and professional men not directly connected with the Federal Reserve.

Partly because of the shift in emphasis brought about by reappearance of conditions of a buyers' market since my previous trips, I found businessmen more alert and sensitive to the major external influences—international, legislative, and monetary—which bear upon the activity, profitability, and soundness of the enterprises with which they are connected. For instance, most all of them, when commenting on business prospects, spoke about the dangers in the international situation, the implications of a Federal surplus or deficit, their concern about future congressional legislation, and the importance of credit and monetary policies.

I found a very general opinion of optimism that we are in the midst of a healthy leveling-off adjustment and that the inflation may have run its course. Quite naturally, those engaged in agriculture or the manufacture of items which have suffered the greatest price decline were not happy about their positions in relation to other producers whose prices have not declined and in some instances have risen. It is the rapid change in price relationship in the over-all picture that causes concern to so many people. I found few who excluded the possibility of a renewal of inflation. Among factors mentioned that might bring this about were (1) deficit financing, (2) reappearance of critical shortages, (3) further substantial wage increases, (4) excessive spending by State and local governments, and (5) resumption of rapid credit expansion.

I have found an increasingly better understanding and appreciation of the actions of the Federal Reserve in the field of credit, of the importance of arming it at all times with the authority to deal with changing economic conditions, and of its record, particularly in maintaining an orderly market for Government securities in which all classes of our people have such great interest. I have emphasized and reemphasized to various groups who have been subject to the System's regulations that our primary objective is to work for a stabilized economy, and that in doing so we must serve the broader interests of industry, agriculture, and commerce and not the limited interests of any particular groups. This purpose is fully in accord with the objectives of the Employment Act of 1946; namely, to promote maximum production, employment, and purchasing power.

In his economic report, the President said:

On previous occasions I have recommended that adequate means be provided in order that monetary authorities may at all times be in a position to carry out their traditional function of exerting effective restraint upon excessive credit expansion in an inflationary period and conversely of easing credit conditions in a time of deflationary pressures. The temporary authority to increase reserve requirements of member banks of the Federal Reserve System, granted by the Congress last August, will expire on June 30, 1949. The expiration of this authority without further action of the Congress would automatically release a substantial volume of bank reserves, irrespective of credit needs at the time. The Congress should promptly provide continuing authority to the Board of Governors of the Federal Reserve System to require banks to hold supplemental reserves up to the limit requested last August, 10 percent against demand deposits and 4 percent against time deposits. This authority to the Board of Governors should not be confined to member banks of the Federal Reserve System but should be applicable to all banks insured by the Federal Deposit Insurance Corporation.

Authority for the regulation of consumer instalment credit, which likewise expires under present law on June 30, 1949, should be continued in order to exert a stabilizing influence on the economy.

The credit measures proposed at this time are a form of insurance against the possible renewal of the upward spiral. Let me say a word, however, about the down side of the business cycle. It should be very reassuring to member banks and to the entire banking community to recall that the Reserve System is far better equipped now than ever before to combat deflationary forces. Through open-market operations—that is, by purchase of Government securities—the System has virtually unlimited means of supplying the money market with additional reserves, if the situation should call for such action. The Reserve banks have about $23,000,000,000 of gold-certificate reserves, only half of which are needed at this time to meet gold-reserve requirements. Accordingly, the system could more than double its note and deposit liabilities. Furthermore, the Banking Act of 1935, by freeing Reserve Banks from some of the technical limitations on their lending functions, placed them in a position to lend to member banks on any assets that the Reserve Banks are willing to accept as security for advances. This is an important assurance of a liberal lending policy on the part of the Reserve Banks.

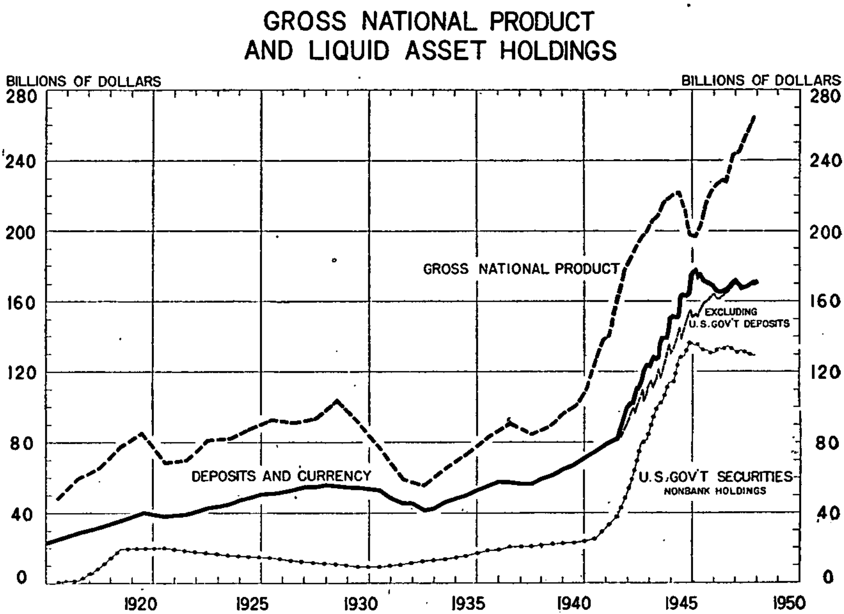
Also the Reserve Banks have authority to make so-called section 13b loans for working-capital purposes to business and industry when other credit is unavailable to the borrowers. And, of course, in a downswing, the Reserve Board would lower reserve requirements and similarly adjust regulations on installment and stock-market credit in accordance with the needs of business and finance.

I have referred to the System's ability to deal effectively with credit problems on the downswing in order to emphasize and make clear why we say that if we are equipped with the proposed authority to deal with the problems of a further possible upswing we will be in a better position to perform at all times the functions that are the primary responsibility of monetary authorities.

Why is it necessary to ask Congress at this time for the monetary and credit measures to which the President refers? I shall not take your time to go over familiar ground which has been well covered by other witnesses before this committee, but I should like to summarize the situation as we see it, which calls for these protective measures.

War finance resulted in a huge and rapid expansion in the amount of liquid assets—bank deposits, currency, and Government securities—held by the public. This expansion represented the accumulation of savings made possible and necessary by the excess of wartime incomes over the supplies of goods and services available for purchase. The result, as shown in the chart, is that deposits and currency increased from about $60,000,000,000 in 1940 to $170,000,000,000 at present. Nonbank holdings of Government securities which can be readily converted into money, increased from about $20,000,000,000 to $130,000,000,000. The expansion in the combined total is more than three and a half times. Today, physical volume of production of all goods and services, including output of farms, mines, and factories and various other activities, so far as such a total can be measured, is only about half again as large as in the maximum prewar year.

(The chart referred to is as follows:)



Mr. McCabe. Partly as a consequence of an excessive money supply relative to production, we have already experienced a large degree of inflation. Consumers' prices for all items as measured by the indexes of the Bureau of Labor Statistics rose by 75 percent above prewar and are still close to that peak. The dollar value of the annual gross national product, as shown on the chart, has increased from about $100,000,000,000 in 1940 to an annual rate of over $260,000,000,000 in the last quarter of 1948, an expansion of over two and a half times. The existing and potential money supply could still generate strong inflationary pressures.

Some easing of inflationary pressures has been indicated recently by marked declines in prices of various commodities, principally those that had risen most sharply. This easing was brought about in part by the record volume of production of both agriculture and industry in the past year.

Over-all consumers' incomes and holdings of liquid assets, nevertheless, have continued at high levels and are fairly widely distributed. Expenditures by businesses for capital investment, by State and local governments for public works, and by home owners and builders for new housing have continued large. Resistance to high prices and some abatement in the urgency of demands have been evident, however, in the case of housing and of many durable goods, now that the more pressing shortages have been overcome.

As for credit, the increase in bank loans, which had been very large in previous years, slackened considerably in the last quarter of 1948. Also, there was an almost complete cessation late in the year of sales of Government bonds to the Federal Reserve System by nonbank investors to obtain funds for other uses, a factor that had previously been an important inflationary influence. Taking the year as a whole, there was a small decline, amounting to a billion dollars, in the total volume of bank deposits last year, due to the Federal Government surplus early in the year and the use of part of that surplus to retire bank-held securities.

It is possible but by no means certain that postwar inflation has run its course and that additional restraints for anti-inflation purposes will not have to be applied. However, no one can be sure that inflationary dangers are over rather than merely interrupted. We have had a number of readjustments since the end of the war. Each was hailed by some as the end of the postwar boom. Each was succeeded, in turn, by renewal of the inflationary spiral. I recall so vividly the strong statements made to me by financial and business leaders just before I took office last spring that they were confident that the break in the commodity markets in early 1948 was the beginning of the long anticipated recession. You will recall that there was a similar feeling in the spring of 1947.

In view of the uncertainties in the outlook at this time, the temptation is strong to assume that inflationary forces have been dissipated. This may prove to be an unwarranted assumption.

The needs for enlarged defense expenditures, particularly if they involve the purchase of materials in short supply and if they lead to a budgetary deficit, are a continuing force making for inflation. Unless total production can be expanded—and the ability to expand in any short period is limited by available resources of materials, manpower, and equipment—additions to the goods and services devoted to defense must be diverted from those going into private consumption and investment. If private demands for goods and services are not correspondingly adjusted higher prices will result. With such strains on the economy, it is important that governmental expenditures be fully covered by revenues.

Not only is the surplus or deficit in financial operations of the Government important, the economy is also affected by cash surplus or deficit operations of the private sector. In a fully employed capitalistic economy, business and other investment should be financed largely from current savings of the public. If, however, over-all expenditures for consumption and investment exceed current receipts—which is possible if they are financed from accumulations of past savings or from bank credit expansion—then the result is likely to be inflationary.

In view of the general liquidity of the economy, one cannot be complacent about the possibility of renewed or continued deficit financing by businesses and individuals in the aggregate. We still have a tremendous potential for a further increase in deposits and bank reserves as well as for a more rapid use of existing money. Commercial banks alone hold over $60,000,000,000 of marketable Government securities, which they could convert at will into reserves capable of supporting an enormous deposit expansion. The turnover of bank deposits is currently much less than it has been in many previous periods of high economic activity, and current spending for all purposes could be considerably expanded without any further increase in the amount of the outstanding money supply.

The CHAIRMAN. May I interrupt, Mr. McCabe. What is the ratio of that possible enormous deposit expansion of which you speak?

Mr. McCABE. What is the possibility, sir?

The CHAIRMAN. What is the ratio? You speak of $60,000,000,000 of marketable Government securities held by the commercial banks. You say that is capable of supporting an enormous deposit expansion.

Mr. McCABE. That could be as high as 6 to 1.

The CHAIRMAN. That would be the maximum?

Mr. McCABE. Yes; that would be it, approximately.

The CHAIRMAN. I thought it well to get that into the record. It could go to 6 to 1.

Mr. McCABE. Yes, sir.

Mr. PATMAN. That is a ratio of 6 to 1; in other words, that would be $360,000,000,000?

Mr. McCABE. That is correct.

The CHAIRMAN. I asked that question because that could obviously be a very strong inflationary influence.

Mr. McCABE. Under these circumstances, we must be prepared at all times to cope with inflationary possibilities that may develop just as we must be prepared to move in the opposite direction by relaxing restraints when deflationary influences are dominant.

We are also still confronted with the necessity of balancing our several objectives, one of the most important of which is maintenance of stability in the Government securities market. To accomplish this the Federal Open Market Committee stands ready to buy such securities when there are no other buyers at established prices, and also to sell securities when demand is heavy. I think the System's support of the Government securities market has been wise and necessary. It is one of the outstanding accomplishments of the postwar period. As the President pointed out in his Economic Report, such stability in the Government bond market "contributes to the underlying strength of the financial structure of the country."

At the same time we want to prevent any excess reserves supplied to banks by our stabilizing operations in the securities markets from becoming the basis for manifold expansion of credit and of deposits. We also need to absorb reserves made available from other sources, notably gold inflow. It would of course be possible to curb expansion of reserves by failing to support Government securities in the market. Although I fully realize that the support program limits the System's ability to restrain credit expansion, I am convinced that the consequences which might result from abandoning this program would be disastrous. The measures we are recommending are designed to deal with this situation.

The heart of the problem is bank reserves. If we are to deal at all effectively with the problems of inflation we must devote ourselves to the subject of bank reserves. There are other lenders in the market who compete with banks for loans, but banking is unique because bank deposits are the largest part of our money supply.

Let me emphasize as I have before that I am not singling out bankers for criticism. In my opinion this Nation owes a debt of gratitude to commercial bankers generally for their service in the task of financing the war, and reconversion from war. I also feel that the bankers are indebted to the Federal Reserve System for the part it has played in this period of strain. Never before in the history of this Nation has the banking system been in a stronger position.

Action by monetary authorities to prevent newly created reserves from becoming the basis for further deposit and bank credit expansion is in no sense a reflection on the banking community. If effective restraint is to be exercised over the money supply and the credit situation, the Federal Reserve System must be concerned with changes in the volume of bank reserves, which have a direct bearing on the volume of bank credit and bank deposits. Responsibility for the over-all volume of bank deposits and to some extent for the general quality of bank credit rests primarily upon the monetary and banking authorities rather than on individual bankers.

The banking system today acquires reserves in three major ways: (1) Imports of gold, (2) return of currency from circulation, and (3) purchases of Government securities by the Federal Reserve banks. If the volume of deposits is to be held in check additional reserves arising principally from these sources have to be absorbed or immobilized. Monetary policy has been directed to this end.

During the year ending last October large amounts of reserves were supplied to banks as a result of Federal Reserve purchases of bonds, largely from nonbank investors. These purchases amounted to about $10,000,000,000. In addition, gold inflow and return of currency from circulation supplied banks with over $2,000,000,000 of reserve funds.

These additional reserves were largely absorbed or offset through fiscal and monetary measures. The most important of these was the large excess of cash receipts over expenditures by the Federal Government during the early part of 1948. The transfer of these funds to Treasury account at the Reserve banks reduced privately held deposits and also absorbed bank reserves. The Treasury used a large part of these funds to retire public debt held by the Reserve banks. Banks in turn maintained their reserve positions by selling Government securities to the Federal Reserve. The necessity to make these sales exerted a degree of restraint on the lending activities of banks.

The cash surplus of $6,000,000,000 in 1947 and $8,000,000,000 in 1948, used in the way I have described, was the largest single restraining force on the money supply. But at best the prospects for this calendar year, in view of our enlarged defense expenditures, are for a cash surplus of less than $2,000,000,000, which is more than accounted for by the excess of receipts in the first quarter, leaving a deficit for the rest of the year. Thus this element of restraint is no longer available.

Another important means of absorbing reserves was the sale of short-term Government securities by the Reserve banks. Since the middle of 1947 interest rates on such securities have been allowed to rise somewhat from the very low levels that were reached in the depression and that had been maintained during the war and early postwar period. Investors were encouraged by these higher rates to purchase and hold short-term issues. Federal Reserve sales of short-term securities in the market, together with retirements by the Treasury, reduced the System's holdings of such securities by fully as much as System holdings of bonds were increased through the support program. It would be unwise, however, to rely on this means of absorbing additional reserves that might be made available from System purchases of bonds or from other sources, particularly if there should be a substantial demand for loans.

Still another means of dealing with the problem of reserves was to increase reserve requirements. Under authority of permanent law, the Board of Governors increased reserve requirements at central reserve city banks in New York and Chicago in February and again in June. Then in the third quarter, when nonbank investors were selling bonds in large volume and the demand for bank credit was active, the Board used part of its newly acquired temporary authority to increase reserve requirements for all member banks. Let me emphasize that we have not used the temporary authority merely because we were given it. We have used only a part of it, cautiously and with discretion, to meet a specific development.

We should be prepared for whatever may develop. No one can know how the volume of reserves will change in the future. We should be prepared to deal with the problems that would arise if reserves increase significantly. That is why adequate continuing authority is needed to require banks to hold supplemental reserves in the form of balances at the Reserve banks.

We are again asking, as we did last summer, for authorization to require supplemental reserves up to a maximum of 10 percent against demand deposits and 4 percent against time deposits. Congress granted authority up to 4 percent on demand deposits and 1½ percent on time deposits, applicable to member banks only, and expiring June 30, 1949. The present request would replace this temporary authority. Since the temporary authority has been used in part to require member banks to hold additional reserves, expiration of the power on June 30 would immediately release about $2,000,000,000 of reserves that could be used as a basis for a manifold credit expansion.

It is vitally important that the requirements be made applicable to all insured banks, and not exclusively to member banks of the Federal Reserve System. Banks now subject to Federal supervision and enjoying the protection of Federal insurance of their deposits comprise 95 percent of all commercial banks and hold 98 percent of all deposits in commercial banks, while member banks of the Federal Reserve System include slightly less than half of the total number and hold about 85 percent of the deposits.

It would be grossly inequitable to limit the requirements to member banks alone. Member banks already carry higher effective reserves than nonmembers, while nonmember banks benefit by the strength which the very existence of the Federal Reserve System gives to the credit structure. It is unfair to have member banks bear the entire burden of actions in the monetary field undertaken in the public interest. I have found member-banks, particularly small member banks, becoming restive because of the inequitable application of reserve requirements. Failure to include all insured banks would seriously impair the effectiveness of national monetary policy.

It is not suggested that the proposed supplemental reserve requirement is the perfect or final solution of the problem of arming the monetary authorities with adequate means of performing their primary function. The pending proposal, however, is a necessary step in the right direction. Together with other powers now available, it would equip our monetary mechanism with authority to cope with overexpansion of the money supply in case that danger again threatens us. As I have already indicated, we are amply forearmed to deal with the credit needs of the opposite swing of the business cycle.

The additional authority would only be used to absorb future additions to reserves. It would not be used to force banks to liquidate outstanding loans. At present most of the banks of the country hold short-term Government securities in amounts more than adequate to meet their needs for liquidity, as well as to accommodate their customers or to set aside additional reserves. Moreover, it should be borne in mind that monetary policy is not a one-way street. It has always been flexible, adapted to changing requirements of the economy. Bank reserves immobilized in a period of inflationary pressure would be released when business needs require.

In addition to the authority with respect to bank reserves, we urge you to continue consumer installment credit regulation.

Installment credit is the volatile and dynamic element in consumer financing. It is subject to wide fluctuations and exerts a pervasive effect on consumer demand and prices. During the past year, for example, more than 80 percent of the 2.5 billion dollar increase in total consumer credit was accounted for by installment credit. The installment credit portion has increased in the past 2 years from about one-third to one-half of the total of all consumer credit.

Consumer installment credit, furthermore, is directly associated with the distribution and financing of durable goods. In an advanced and rich economy such as ours, the standard of living of the great mass of the people takes more and more the form of possession and enjoyment of a variety of durable goods. Thus installment financing is subject to a growth force that is basic and persisting and is becoming a more important element in the economy.

The unregulated use of installment credit financing tends to accentuate instability of demand for durable goods. Credit spending is stimulated during periods of business expansion when consumers are more inclined to make commitments for the future and lenders are more willing to extend credits. New installment credits exceed repayments on old credits and outstanding credit volume grows. When economic recession sets in, accumulated credit remains to be paid off in the period of contraction. The drain on consumer income for debt repayment curtails current purchasing of consumer goods and services generally. The over-all effect is to amplify fluctuations in consumer expenditures, directly for durable goods and indirectly for all types of goods. This makes for greater instability of the entire economy.

We are interested in stability as well as growth in our economy. Regulation of installment credit is designed to help maintain stability without preventing sustainable long-term growth in such credit.

Consumer installment credit has risen since the end of the war from 2 billion to 8 billion dollars at present. This is an impressive increase and has contributed to the heavy pressures of demand against available supplies of goods for purchase, which in turn have contributed to rising consumer prices. If these rates of increase in consumer debt were to continue, we would eventually, and perhaps before long, exhaust the cushion of consumer-borrowing power and thus endanger our economic stability.

Regulation W in its present form, which some have criticized as too stringent, has not prevented expansion of installment credit. But it has operated to restrain excessive installment spending and lending, especially for consumer durable goods. It has tended to make quality and price more important factors than terms in the sale of such goods. The restraint has served as a useful brake on further advances in retail prices in the consumer areas affected by regulation, as well as on the excessive expansion of installment credit volume.

The all important thing is that the authority to restrain be in hand when the need to restrain arises. Appropriate instruments to meet possible inflationary or deflationary developments should be constantly available for use as circumstances warrant.

In adapting regulation W to changing economic conditions the Board of Governors by statutory direction would have in view the prevention of excessive expansion or contraction of consumer installment credit as well as the maintenance of sound credit conditions in this area and in the economy generally. The regulation would thus help to carry out the objectives of the Employment Act of 1946.

Consumer installment financing has played an important part in the development of the American system of mass distribution of consumer goods. It should continue to play this important role by being used but not abused. Sound credit conditions should be maintained at all times for the protection of the entire economy. It should not be overlooked that the users of installment credit are primarily low- and middle-income households. These economic units suffer most from the hardships of instability. By helping to maintain sound credit conditions and also by helping to moderate excessive fluctuations in installment financing, regulation W can serve well the public interest. Also, smaller business enterprises can compete more equitably and safely when terms conform to reasonable standards.

The Board has consistently been mindful of the problems that confront those who have the job of carrying on a business. We have tried to achieve the purposes of regulation W with the least possible interference with usual business operations. I believe we have achieved reasonable success in that endeavor.

I want to say at this point that we have received strong and friendly cooperation from an overwhelming majority of those subject to the regulation. We have a sympathetic interest in their problems and we believe that in most cases they have made an honest effort to understand ours.

The Board is fully aware of the problems which consumer installment credit regulation presents to retailers, as well as to sales finance companies, banks, and other credit-granting agencies. We are very conscious of the problems that increased reserve requirements raise for any bank that may have to obtain the additional reserves by liquidating other assets. We earnestly hope that the need will not again arise for use of further restraints. We would only use them if it became necessary to do so in order to protect the economy. I can assure you that these restraints will be modified as economic conditions warrant, and the Board will not hesitate to relax them when they have served their purpose. In the world of today the United States, occupying as it does a place of world leadership, should be equipped at all times with flexible effective means of carrying out appropriate monetary and credit policies adapted to changing economic circumstances.

Most of my business life has been spent in private industry. I would be the last to want Government to have power and authority merely for the sake of having power and authority. In the complex and fluid monetary field, however, the timeliness of policy moves is of critical import. That is why the Board believes that in the interest of a stabilized, progressive economy it is essential that our monetary machinery be prepared in advance to adapt itself to changing economic needs.

The CHAIRMAN. Mr. McCabe, I think you have given us a very clear and comprehensive paper. You are, of course, ready to answer any questions that may be addressed to you.

Are there any questions?

Mr. PATMAN. Yes, sir; I would like to ask some questions. How many members are there on the Advisory Council, Mr. McCabe?

Mr. McCABE. Twelve, sir.

Mr. PATMAN. One from each Federal Reserve district?

Mr. McCABE. Yes, sir.

Mr. PATMAN. They are the ones that advise with you and the others on the Board of Governors tomorrow?

Mr. McCABE. That is right. They meet four times a year.

Mr. PATMAN. Mr. Brown suggested that the Council probably would not endorse everything you said. I hope he referred to regulation W. This regulation W is what I would like to ask you a few questions about, but not many, because I hope to have a session with you later and go over it more thoroughly. The reason I am opposed to it, Mr. McCabe, or the several reasons are, one, I think it is destroying the character collateral, and I think that character is the best collateral in America. The next is, I think it creates too much of a hardship on the people.

Bankers write me the hardest letters—I wouldn't say the meanest, because they never write a mean letter—about regimentation. Yet this is the worst form of regimentation I know of, and I cannot imagine bankers generally favoring regulation W. There is just too much regimentation.

I hope in the discussions tomorrow that the Federal Reserve Board will change its opinion about this regulation W and at least ease it up some.

I voted for it and I expect to continue to vote for it, because I want the Board to have the power. But as you said in your statement here, it should be used and not abused. I feel that the Board went entirely too far when we, as members of the Banking and Currency Committee, last year gave you this power. We never anticipated you would go as far with it—I believe, since talking to other members—as the Board has gone.

Now, during the war you required one-third down on an automobile and the remainder in 15 months; is that correct?

Mr. McCABE. That is correct.

Mr. PATMAN. We anticipated that you would put a regulation on that would probably be extended out over a period of months, but we never anticipated that you would still require one-third down and the balance over 18 months, which is almost as rigid and strict as the wartime regulation. I am not so much interested in the one-third down as I am in the number of months in which they have to pay. The letters I get from people indicate that a wage earner must earn something like $400 a month before he is able to buy both a home and an automobile under regulation W. When he buys a home he must buy it out in the suburbs, out in the country, and then he needs an automobile to go to work, and unless his income is up around $5,000 a year he does not have the ability to buy the automobile after he has bought the home.

I think it is working a tremendous hardship on people with real cash that they have built up over a lifetime, and I hope that the Board considers that and will ease up those regulations.

How long has the term of a Board member been—14 years, Mr. McCabe? It seems to me like it was shorter than that when the act was first passed in 1913.

Mr. McCABE. Since 1935.

Mr. PATMAN. How long was it—for 7 years?

Mr. McCABE. Twelve years.

Mr. PATMAN. Oh, that is right; 12 years. How many members are there on the present Board, seven members?

Mr. McCABE. Yes, sir.

Mr. PATMAN. Now, at one time I recall the Secretary of the Treasury was on the Board, but I believe that was in the act of 1935.

Mr. McCABE. In the act of 1935 he was eliminated as an ex-officio member.

Mr. PATMAN. Was anyone else eliminated besides the Secretary of the Treasury?

Mr. McCABE. The Controller of the Currency.

Mr. PATMAN. He was an ex-officio member, and also the Secretary of the Treasury?

Mr. McCABE. That is right.

Mr. PATMAN. Those two were eliminated?

Mr. McCABE. That is right.

Mr. PATMAN. How many of the present seven members were selected by President Truman? I know that you were selected by President Truman about 2 years ago.

Mr. McCABE. And Governor Clayton was selected, and Governor Vardaman.

Mr. PATMAN. In other words 3 out of the 7?

Mr. McCABE. That is correct.

Mr. PATMAN. Now, then, from a practical standpoint, the President of the United States has no power over the Federal Reserve Board; does he?

Mr. McCABE. Well, not by statute; no.

Mr. PATMAN. That is what I mean. By law you are separate and independent; you can do anything you want to do, can you not?

Mr. McCABE. Well, I would not say that, sir, because we are responsible to the Congress.

Mr. PATMAN. Well, you are responsible to a degree and to an extent.

Mr. McCABE. Well, Congressman Patman, in that connection I recall that last summer at the special session when we were before the House Banking and Currency Committee, as you will recall——

Mr. PATMAN. Yes, sir.

Mr. McCABE. I recall at least one member or more being somewhat critical of our support program of Government bonds. I recall saying at that time that we would change that policy if Congress wanted to pass a resolution directing us to follow another course.

I feel on major problems of this kind if the Congress wants the Federal Reserve to follow a different course, they could direct us to.

Mr. PATMAN. Of course, that sounds mighty good, Mr. Chairman, but in practice it is awfully hard to do that. You know it takes a long time to pass a law; it is a very cumbersome proceeding. We cannot act quickly, and I guess that is right.

Mr. McCABE. Do you not feel, though, that in the main our major policies have the approval of Congress?

Mr. PATMAN. Well, I do not know. I have not approved your policy so much. Now you are asking me, and I am replying. Now as to these small business loans, I never did feel that the Federal Reserve Board really tried to put out many small business loans and I do not think you have many out now. They were needed badly.

Then I think you doubled your reserve requirements on the banks in 1937 when it was disastrous to the country.

I can name a lot of things on which I do not agree with you at all.

Mr. McCABE. Well, Congressman, let us take small business loans. I am very sympathetic to those because I come from the Philadelphia Federal Reserve district where I was a member of the board for 10 years. I think we had one of the best records in the system on loans under 13b. But you will recall, Congress restricted us, because we could only make loans for working capital purposes.

Mr. PATMAN. Well, you never had much money to start with—only $39,000,000, was it not?

Mr. McCABE. That was the amount from the Treasury.

Mr. PATMAN. I recall that; yes. You state here in your discussion of regulation W, "When economic recession sets in"—now you are not anticipating an economic recession; are you, Mr. McCabe?

Mr. McCABE. I am not anticipating any abrupt recession this year; no, sir.

Mr. PATMAN. You still believe it is possible, with the Board and the Federal Reserve System properly functioning, and with the aid of Congress and the Executive, to prevent these normal booms and busts; that is, you can even them out and prevent an absolute depression?

Mr. McCABE. Our primary objective is to work toward stabilizing the economy.

Mr. PATMAN. And you believe we can do away with the depression if we will all work together?

Mr. McCABE. We have a record of working together, sir. I can say that in the period I have been in office there has been the closest kind of cooperation and coordination between the congressional leaders, the administration, and the Federal Reserve.

Mr. PATMAN. Now, the Open Market Committee—how many members compose that committee, Mr. McCabe?

Mr. McCABE. That is made up of the members of the Board of Governors and five presidents.

Mr. PATMAN. The members of the Board of Governors and five presidents of Federal Reserve banks in the Federal Reserve System?

Mr. McCABE. Yes; for a total of 12.

Mr. PATMAN. And you expect to continue the policy of supporting the Government bond price? I believe you said here that was a good thing.

Mr. McCABE. Well, sir, I am heartily in favor of the policy that has been pursued.

Mr. PATMAN. I will state on that point that I am strongly in favor of that, too.

The CHAIRMAN. Congressman Patman, may I interrupt at this point? You apparently have turned from the consumer credit subject. I wanted to ask Mr. McCabe if he would turn to the chart entitled "Consumer Credit Outstanding," which has been presented to the members of the committee, and also to the chart entitled "Relation of Consumer Credit Outstanding to Disposable Personal Income."

Now, the chart on "Consumer Credit Outstanding" would indicate that there has been a very rapid rise of consumer credit, as measured by the graph representing total consumer credit during the years 1947 and 1948. Is that correct?

Mr. McCABE. That is right, sir.

The CHAIRMAN. Now, what part of that rise took place after Regulation W was restored?

Mr. McCABE. After Regulation W was restored that rise was not quite so fast.

The CHAIRMAN. What was the precise date of the restoration of Regulation W?

Mr. McCABE. September 20, 1948. So you see it has been a comparatively short time, sir, since it has been in effect.

The CHAIRMAN. But the line is still almost vertical.

Mr. McCABE. The line has continued to go up. It has not gone up quite as fast since the regulation became effective, as it did before.

The CHAIRMAN. What, if any, information do you have with respect to 1949?

Mr. McCABE. We have none yet, sir. We have no report for the month of January as yet.

The CHAIRMAN. If I understand the chart entitled, "Relation of Consumers Credit Outstanding to Disposable Personal Income," the amounts of consumer credit outstanding and of disposable personal income are represented by the dots and circles?

Mr. McCABE. That is right. For example, the dot labeled 1948 shows that disposable income was about $190,000,000,000 and consumer credit outstanding average over $14,000,000,000 in that year.

The CHAIRMAN. And what is represented by the straight lines?

Mr. McCABE. The guide lines indicate the percentage relation of consumer credit outstanding to disposable income.

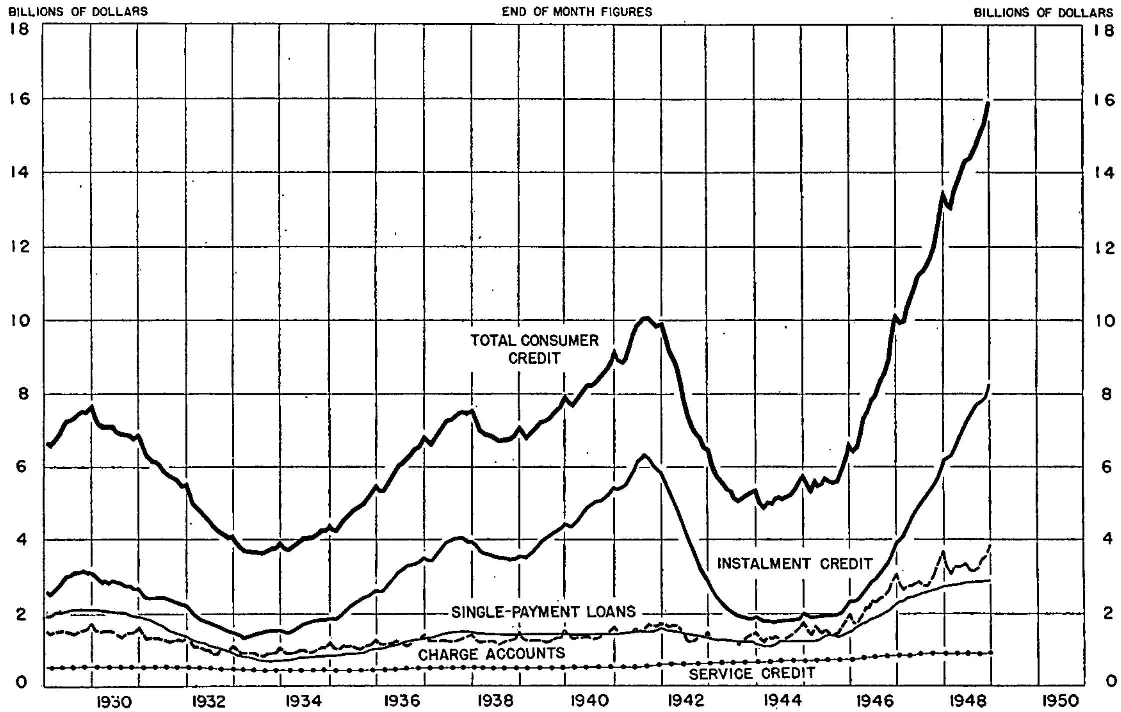
The CHAIRMAN. Does this chart indicate that there has been a considerable rise of the outstanding consumer credit, not only relatively from 1947 to 1948, but also percentagewise as compared with the disposable personal income?

Mr. McCABE. That is right, sir.

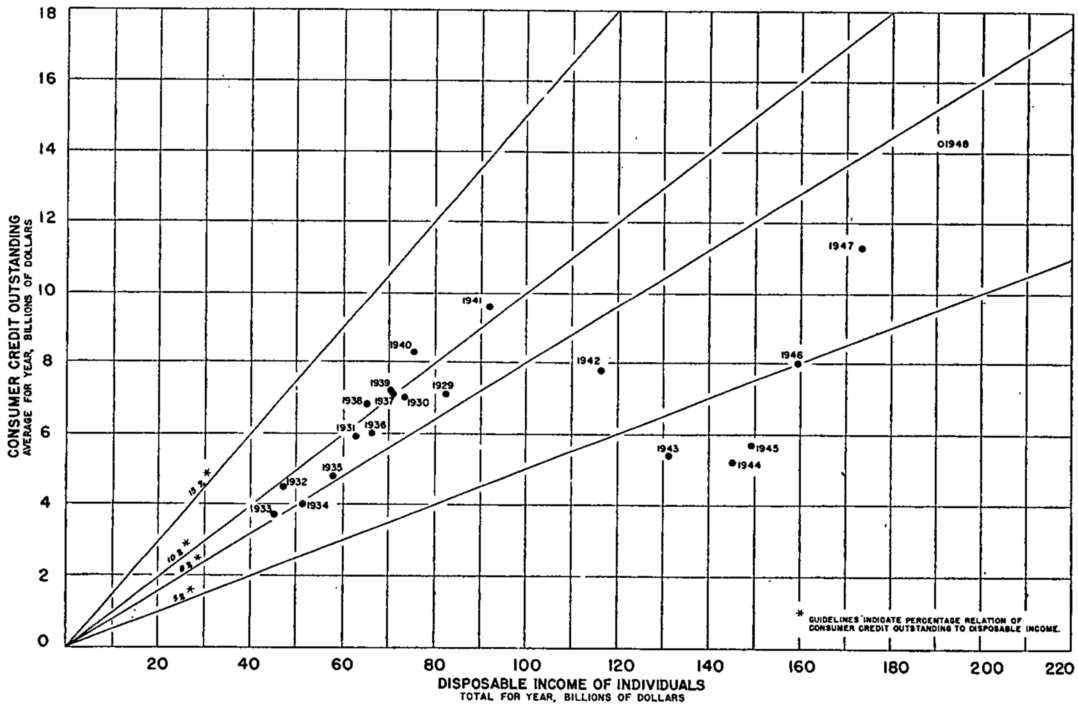
The CHAIRMAN. What percentage do you suppose that is? In other words, the consumer credit outstanding now constitutes a much greater percentage of disposable personal income than it did a year ago?

Mr. McCABE. It has gone from about 6 to 7 percent of total disposable personal income.

CONSUMER CREDIT OUTSTANDING



RELATION OF CONSUMER CREDIT OUTSTANDING TO DISPOSABLE PERSONAL INCOME



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The CHAIRMAN. Oh, from 6 to 7 percent?

Mr. MCCABE. Yes.

The CHAIRMAN. It would then appear that the outstanding consumer credit is one-sixth more than it was a year ago in relation to the disposable income?

Mr. MCCABE. Yes. You see, since the war, Mr. Chairman, installment credit outstanding has gone up very rapidly from a little over $2,000,000,000 immediately after the war, to about $8,000,-000,000, according to the latest figures.

The CHAIRMAN. Thank you very much. Go ahead, Mr. Patman.

Mr. PATMAN. I am no economist, and possibly I am on a cold trail, but I would like to see a chart fixed up, Mr. McCabe, that would show the ratio between installment credit in 1929 and the national income, and followed through up to the present time I venture to say you will not find it to be abnormal.

In other words, the ratio of installment credit to the national income will not be too much higher now, if any, than it was during several other years. Will you prepare that and submit it, please.

Mr. MCCABE. At the high point in 1940 it was 7 percent, but in 1929 it was between 3 and 4 percent.

Mr. PATMAN. When?

Mr. MCCABE. In 1940 it was 7 percent. It is roughly 4 percent now, or about the same as in 1929.

Mr. PATMAN. In other words, it was higher in 1940 than now?

Mr. MCCABE. It was higher before the war.

Mr. PATMAN. And yet prices are higher now?

Mr. MCCABE. Yes, it was seven then and four now.

Mr. PATMAN. Why should you be so disturbed over it now? It was at least 75 percent higher than it is now in proportion to the national income.

Mr. MCCABE. Yes, sir. At the time I was before the Congress last summer, the thing that gave us concern was the rapidity with which it was going up.

Mr. PATMAN. That is what disturbs me. The rapidity did not continue, did it?

The CHAIRMAN. May I suggest, Mr. McCabe, that you turn to the charts entitled Composition of Consumer Installment Sale Credit Outstanding and Composition of Consumer Installment Loan Credit Outstanding in responding to the Congressman's question?

Mr. MCCABE. Yes. It is very evident, if you will just look at that line and note how fast that was going up, sir. You can see why we expressed concern last summer before the Congress.

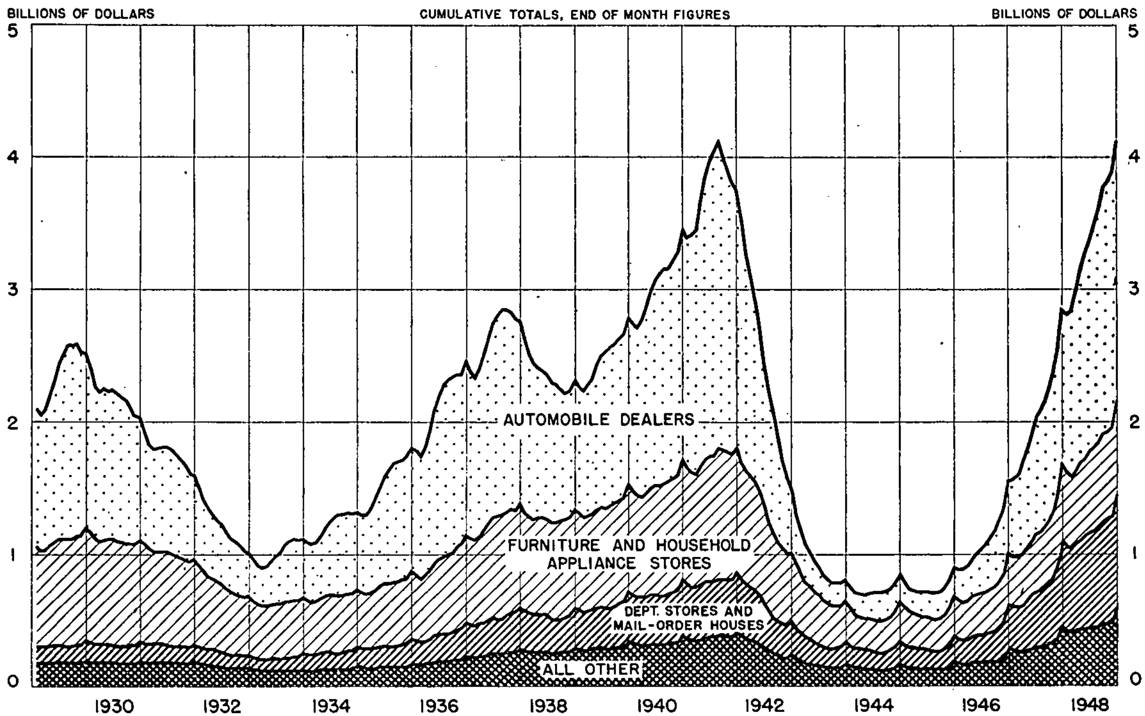
Mr. PATMAN. Yes, but now since you know that the ratio is only about 4 percent of the national income as compared to 7 percent in 1940, it occurs to me——

Mr. MCCABE. That is disposable personal income.

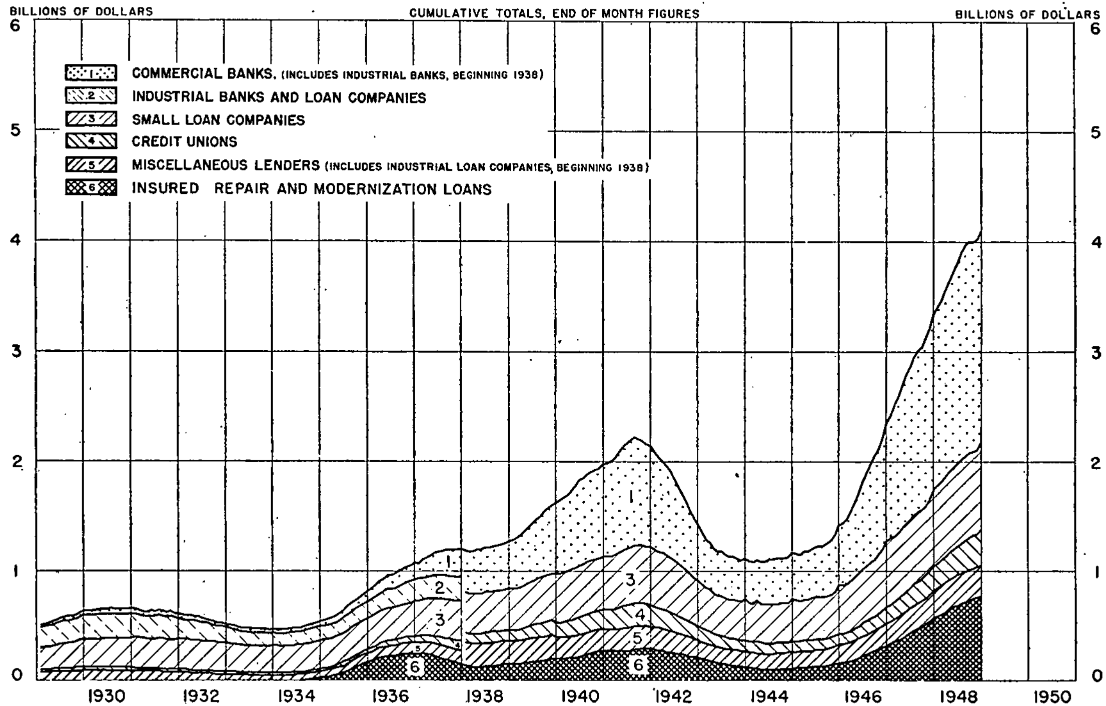
Mr. PATMAN. Don't you think national income should enter into it, too?

Mr. MCCABE. Yes, it would be a little less on a national income basis.

COMPOSITION OF CONSUMER INSTALMENT SALE CREDIT OUTSTANDING



COMPOSITION OF CONSUMER INSTALMENT LOAN CREDIT OUTSTANDING

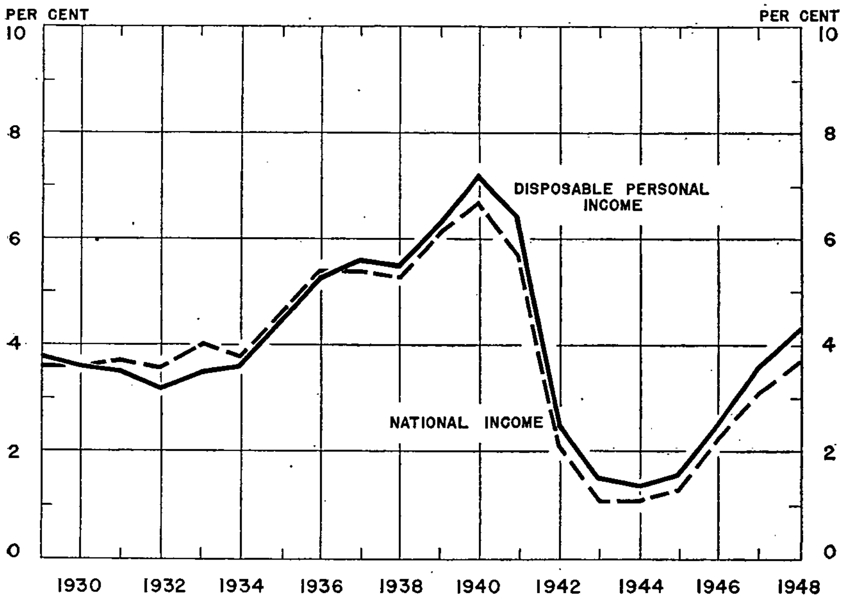


Mr. PATMAN. That is the chart I want you to get up, not the spendable income, you have that here, but I want the national income, too.

Mr. McCABE. We would be very glad to do that.

(The following chart was later submitted for the record:)

RELATION OF CONSUMER INSTALMENT CREDIT OUTSTANDING TO DISPOSABLE PERSONAL INCOME AND TO NATIONAL INCOME



Mr. McCABE. Congressman Patman, another great concern we had there was that the installment sales were taking place in the areas of the economy where merchandise was very short.

Now, take in the field of automobiles, there was a terrific demand for automobiles and a limited supply.

Mr. PATMAN. That is right.

Mr. McCABE. As a result, the impact there was very great, and it was having a tendency as you know to drive prices up, particularly of the second-hand cars.

Mr. PATMAN. That is right.

Mr. McCABE. And putting them out of the reach of the lower income groups.

Now, the lower income groups, according to the figures we have obtained, purchased a very high percentage of used cars. Eighty-six percent of the purchases of cars by consumers in the lowest fifth bracket of consumer income, which is, say under $1,000, were used cars.

In the next income group, which is in the neighborhood of $2,000, of their purchases of automobiles, 16 percent were new cars, and 84 percent were used cars.

In the next income group, of approximately $3,000, their purchases are 20 percent new cars and 80 percent used cars. That is the figure for 1947.

If you want to go to the years 1935 and 1936, in that income group their purchases were 21 percent new cars, 79 percent used cars.

Mr. PATMAN. I realize that, Mr. McCabe.

Mr. McCABE. The thing that alarmed us was the fact that the used-car market was going so high and that is the market available largely to the people in the lower income groups.

The CHAIRMAN. They were getting less car per dollar of expenditure under credit, in all probability.

Mr. McCABE. That is right, so we think we have helped them.

Mr. PATMAN. You were trying to lower prices, then.

Mr. McCABE. What we were trying to do primarily was to restrict credit.

Mr. PATMAN. But you restrict it in such a way that the fellow who has character collateral is out—it is only the man who has money.

Mr. McCABE. The man with character today, I would say, sir, who walks in to a distributor of automobiles, has an excellent chance.

Mr. PATMAN. How would he get the one-third down? How would he get that?

Mr. McCABE. Well, if he cannot pay the one-third down; no.

Mr. PATMAN. He would be out of luck then?

Mr. McCABE. Yes.

Mr. PATMAN. Suppose he is obligated on a home where he cannot make the payment on a car over a period of 18 months, but he could over a period of 24 months. He would still be out, would he not?

Mr. McCABE. Yes, he would be out, he could not purchase.

Mr. PATMAN. You are using this regulation for one primary purpose, to lower prices?

Mr. McCABE. I would say that was a result, but our primary purpose was credit.

Mr. PATMAN. To restrict credit, but I imagine you had in mind the price, too.

Mr. McCABE. I would say the price was a very desirable effect.

Mr. PATMAN. Suppose I should go to see my banker, and I have a job at the National Gas plant 25 miles from where I live, and I am making good wages. The only way I can get there is by using an automobile. The banker says, "Well, Patman, that is a business loan, you cannot get to your business unless you have a car, and I am going to make you a loan here so that you can pay one-fifth down on this car and the bank will carry you for the remainder to be spread out over a period of 30 months." Would he get by with that as a business loan?

Mr. McCABE. I don't think so.

Mr. PATMAN. You would still say he is under regulation W, although he says it is a business loan?

Mr. McCABE. Would you restate that, sir? I just happened to be looking at the chart.

Mr. PATMAN. All right.

A wage-earner has a good job 25 miles away from his home. The only transportation available is by private automobile, and he must have a private automobile in order to go to his job every day.

He goes into the banker and the banker classifies that as a business loan and lets him have the money to pay for the car. The banker agrees to carry it for one-fifth down and the remainder over a period of 30 months, on the theory that it is a business loan and should not come under regulation W.

Mr McCabe. I would say that is regulation W.

Mr. Patman. You would say regulation W?

Mr. McCabe. Yes, sir.

Mr. Patman. Now, suppose an automobile dealer takes regulation W and lets it apply to a car, say, at Detroit, for $1,250, we will say, where he gets one-third down and the balance over a period of 18 months. Then he adds the freight and accessories and all the other different things, the insurance and carrying charges on top of that, which he carries himself over a period of, say, 36 months. Would that be a violation of regulation W, since the actual car has been carried on regulation W?

Mr. McCabe. That would be a violation, sir.

Mr. Patman. Why would it be a violation?

Mr. McCabe. Well, because that was considered as a part of the purchase price of the car.

Mr. Patman. Well, which part of it? You can get your insurance anywhere you want, Mr. McCabe.

Mr. McCabe. That is right, but if you got it from the distributor——

Mr. Patman. I can see where the freight rate might come in on it, but the accessories. Suppose after he gets the car, and he complies with regulation W 100 percent, he then gets the accessories, insurance, and everything extra in a different transaction.

Mr. McCabe. From someone else?

Mr. Patman. Yes, or from that particular dealer.

Mr. McCabe. Certainly, if he got it from someone else that would not be a part of it.

Mr. Patman. It would not be a violation?

Mr. McCabe. No.

Mr. Patman. Well, suppose he got it from someone else and that other person got the dealer to take it over.

Mr. McCabe. Well, if it was a subsequent transaction I will have to ask our lawyer.

Mr. Vest. If it was a part of the same credit it is subject to the regulation.

Mr. Patman. You mean the insurance part, too?

Mr. Vest. Everything is included that he borrows from the bank or anywhere else.

Mr. Patman. That is directly connected with the purchase of the car?

Mr. Vest. Yes, sir.

Mr. Patman. Now, Mr. McCabe, how are you enforcing this regulation? How many suits have been brought, or how many complaints have been filed?

Mr. Vest. No suits have been brought under this regulation at this time.

Mr. PATMAN. How many complaints have been filed?

Mr. VEST. No complaints, no formal complaints.

Mr. PATMAN. No formal complaints and no suits. Who would these complaints go to if made?

Mr. VEST. They could be filed in the courts.

Mr. PATMAN. Who would file them?

Mr. VEST. They would be filed on behalf of the Federal Reserve Board.

Mr. PATMAN. Who is the agent that would look after these suits? In other words, suppose the formal complaint should come to the Chairman of the Board tomorrow that this regulation was violated. who would he turn that over to?

Mr. MCCABE. I would turn it over first to the legal department and the legal department here would immediately contact the bank or branch of the Federal Reserve and that is filed, and then the bank or branch would proceed.

Mr. PATMAN. How would your proceed? What would you do? Would you sue the man, or would you sue the banker?

Mr. MCCABE. There would be a complete investigation to find out if there was a violation.

Mr. PATMAN. That would be first?

Mr. MCCABE. Yes, sir.

Mr. PATMAN. Then in the meantime if the banker adjusted it, that would be all right?

Mr. MCCABE. I will ask our general counsel to answer that.

Mr. VEST. I am sure the Board would not be disposed to proceed on a case of that kind unless it was a flagrant violation, or unless the violation had been repeated on a number of occasions.

Mr. PATMAN. But so far you have no complaints, no prosecutions, and no suits?

Mr. MCCABE. Of course, so far as concerns complaints to us by one person that another is violating the regulation—we get those. We always investigate to see if there is a violation, as I have outlined. It often turns out that the person making the complaint was mistaken. We have also had people urge us to change the regulation, but I assume that is not the sort of thing you have in mind. I would say the cooperation generally on the part of the dealers, Congressman Patman, has been excellent.

I would like to say this, that insofar as we have been able to check with consumers generally—I say consumers generally—we have gotten strong approval of regulation W.

Mr. PATMAN. How did you get these endorsements, were they voluntarily sent to you?

Mr. MCCABE. Well, right now through the University of Michigan, who makes our consumer studies. They are proceeding with an investigation now to determine the reaction of consumers.

Mr. PATMAN. Is it a sort of a poll?

Mr. MCCABE. We get large quantities of mail. We are in touch with people that represent large groups of consumers. For instance, just before I took this trip there was a woman in to see me who conducts a large forum of consumers in connection with one of the country's largest newspapers. She was reporting to me that in her conversations quite broadly with consumers there was general approval of regulation W.

We can tell that from other groups we meet with. For instance, a few weeks ago there was a group of farmers over in the Department of Agriculture. One of our men went over and attended this meeting. They were unanimously in favor of regulation W.

On these trips that I make I talk to innumerable businessmen, financial men. I would say from the people I interrogated on this trip, that the percentage was as high as 80 or 90 percent in favor of regulation W.

Mr. PATMAN. I have not contacted as many people as you have, Mr. McCabe, by any means, but my mail is heavy with it. Perhaps it is because I am known to be in opposition to it.

Mr. MCCABE. That is right.

Mr. PATMAN. Probably they tell you what they tell you because they know where you stand.

Mr. MCCABE. That is right. At the same time, we have had telegrams by the score from certain automobile distributors. The Congressmen have received them, the Senators have received them, the President, the Vice President, and in many instances they have referred these telegrams to us.

Mr. PATMAN. My mail reflects this: Now, the Big Three automobile manufacturers, I think they are all right; I think they are getting along fine. But outside of the Big Three I think the rest of them are pretty well disturbed.

Mr. MCCABE. Well, sir, I called a very outstanding man, who is president of one of these companies, just before I took this trip. I asked him if he thought we should relax regulation W or for the time being discontinue it. He was very emphatic in his answer in saying "No"; that he didn't think we should do either.

Mr. PATMAN. You mean he was a small automobile manufacturer?

Mr. MCCABE. He is considered as being in one of the intermediate groups.

Mr. PATMAN. He is not one of the Big Three or Four?

Mr. MCCABE. No, sir.

Mr. PATMAN. Or Five?

Mr. MCCABE. No; I wouldn't think he was in that group.

Mr. PATMAN. Let's see, there would be General Motors, Ford, and Chrysler, and then the Kaiser-Frazer, and Studebaker, is that right?

Mr. MCCABE. Well, Hudson is in there.

Mr. PATMAN. Yes, Hudson.

Mr. MCCABE. I would like to say, sir, we have been in very, very close touch with the automobile manufacturers, the distributors, and all the interested groups that have either come to Washington to see us, or we have seen them in our various trips. Of course, the 12 Federal Reserve banks and the 24 branches who operate this regulation are in contact with a very broad section of the people in their district.

Mr. PATMAN. Now I will turn to just what you have mentioned there about the 12 Federal Reserve banks. Do you have coordination between these banks insofar as instructions to bank examiners are concerned? In other words, do you send out from Washington, D. C., from the Board of Governors of the Federal Reserve System, certain instructions that the examiners of these 12 banks must follow in examining the banks?

Mr. McCabe. Well, there are certain broad policies that are laid down.

Mr. Patman. With reference to loans, are you making any requests of these examiners now to caution the local bank with reference to any type loan; that is, a loan that should be called or should be looked upon with suspicion?

Mr. McCabe. Not to my knowledge.

Mr. Patman. In other words, you are not asking the examiners to tighten up on the local bank at all, or to restrict credit?

Mr. McCabe. You see, so far as the national banks go we take the examination reports of the Comptroller of the Currency.

Mr. Patman. But don't you take turn-about, you and the FDIC, in the control of the currency, in the examinations?

Mr. McCabe. Well, we from time to time have conferences with them, but in the main we accept the examination reports of the Comptroller of the Currency, and also in the main have complete confidence in his ability to properly administer his functions.

Mr. Patman. One other problem I want to ask you about and then I will be through. I think it is unwise for these corporations to retain so much of their profits and reserves, retained reserves, in other words. To be more specific, last year the corporations of the country, generally, earned about 35 billion dollars in profits, so we are told. After they paid their taxes they had about 20.7 billion dollars. Now, instead of paying their stockholders about 65 to 75 percent of that, as they had been doing in the past, especially before World War II, they only paid the stockholders about 35 percent of that amount; in other words, about a third, or $7,000,000,000, and they retained about two-thirds, or approximately $14,000,000,000.

Do you look upon that as a healthy thing for them to do, Mr. McCabe, or do you believe that they should pay out more to their stockholders?

Mr. McCabe. Well, it depends to some extent, Congressman Patman, on the needs of that corporation. If they are expanding fairly rapidly, then they do need a very substantial amount of reserves for expansion purposes. Of course, from the standpoint of financing a corporation—the particular ones I referred to, the ones that are expanding—they have not resorted to the capital market in this period the way they used to in the past.

Mr. Patman. Well, the capital market has dried up on that account, has it not? They used to pay out the earnings to the stockholders and the stockholders could invest either in little businesses for themselves, or in stocks.

Mr. McCabe. Yes.

Mr. Patman. But now, by the corporations' retaining these earnings, doesn't it dry up that capital market?

Mr. McCabe. Well, it is very difficult to generalize on that subject. You have to take a specific company.

Mr. Patman. Yes; but here it is across the board, every one of them have the same policy practically of retaining about two-thirds instead of paying out two-thirds.

Mr. McCabe. Well, in the company in which I was engaged we had an average of paying out a higher percentage than that because we enjoyed a very excellent standing in the capital market, and I think the company does today.

Mr. PATMAN. Now, when our committee sat in November or December, I believe it was, over on the Senate side, we had some testimony to the effect that these retained earnings had been used to some extent to buy out competitors. Now, you know that is bound to be unhealthy, that is, for the Government to permit a corporation to retain sufficient earnings to buy out competitors. That is bad for two reasons: One is that it lessens competition, and the other is that the Government is losing tax money, is that not right?

Mr. McCABE. In that particular instance; yes, sir.

Mr. PATMAN. I still think that situation with the stockholders is having a bad effect on our economy generally, and is destructive to small stockholders particularly. I think it is creating a monopoly, and I hope our tax laws can be changed to take care of that in the future.

Thank you, sir.

The CHAIRMAN. Congressman Herter.

Mr. HERTER. Mr. Chairman, I might begin with the observation that I understand why Mr. McCabe went to Dallas, Houston, and El Paso before coming here.

Mr. McCabe, the various means by which you control credit I think were characterized by Mr. Keyserling and Mr. Clark in earlier testimony as being the orthodox methods of handling swings of perhaps a minor character up and down in our economy, and the orthodox method of achieving stabilization is the principal matter we are studying here. At the same time we recommended, and there were recommended in the President's economic report, a number of what you might call unorthodox substitutes to your orthodox methods, or additions to it, in connection with fixing certain prices and the allocation of certain commodities. I was wondering if you would care to comment, in connection with your studies, on the over-all economic picture.

Mr. McCABE. Has any of that legislation reached the Congress, sir?

Mr. HERTER. No. The legislation in printed form, I do not believe, has reached the Congress. I think Secretary Brannan is in charge of coordinating the drafting of that.

Mr. McCABE. Unfortunately, I just got back to my office this morning and I have not had a chance to see any of that specific legislation.

Mr. HERTER. Perhaps you would not care to comment on that, but would you care to comment at all on that phase of our economy which seems to be entirely aside from the Reserve System and that has had to do with legislation in the past on the mortgage financing of various types of construction for veterans for various income groups, and so on, and for which there is a good deal more legislation now in the hopper.

Mr. McCABE. Well, during the last 2 years the Federal Reserve has expressed itself at times to the authorities here on the too rapid expansion of credit in the mortgage field.

Of course, quite naturally, being in the position that we are of trying to regulate credit, we naturally get alarmed if credit is extended too fast in any particular field.

I recognize, however, that there is another side to the picture. You have a social side to the picture which has to be weighed always against the so-called financial side. In any company you always have the policy of the treasurer of the company—who is always watching his dollars, the outflow of those dollars, and the conservation of those dollars—as against the public relations aspect of the business, the customer aspects of the business, and all of the other aspects of the business, which the president of the concern looks after.

I recognize you have to have balance in the Government between the so-called social aspects and the financial aspects of the problem.

For instance, in the housing field, I personally was in favor of the Taft-Ellender bill, I mean as a citizen. However, I recognized that from the standpoint of credit regulation, such a little bill would make the problem of the Federal Reserve more difficult, that is, if you should carry out a very large program.

Mr. HERTER. Let us assume that it is socially desirable to carry out a very large program. When Congress fixes interest rates for different types of construction, or fixed maximum rates, doesn't that really cross you up a little bit from the point of view of your own operations, both in volume and through the rates applied to that volume?

Mr. McCABE. Of course, we get strong complaints from the banking fraternity about the interest rates being too low. I think in that particular legislation to which you are referring the ultimate decision to fix that rate is up to the Secretary of the Treasury. I know that is so in certain phases of the housing legislation.

Mr. HERTER. It just occurred to me that perhaps we would be a lot more sensible if the orthodox method of handling these swings in our economy, from the point of view of the credit structure, were your responsibility; you ought to be given the full responsibility and not just a piece of it.

Mr. McCABE. Well, the thing we try to do in our area is to carry out what we think, first, is the mandate of the Congress.

The credit field is a broad one. We have supervision over banks. That is, there is a regulation of credit among the member banks and regulation of credit among consumers, but then you have other untouched fields insofar as the Federal Reserve is concerned.

I agree with you, sir, that if we could have more coordination I think it would be better.

Mr. HERTER. May I ask you just a question or two about the technical operations of the open market field?

You have no direct say under the law with regard to interest rates on Government securities; is that right?

Mr. McCABE. That is correct.

Mr. HERTER. On the other hand, you are required to pay, by agreement with the Treasury, the Government bond market, regardless of what kind of market there is at a given point; is that correct?

Mr. McCABE. Yes. The Federal Reserve, so far as its portfolio goes, has authority in that field to determine at what price it would buy Government securities, and at what price it would sell them. I could say in that connection, however, that there is very close coordination between the Federal Reserve and the Treasury.

Mr. HERTER. There is very close coordination on fixing the interest rate on short-term securities from time to time?

Mr. McCABE. Yes, the Treasury fixes those, and as a rule advises with us before they make any changes.

Mr. HERTER. In your testimony here, you refer to the fact that a slight increase in the interest rate on the short terms had led to a certain amount of individual investing in those particular bonds, and that that had a deflationary effect as such. What has happened, as far as the banks are concerned? They have been buying long-term from you quite recently, have they not, in large quantities?

Mr. McCABE. The banks are going out now on a pattern, as we call it. There has been shifting from the shorts to the longer maturities.

Mr. HERTER. What is the effect of that from the point of view of the over-all situation?

Mr. McCABE. Well, right at the present time I would say it is having no appreciable effect.

Mr. HERTER. Could it not actually lead to a more inflationary situation if credit demands increased?

Mr. McCABE. You mean the shifting from the shorts to the longs?

Mr. HERTER. Yes.

Mr. McCABE. There are circumstances in which this shifting does lead to an expansion of bank reserves, bank deposits, and bank credit generally. When this happens, the effect is, of course, inflationary. We do not think it is a desirable thing for the banks—that is, in normal times—to be shifting, say, from longs to shorts, and from shorts back into longs.

Mr. HERTER. But that will inevitably happen if they feel it is a desirable thing from the point of view of their portfolio?

Mr. McCABE. That is right.

Mr. HERTER. One other question. In the beginning of your testimony, I think you spoke with regard to your having entire adequate power to deal with any downswing in the curve, but that you wanted a renewal of the powers that have been given to you to take care of any further upswing that may take place. As far as the downswing is concerned, let us hope we do not have too acute a downswing, and you are convinced you have all the powers you need to be able to handle that, as far as the monetary picture is concerned?

Mr. McCABE. I think we have reasonable powers to handle that; yes.

Mr. HERTER. You are concerned, really, with the reserves, about which I gather there is some difference of opinion?

Mr. McCABE. Yes. We need elbow room, we think, to meet any situation that might occur.

Mr. HERTER. And the second is with regard to your consumer credit?

Mr. McCABE. Yes. We would like an extension of those powers.

Mr. HERTER. A continuation of that power?

Mr. McCABE. Yes.

Mr. HERTER. I notice you have been including in the consumer-credit chart the insured loans for repairs and remodeling, which I assume goes into the housing field.

Mr. McCABE. Yes.

Mr. HERTER. Of course, you have nothing in your chart whatever to show the mortgage field, whether insured or uninsured?

Mr. McCABE. That, of course, has been going up very fast. The mortgage debt, which stood at the end of the war at roughly $20,000,-

000,000, has gone up to $35,000,000,000. That is on 1- to 4-family nonfarm houses.

The other consumer debt has gone up from 6.6 billion at the end of 1945 to 16 billion. The total of all consumer debt has gone up from 26.6 billion to 51 billion.

Mr. HERTER. And yet the individual who takes out those mortgages is probably the same individual who is affected by Regulation W; is he not?

Mr. McCABE. Some of them.

Mr. HERTER. He is pretty much in the same income group?

Mr. McCABE. Yes, some of them.

Mr. HERTER. But he is pretty far extended from the point of view of the obligation he has undertaken on some of these mortgages; is he not?

Mr. McCABE. I find in certain areas that it is a pretty tough proposition for people in the low-income groups to purchase a house, furnish it, and then on top of that attempt to purchase an automobile.

Mr. HERTER. But getting back to my first premise, you have control in one case, but you have no control whatever in the second case?

Mr. McCABE. I think you have made a very good point there, sir.

Mr. HERTER. And the control in the second case, as shown by your own figures, is a measurably larger one than it is in the first case?

Mr. McCABE. That is right. I think that is something that might be considered in the future by the Congress. Congress created the National Advisory Council for the coordination of credit in the foreign field, and I think it has worked rather effectively. I think that sometime the Congress might give consideration to the same type of coordinated effort in the domestic field: that is, coordinating credit in the domestic field.

Mr. HERTER. I think there, Mr. Chairman, we may have hit on something. But if you will look through the legislation we have passed in recent years, where we have arbitrarily set interest rates, things of that kind have been done with very little relation to the previous legislation. There is a whole hodgepodge in the field.

The CHAIRMAN. I think one of the principal duties of this committee, if it can accomplish any of its duties, is to bring about general coordination on the whole economic front.

Mr. McCABE. That is right, sir.

The CHAIRMAN. This point you have been discussing with Congressman Herter, I think, is a most important one. For example, you have raised a very startling situation here in your comment about the increase of certain types of debt. If I recollect your statement correctly, mortgage debt has increased by $15 billion, from $20 billion to $35 billion.

Mr. McCABE. That is right, sir.

The CHAIRMAN. In what period?

Mr. McCABE. In the period from the end of 1945 to the end of 1948.

The CHAIRMAN. Another type of credit, consumer credit, has come from $6.7 billion to $16 billion?

Mr. McCABE. That is right, sir.

The CHAIRMAN. More than double.

Mr. PATMAN. In what period of time, Mr. Chairman?

Mr. McCABE. That is from the end of 1945 to 1948, a period of 3 years.

The CHAIRMAN. And the total consumer debt has jumped from 26 billion to 51 billion?

Mr. McCABE. That is right, sir, almost double.

The CHAIRMAN. In other words, the total consumer credit has almost doubled in the 3 years since the war?

Mr. McCABE. That is right.

The CHAIRMAN. Now, at the same time the national debt has been decreased scarcely any, except by the amount of the unexpended bond receipts, the $20,000,000,000, which was applied immediately when the shooting stopped—that is to say, we merely turned back money which had been borrowed.

Mr. McCABE. That is right.

The CHAIRMAN. And how much surplus has been applied to the national debt?

Mr. McCABE. Well, the budgetary surplus this last year, I think, was $8,000,000,000, and the year before it was $6,000,000,000.

The CHAIRMAN. Is it possible to make this rough comparison then: that the national debt has been reduced by about $14,000,000,000 in the period in which the total consumer credit has been increasing by $25,000,000,000?

Mr. McCABE. I can give you that exactly.

Mr. PATMAN. Mr. Chairman, I think it should be pointed out that consumer credit was not needed during the war. There was no need for it.

The CHAIRMAN. I am not arguing against that.

Mr. PATMAN. People had the money, and it is only when they need it and apply for it that they get it. Now, because they need it and apply for it, are you going to give it to them?

The CHAIRMAN. That is not my point. Let us get the facts, sir.

Mr. McCABE. You are approximately correct, sir.

The CHAIRMAN. In other words, there has been an increase of consumer debt by a much larger proportion than the national debt has been reduced.

Mr. McCABE. That is rignt.

The CHAIRMAN. That is percentage-wise and is also dollar-wise.

Mr. McCABE. Our people say that you are right, sir.

The CHAIRMAN. Very well, then. Everybody will agree, I suppose, including all the bankers, whether they sit on the Advisory Council or not, that increased national debt is inflation; will they not?

Mr. McCABE. I certainly would think so, sir.

The CHAIRMAN. There would be no dispute about that; would there?

Mr. McCABE. There is none in my mind.

The CHAIRMAN. Can you conceive of there being any dispute upon that subject?

Mr. McCABE. I would not think so, sir.

The CHAIRMAN. Then, is it not also true that the increase of private debt is inflation?

Mr. McCABE. Yes, sir.

The CHAIRMAN. And, if you are in an economic situation in which your national debt is not decreasing as rapidly as your private debt is increasing, can you reach any conclusion save that you are still in an inflationary period?

Mr. McCABE. That is right, that is correct. That is what I tried to say in the statement.

The CHAIRMAN. Of course, I tried to understand you, and I have been getting it through my head.

Mr. McCABE. You have done remarkably well, sir. I wish everybody had as clear an understanding as you have.

The CHAIRMAN. I hope the reporter does not fail to get that in the the record. [Laughter].

As Congressman Patman says, it is the same as deficit financing, and, of course, it is.

Now, may I ask you to turn to the chart entitled "Use of Installment Credit?

The CHAIRMAN. I think Congressman Patman might be interested in examining this chart. If I understand it, the last two columns under the year 1947 indicate that individuals receiving $5,000 a year and over of income, accounted for 14 percent of all income recipients.

Mr. McCABE. That is right.

The CHAIRMAN. And comprised 12 percent of all users of installment credit.

Mr. McCABE. That is right.

The CHAIRMAN. Those who were receiving from $3,000 to $5,000 constituted 27 percent of all spending units, and 35 percent of the number of installment debtors.

Mr. McCABE. That is right.

The CHAIRMAN. Then if you go to the next lower group, those who were in the bracket between $2,000 and $3,000, we find that they made up 23 percent of the total number of income receivers and accounted for 28 percent of the users of installment credit.

Mr. McCABE. That is right.

The CHAIRMAN. So we have the total that those receiving $2,000 and over in income constituted 64 percent of all spending units and they comprised 75 percent of all those using installment credit?

Mr. McCABE. That is right, sir.

The CHAIRMAN. Now, does that imply that people who were receiving less than $2,000 numbered only 25 percent of the users of installment credit?

Mr. McCABE. That is correct, sir.

The CHAIRMAN. Does not that describe the situation which works against those who are in the lower income brackets?

Mr. McCABE. Yes, sir, and those are the ones we are concerned about.

Mr. Chairman, if we should have a recession of any considerable magnitude at some time in the future, some of these people would be in a very tragic position, if they are loaded too heavily with debt.

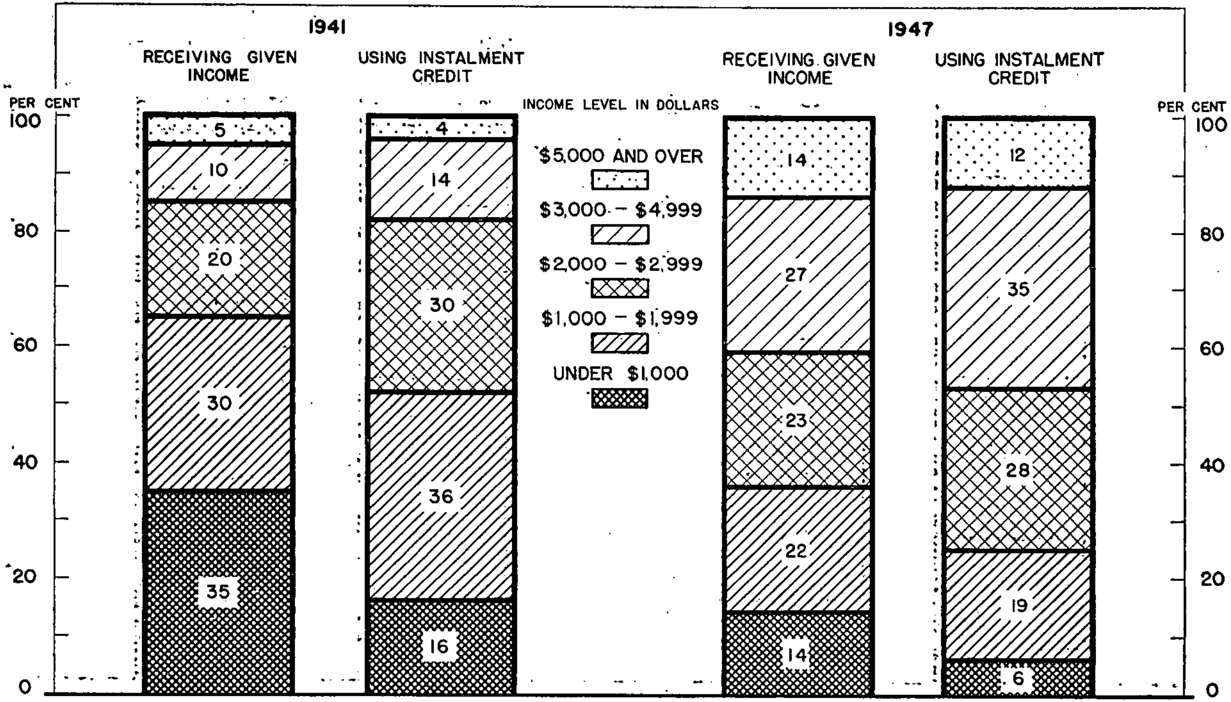
The CHAIRMAN. There are three statements in your prepared testimony to which I would like to invite your attention now, because to me they seem to be very important. The first, perhaps, is less important than the other two, but it still is very important.

You say:

> Never before in the history of this Nation has the banking system been in a stronger position.

USE OF INSTALMENT CREDIT

PERCENTAGE DISTRIBUTION OF SPENDING UNITS BY INCOME CLASSES



Is there any dispute about that?

Mr. McCABE. Well, there is not in my mind, sir. I am expressing that very strongly as my opinion. I think with the body politic today the banker and the banks are looked upon more favorably than at any time in my memory, and I think that is true with the Congress.

I feel also that the banks are in a wonderful liquid position. I feel they are in a most fortunate position at this particular time.

The CHAIRMAN. Now, you have just returned from an 8,000-mile trip through the country. You have been in contact with a number of bankers. How do they feel?

Mr. McCABE. I think in the main they feel they are in a very excellent position.

The CHAIRMAN. The other two statements of yours to which I wish to draw attention are as follows:

> Since the temporary authority has been used in part to require member banks to hold additional reserves, expiration of the power on June 30 would immediately release about $2,000,000,000 of reserves that could be used as a basis for manifold credit expansion.

How many fold?

Mr. McCABE. Well, six, that is, the $2,000,000,000 could be expanded into $12,000,000,000.

The CHAIRMAN. That could be 6 to 1, as in the other case?

Mr. McCABE. Yes; that is right.

The CHAIRMAN. Now, the third statement:

> Consumer instalment credit has risen since the end of the war from $2,000,000,000 to $8,000,000,000 at present.

That is an increase of $6,000,000,000, I say there, parenthetically. Then going back to your statement:

> This is an impressive increase, and has contributed to the heavy pressures of demand against available supplies of goods for purchase, which in turn have contributed to rising consumer prices. If these rates of increase in consumer debt were to continue, we would eventually, and perhaps before long, exhaust our cushion of consumer borrowing power and thus endanger our economic stability.

What in your opinion would be the effect, then, of the failure to have the authority, first, with respect to reserves, and, second, with respect to consumer instalment credit, in view of the very rapid rise of consumer credit as shown on these charts?

Mr. McCABE. Well, I will take consumer credit which you mentioned second. I feel this: It has been not only of tremendous benefit to the borrower, because I think it makes people much more cautious about going into debt, but also it has had a very, very excellent result in certain fields. I mentioned before the second-hand automobile field. We have a vital interest in that because that is a class of automobile which the people in the lower income brackets buy. There has been a very decided reduction in the price of second-hand automobiles.

Now, consumer credit has operated primarily in those fields where there has been a shortage of supply, that is, the demand has been greater than the supply. So that what we have done is to relieve some of that pressure in those particular fields because the greater the damand in the field of short supply, the higher, as a rule, the prices go. When you relieve that demand it works toward reducing the price in that particular field.

The CHAIRMAN. That is clear, but the point I am trying to present here is what, in your opinion—in the light of conditions as you have found them to exist—would be the release of these restraints upon bank credit and consumer credit?

Mr. McCABE. The release of both of these restraints at this time would be inflationary. I was going on to say that in the consumer field I think we ought to have that as a stand-by authority. The question for the Congress will be whether that is a permanent authority or, say, another temporary extension of authority. We are perfectly willing to leave that to the Congress to decide.

However, in my own judgment—and I believe this would be the feeling of the Board—it would be desirable as a permanent stand-by authority, because we meet these situations, Mr. Chairman, at intervals of time. That is, we have inflationary periods and we have deflationary periods. I think the Board ought to be clothed with such authority that it could step in at any time when we are in an inflationary spiral and put on this restriction.

The CHAIRMAN. I am trying to get it out of the realm of mere theory and into the realm of the facts that confront us. Now, for example, Secretary Snyder was here a few days ago. He talked about the desirability of maintaining a Treasury surplus. I do not think there is any dispute about the desirability of that condition.

Mr. McCABE. No, sir.

The CHAIRMAN. The Government ought to preserve a surplus. It ought to spend less than it takes in.

Mr. McCABE. That is right, sir.

The CHAIRMAN. If the circumstances in which it finds itself—national defense, the effort to organize the world peace movement, the Marshall plan, the payment of the interest upon the national debt, the care of veterans who suffered in the war—if by reason of those and other circumstances it must increase its expenditures, it likewise, must it not, increase its receipts, and if it does not increase its receipts, do we not run headlong into a most inflationary condition if, in such circumstances, private credit and bank credit should rise very rapidly?

Mr. McCABE. Yes. There must be some control and restriction on private credit, particularly when private credit has a tendency to rise too rapidly.

The CHAIRMAN. I assume from what you have said in response to some of the questions asked here today, that you are endorsing these powers not because you want to exercise them, but solely because of a desire to hold the general economy in balance?

Mr. McCABE. That is right, sir. I said at the end of my testimony, sir, that as a businessman coming to Washington in this particular position, naturally I do not reach out for power of this kind and I am not anxious to see the economy controlled any more than is absolutely necessary to control it.

But in these instances, I firmly believe both of these recommendations are sound, and that the Congress should grant them.

The CHAIRMAN. I was interested in the question Congressman Patman asked you about credit for small business. You referred to the authority of the Reserve banks to make so-called section 13b loans for working-capital purposes to business and industry, when other credit is unavailable to the borrowers.

Members of Congress are constantly receiving letters from those who desire to borrow, asking assistance in presenting their claims to the RFC. In your opinion, are the Reserve banks supporting the small businesses of the country adequately in the exercise of the section 13b powers?

Mr. McCabe. I would think so, sir. That certainly was my experience, very decidedly, in the 10 years that I was in Philadelphia. We were extremely sympathetic toward the problems of small business. Each bank has a committee of advisers—businessmen. Some of those men are from the area of small business who are very sympathetic to those problems.

The Chairman. Can you put some statistical information in the record on that point?

Mr. McCabe. Well, you see the point I make here is that we are restricted in that field, in that our loans are only for working capital.

The Chairman. Yes; I understand that, but I think it would be helpful for the committee if we did have a table showing the record with respect to these section 13b loans.

Mr. McCabe. We will be very glad to put that in the record, sir.

(The following statement and table were later submitted for the record:)

Statement on Industrial Loan Operations of the Federal Reserve Banks Under Section 13b of the Federal Reserve Act

From June 19, 1934, the effective date of section 13b, to December 31, 1948, the Federal Reserve banks had approved 3,607 applications for industrial loans and commitments to make or purchase loans in an aggregate amount of $615,-653,000. This amount includes the financing institutions' share of loans made in participation with Federal Reserve banks. It is estimated that about 80 percent of credit made available to borrowers under section 13b was extended with other financing institutions participating.

Of the 3,607 applications approved, advances were made or commitments executed by the Reserve banks on 2,661 loans in an aggregate amount of $528,794,000. The remainder were withdrawn by the applicants after approval by the Reserve bank or lapsed because of nonacceptance of conditions. About 15 percent of all applications received were regarded as ineligible under the limitations of section 13b of the Federal Reserve Act, the principal reason being that the loans were not for working capital purposes, as required.

There has been little demand for industrial loans and commitments in the last few years, and as of December 31, 1948, total loans and commitments outstanding under section 13b amounted to $4,628,000, including $1,990,000 participations of financing institutions. An additional amount of $335,000 in loans and commitments had been approved but not completed.

The following tabulation shows the disposition of applications for industrial loans and commitments approved to December 31, 1948.

Industrial loans by Federal Reserve banks, under sec. 13b of the Federal Reserve Act, June 19, 1934–December 31, 1948

[Amounts in thousands of dollars]

Date (last Wednesday or last day of year)	Applications approved to date		Approved but not completed [1] (amount)	Loans outstanding [2] (amount)	Commitments outstanding (amount)	Financing institution participations outstanding (amount)
	Number	Amount				
1934	984	49, 634	20, 966	13, 589	8, 225	1, 296
1935	1, 993	124, 493	11, 548	32, 493	27, 649	8, 778
1936	2, 280	139, 829	8, 226	25, 526	20, 959	7, 208
1937	2, 406	150, 987	3, 369	20, 216	12, 780	7, 238
1938	2, 653	175, 013	1, 946	17, 345	14, 161	12, 722
1939	2, 781	188, 222	2, 659	13, 683	9, 220	10, 981
1940	2, 908	212, 510	13, 954	9, 152	5, 226	6, 386
1941	3, 202	279, 860	8, 294	10, 337	14, 597	19, 600
1942	3, 423	408, 737	4, 248	14, 126	10, 661	17, 305
1943	3, 471	491, 342	926	10, 532	9, 270	17, 930
1944	3, 489	525, 532	1, 295	3, 894	4, 165	2, 706
1945	3, 511	544, 961	320	1, 995	1, 644	1, 086
1946	3, 542	565, 913	4, 577	554	8, 309	2, 670
1947	3, 574	586, 726	945	1, 387	7, 434	4, 869
1948	3, 607	615, 653	335	995	1, 643	1, 990

[1] Includes applications approved conditionally by the Federal Reserve banks and under consideration by applicant.

[2] Includes industrial loans past due 3 months or more, which are not included in industrial loans outstanding in weekly statement of condition of Federal Reserve banks.

NOTE.—The difference between amount of applications approved and the sum of the following 4 columns represents repayments of advances, and applications for loans and commitments withdrawn or expired.

The CHAIRMAN. Your paper stimulates questioning. I would like to keep you here all afternoon.

Mr. McCABE. That is all right, sir, I was delighted to come.

The CHAIRMAN. I do not propose to do that. If there are no other questions we will thank you very much for your appearance here, and particularly for having brought your advisers.

Mr. McCABE. Thank you, sir.

The CHAIRMAN. When the committee adjourns today it will cease its meeting for the present on the House side of the Capitol, with an expression of appreciation to the Members of the House for being permitted to occupy this room.

The Merchant Marine Committee of the House moves in here tomorrow, so we have to move to other and less adequate quarters. The meeting tomorrow will be held in the Interior Committee room in the Senate Office Building, room 224. Mr. Willard L. Thorp, Assistant Secretary of State for Economic Affairs, and Dr. John D. Clark, of the Council of Economic Advisers, will be the witnesses tomorrow.

The committee now stands in recess until 10 o'clock tomorrow morning in 224, Senate Office Building.

(Whereupon, at 4:45 p. m., the hearing adjourned until 10 a. m. of the next day, Tuesday, February 15, 1949.)

JANUARY 1949 ECONOMIC REPORT OF THE PRESIDENT

TUESDAY, FEBRUARY 15, 1949

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

The committee met, pursuant to adjournment, at 10:15 a. m., in room 224, Senate Office Building, Senator Joseph C. O'Mahoney (chairman) presiding.

Present: Senators O'Mahoney (chairman), Myers, and Watkins, and Representatives Hart (vice chairman), Buchanan, and Herter.

The CHAIRMAN. The committee will come to order.

Our witnesses this morning are the Assistant Secretary of State, Willard L. Thorp, and Dr. John D. Clark, of the Council of Economic Advisers.

The first statement will be made by Secretary Thorp. Mr. Secretary, you are ready to proceed?

Mr. THORP. Yes; I am.

The CHAIRMAN. The committee will be glad to hear you.

STATEMENT OF WILLARD L. THORP, ASSISTANT SECRETARY OF STATE FOR ECONOMIC AFFAIRS, ACCOMPANIED BY DALLAS W. DORT

Mr. THORP. Mr. Chairman and members of the committee, my name is Willard L. Thorp. I am Assistant Secretary of State for Economic Affairs. I was asked to comment to this committee on the relationship between domestic economic stability and international economic affairs. I have endeavored to concentrate into very brief form what seemed to me the fundamental considerations in connection with this matter. So, if I may, I would like to make a brief statement to the committee.

The CHAIRMAN. For the record, may I ask you to state briefly what your business connections were prior to your present service in the Department of State?

Mr. THORP. Prior to coming to the Department of State, I was director of economic research with Dun & Bradstreet, Inc., and then was a trustee in connection with the reorganization of Associated Gas & Electric Corp. That was the public utility holding company which had been developed by Howard Hobson. It was my duty as one of the trustees to carry on the operations of the system and to endeavor to put it back into a healthy financial condition.

The CHAIRMAN. You were associated with the trustees, and not with the original organization?

Mr. THORP. That is correct. I was a trustee.

The CHAIRMAN. You may proceed.

Mr. THORP. There is a very real relationship between domestic economic stability and international economic affairs. Although foreign outgo and income are never large in comparison with a country's domestic transactions, they can have serious inflationary or deflationary effects on the monetary side, and create shortages or surpluses in the commodity area. If the foreign aspects of our economy get badly out of kilter, they are a drag upon the whole operation. Or, conversely, unusually favorable foreign economic relationships can be a stimulating factor.

The CHAIRMAN. May I interrupt to ask you if you know the ratio, or care to mention the ratio, between the foreign transactions and domestic transactions?

Mr. THORP. For the United States this ratio varies from time to time. But it seldom has reached a point of as high as 10 percent. The ratio has been somewhat under 10 percent in the postwar period.

The CHAIRMAN. If foreign imports into the United States and exports from the United States in foreign trade are as much as 10 percent, that is high?

Mr. THORP. That is high.

The CHAIRMAN. Ten percent of the domestic; that is high?

Mr. THORP. That is high in terms of our habitual relationships.

The CHAIRMAN. You said a percentage of the domestic transactions, not a percentage of the whole? In other words, 10 percent of the domestic transactions would be somewhat different from 10 percent of the whole economic picture.

Mr. THORP. Yes; because the whole, of course, would be the domestic plus the foreign transactions.

The CHAIRMAN. That is right, so you want it clearly in the record that the high point would be 10 percent of the domestic?

Mr. THORP. That is correct.

For the United States, the significance of international transactions relative to the total is much less than for most countries. Nevertheless, one of the key questions which continually recurs as programs like the European recovery program are considered is, "Can we afford it? Will it upset our economy?"

It is not clear that 1947 was the year when foreign assistance programs were most disturbing to our economy, the peak of disequilibrium apparently being reached in the second quarter of that year. For 1947 as a whole, the United States reached a new peacetime high in the export of goods and services of 19.8 billion dollars. Since imports were 8.5 billion dollars, the excess of exports which was met by grants, loans, gold purchase, and the like was 11.3 billion dollars. In 1948, the exports declined by 3 billion dollars to 16.8 billion dollars. At the same time, imports increased 1.8 billion dollars so the excess of exports was cut to 6.5 billion dollars. In fact, the excess of exports over imports is much less than had been generally expected, and the inflationary pressure upon our economy from this source has been markedly reduced.

But even though the broad effect may not be disturbing, the impact of foreign buying is not spread evenly over our economy, and another fear frequently expressed was that serious shortages would be created in the markets for certain commodities. This, of course, works both ways. We need the foreign markets to support the producers of tobacco and cotton, for example. Actually, the record has been reported in detail by ECA and it is to the effect that the commodity structure has not been seriously deranged, thanks in large part to the operation of export controls over the critical uses of so-called scarce commodities. It is clear that the supply structure for many of the commodities which were in short supply a year ago has greatly improved, and so far as many particular cases are concerned the foreign demand may now be a helpful factor rather than a threat to domestic stability.

The most important aspect of programs such as the ERP to our domestic stability lies in the fact that improved world economic conditions will open the way to achieving a balance in our international transactions without Government intervention or extraordinary financial assistance. This will be facilitated if developments are such as to foster the resumption of the flow of private investment. It should be noted that there are many elements involved in obtaining this result. In fact, the future pattern of our economic foreign relations depends basically upon the success of the effort to achieve European recovery, the extent to which progress can be made in dealing with the condition of underdevelopment in other areas, the degree to which trade barriers can be reduced, and the extent to which the flow of private investment can be resumed. Above all, of course, is the problem of security and order. Economic progress cannot be expected in areas disturbed by political and civil disorder.

Some question has been raised as to the effect of the European recovery program on our future foreign trade. In order to become self-supporting, western Europe will have to export in greater quantities than it did before the war. This is the result of the fact that its population is greater than before the war and that it has lost a large part of its overseas investments, the earnings of which had provided the means for paying for essential imports into Europe. However, on the absence of European recovery, or of substantial continued financial assistance from the United States, the European countries themselves would be unable to continue a high level of imports from the United States. With European recovery, on the other hand, it seems reasonable to assume that with the exception of some specific items like coal which we are now supplying but for which we are not an economic source, our exports should continue at high levels to Europe.

In order to provide the economic development which they desire for a rising standard of living, the countries of Latin America and Asia and other parts of the world also will have need for large amounts of machinery, equipment, and other products. There will undoubtedly be severe competition between American and European firms for these markets. Nevertheless, provided they are able to obtain the necessary dollars to buy these items these areas should absorb large quantities of our exports.

There is reason for some optimism with respect to their ability to obtain dollar exchange. If our imports are maintained—and they have been rising, 7.1 billion dollars in 1946, 8.5 billion dollars in 1947, and 10.3 billion dollars in 1948—and if a reasonable amount of foreign investment takes place, the means of financing our exports at reasonably high levels will be available. Our imports at the present moment amount to only 4 percent of our gross national production of $253,000,000,000, and our economy increasingly needs certain imported goods, especially minerals and other raw materials. I have been talking about the effect of our foreign economic relations on the domestic economy. It is also important to note that our domestic stability is of great importance to the rest of the world. In 1948, foreign countries financed 10.3 billion dollars of their purchases from us out of their exports to the United States. Their purchases were goods which they greatly needed. Any recession in our economic activity would be quickly reflected in reduced purchases on their part, thus curtailing their ability to pay for our products. In many instances there are no alternative markets to which they can go. The impact of a decline in our purchases of imports on the process of world recovery would be most serious. Any inflation in this country would likewise have reprecussions abroad by increasing the cost of our products to foreign purchasers. This could seriously limit their ability to finance necessary purchases from us without additional United States assistance.

There would be an even greater impact in the intangible area of international relationships and influence. The United States is by far the greatest economic power in the world. We have a dynamic economic system which has demonstrated its efficiency and capacity. But along with its capacity for growth and accomplishment, it has from time to time in the past been subject to severe depressions. Our friends live in fear and our enemies in hope that a depression is just around the corner. To be sure, it would be a sign of stagnation if all our statistical charts showed no ups and downs, for a growing economy, an inventive people, will always have to make readjustments. The problem is to maintain a level of stability which permits of adjustments but not of severe recession. I believe that this is a problem which can be solved, and that we are demonstrating our capacity to do it. The necessity for domestic stability, in the broad sense, is given even more importance because of our position in world affairs.

The CHAIRMAN. Your closing statement was [reading]:

> I believe that this is a problem which can be solved, and that we are demonstrating our capacity to do it.

I am sure the committee would be very much interested in an amplification of that statement. How can it be solved, in your opinion?

Mr. THORP. I wish I could answer that for the committee. This statement is because of the fact that I think this problem has now been one on which people both within the Government and outside the Government have been concerning themselves for at least the last 15 years. The techniques have been continuously explored. We have new procedures, for example, the establishment of the Council of Economic Advisers, and the establishment of this committee. I have faith in the capacity of the people who are working on this problem to find ways of mitigating the influences which have created depressions in the past.

I have not been working on the problem myself for some years. I suggest that the search for ways to do it should be addressed to the Council of Economics Advisers.

The CHAIRMAN. That is a very pious hope, certainly. Well, of course, one part of the problem, and only one, is the international trade and the policies which are being followed by this Government under the authority of Congress and administered by the State Department. Yet this part constitutes a very important section of the whole.

When you testified at the outset that foreign trade consists of less than 10 percent of domestic trade, the inference to be drawn from that was that perhaps it might not have a very great economic influence, though it would have a great political impact upon the whole if foreign trade were cut off and isolationism were established. Nevertheless, there has been considerable fear expressed that the exports of the United States which go by way of grant and loan, with the word loan sometimes in quotes, will throw a burden upon our economy that would throw the domestic economy out of balance.

That leads me to point out the sentence that you used on page 2, in the second paragraph down toward the bottom [reading]:

Actually the record has been reported in detail by ECA, and it is to the effect that the commodity structure has not been seriously deranged, thanks in large part to the operation of export controls over the critical uses of so-called scarce commodities.

I think it would be a proper question, therefore, to ask you to discuss the degree of derangement. Serious derangement is one thing; a derangement which is not so serious is another. What do you have to say about that?

Mr. THORP. There undoubtedly have been certain commodities in which a choice between competing requirements had to be made, because the domestic demand was sufficient to absorb the full supply that was available. I had in mind in making this comment the fact that those choices were made with great care. There were detailed hearings in connection with the recovery program and in some cases the Congress set some limits, as, for example, in the case of agricultural machinery, as to how much might be exported in connection with the program.

I think there is no question but that, in the case of steel, in the case of fertilizer, in the case of agricultural machinery, and probably a number of other items, the exports have been of quantities which could have been consumed in the domestic market.

The choice was made that it was important to contribute to European recovery. The problem in a sense is whether the last items in the United States would be more important to our economy than these limited quantities which might go to foreign countries. This has been a matter of continual observation, particularly through the export-control program.

I think that the balance has been kept so that the impact of the domestic economy has not been serious. But it was necessary to maintain controls in order to protect the domestic requirements.

It is important to realize that this problem was at its most serious point a year ago. I think that from here on the threats to our economy from this type of situation will be greatly reduced.

The CHAIRMAN. The Congress is now, of course, considering the ECA program. A new appropriation, a budget estimate, has been submitted. There was some suggestion on the part of some members of Congress that conditions had improved to such an extent in Europe that this appropriation might be reduced. That thought was contemplated by other members of Congress. The Foreign Relations Committee of the Senate is currently holding hearings upon that very subject. I am curious to have your view, as the Assistant Secretary of State for Economic Affairs, as to how we may determine when the dependence of Europe on loans and grants begins to diminish and disappear, and the demand for United States exports begins to appear and grow upon the basis of the capacity of the people of Europe to get dollar exchange in the normal processes of trade.

Mr. THORP. You have put your finger on just what we are striving for. The objective of the recovery program is to achieve the point where the extraordinary financing is no longer necessary.

A great deal of progress was made in Europe in the first year. But that does not mean necessarily that the requirements for the second year are less vital. It is a little bit like building a house where you make very good progress in laying the foundation. You would hardly say, "Well, now, we have such a good foundation we can take it easy with respect to building the first floor of this house."

During this first year a great deal of momentum has developed toward recovery. The second year will contribute much more than the first to recovery, because in the first year so much had to be done in the way of food and the essentials which were necessary, but which did not increase the productive capacity.

Somewhere around the end of this next year we ought to begin to see the results of a new productive capacity, which the participating countries have themselves produced and which they have gotten from us. The gap between imports and exports should narrow substantially

The CHAIRMAN. But the gap is still there?

Mr. THORP. The gap is still there as of this next year, that is correct.

The CHAIRMAN. Well, what would happen to the domestic economy if the ECA program were to be cut off? Of course, there is no danger of it being cut off, and I am just asking that as a question to develop the points at issue

Mr. THORP. If we cut off our assistance to Europe we would then, I think, postpone or perhaps make virtually impossible, within the near future, a full European recovery. Therefore, the demand for American goods would be reduced probably even more than by the amount of our reduced assistance, because our assistance in turn helps them to produce goods which they can send to us, thereby acquiring dollars with which to make purchases from us.

That reduction, I think, would have quite serious impacts on some areas of the American economy, the areas which are particularly adjusted to exporting. I mentioned tobacco and cotton. There are other areas, too, machine tools, for example, where they count on a substantial foreign market.

The impact on our own economy would start in these key points and then would tend to spread through the total economy.

The immediate effect of that influence I think is very clear. In the total picture you would have to balance that up against many other influences that would be in operation over a given period of time.

The CHAIRMAN. Now you say [reading]:

as far as many particular cases are concerned foreign demand may now be a helpful factor, rather than a threat to domestic stability.

That I understand to be an expression of opinion that the foreign demand which is being built up is a normal demand by which the foreign payment would be made in the normal manner for American exports.

Mr. THORP. That is correct.

The CHAIRMAN. Now, to what extent is that developing?

Mr. THORP. Do you mean is that developing as of now?

The CHAIRMAN. Yes; and what are the particular cases that you had in mind by which the European capacity to produce may be helpful to our economy?

Mr. THORP. Perhaps I misunderstood your earlier question. I was thinking in this case of the effect on certain commodities which a year ago were in short supply and as to which there was some feeling that it would damage our domestic economy if we exported them, but where now the domestic situation has developed in such a way that these industries which normally do export are eager to maintain their exports. I was not referring particularly to the basis on which they were maintained. They would be maintained in the immediate future, in part, by Government grants. But in later years if this program is effective they would be maintained by the normal process of payment—I think the machine-tool industry is an illustration of this kind.

The CHAIRMAN. In the next paragraph you state [reading]:

> The most important aspect of programs such as the European recovery program to our domestic stability lies in the fact that improved world economic conditions—

and this is the part of the sentence to which I wish to call attention—

> will open the way to achieving a balance in our international transactions without governmental intervention or extraordinary financial assistance.

That means, I take it, that the objective of State Department policy, that is to say, of Government policy, is to reduce the area of Government intervention and Government financial assistance to the minimum?

Mr. THORP. That is correct.

The CHAIRMAN. To what extent are we on the road?

Mr. THORP. I think our programs are definitely directed at that end. I do not regard the European recovery program as a program which implies in any way continuing Government support for a substantial period of time. It was set up as a program to achieve a normal balance in 4 years. I still think it is quite possible for that goal to be met with respect to most of the countries. There are certain specific countries with such serious problems that it may take them a somewhat longer period of time.

But even then it does not necessarily follow that circumstances as of that time will require extraordinary Government assistance.

I think our programs are definitely going in this direction. It is virtually impossible to forecast the moment at which this point will be reached.

The CHAIRMAN. Is this development so satisfactory and is this percentage of our domestic transactions so small that we can afford to adopt our Government economic policy with respect to domestic transactions, without regard to the foreign situation and the foreign policy?

Mr. THORP. No; I did not intend to imply that in any way. One cannot separate out or disregard our international economic relations. I do think that it has as great an effect on our domestic economy as such items as private investment in the United States, wage levels, and price levels. These are factors which as single factors have a bearing perhaps in a greater dimension, but that does not mean that this factor is unimportant. There are some other reasons, as I tried to indicate, which are less tangible reasons as to why this factor is of special importance. We are in a world now in which our involvement is of many types and the extent to which our leadership is recognized is related in substantial degree to our own domestic economic situation.

The CHAIRMAN. May I ask you to what extent, in your opinion, the purchasing power of the European economy has been restored?

Mr. THORP. Purchasing power, of course, has two aspects. I am not sure whether you are asking about their ability to buy outside of Europe, or the purchasing power within the countries.

The CHAIRMAN. Oh, no; I meant outside of Europe. I am thinking of the relationship between the restoring or rehabilitating of the European economy, and our own. You have testified here [reading]:

> With European recovery on the other hand, it seems reasonable to assume that with the exception of some specific items like coal, which we are now supplying, but for which we are not an economic source, our exports should continue at high levels to Europe.

What proportion of those high levels of exports will be financed by European purchasing power, rather than by loans and grants from us?

Mr. THORP. I would contemplate that they would be financed entirely by European purchasing power, plus whatever normal flow of capital there was that might go into Europe. But in this case I am not talking about Government loans; I am talking rather of the flow of private capital or through agencies like the International Bank, or our own ordinary financing of exports through the Export-Import Bank.

I am thinking here in terms of the very real probability that these programs will lead to a situation in which the kind of thing involved in the European recovery program—special appropriations, and so forth—will no longer be necessary.

The CHAIRMAN. But you do not see that on the over-all side within 4 years?

Mr. THORP. No.

The CHAIRMAN. As to the steps which the Government of the United States should take with respect to the domestic economy, that problem you leave in our laps?

Mr. THORP. Yes, sir.

The CHAIRMAN. Congressman Hart.

Mr. HART. Mr. Thorp, when we speak here of European recovery, we of course mean western European recovery?

Mr. THORP. That is right.

Mr. HART. Before the absorption or swallowing up by the Soviet of the countries behind the iron curtain there was a general interchange of trade between eastern and western European countries, was there not?

Mr. THORP. That is right.

Mr. HART. Well, can full western European recovery be achieved if there is not a continuation of that interchange of trade between the two sections of Europe?

Mr. THORP. That trade is a natural economic operation. There are things in eastern Europe such as wheat from the Danube Basin, timber, coal from Poland, and other things which represent natural sources of supply for these items for western Europe. Trade is going between eastern and western Europe. I am afraid I do not know the figures, but it is a very substantial volume of trade.

Mr. HART. But it is not the full interchange of trade?

Mr. THORP. It does not come back to the prewar interchange.

Mr. HART. Do you expect that it will; do you expect that there will be free trading—I do not mean that in the technical sense—between the countries now controlled by the Soviet and the western countries?

Mr. THORP. Well, all the evidences at the present time are for expansion in that trade on the basis of very carefully negotiated bilateral trade agreements. There is a very complicated and elaborate network of trade agreements on the basis of which goods are flowing back and forth between eastern and western Europe.

Mr. HART. Well, will the end effect of the aid that we are extending to western Europe be to bolster up economically the countries behind the iron curtain, by virtue of enabling the western European countries to again engage in free trade with those countries? Is that what we are seeking?

Mr. THORP. No; that is by no means an objective of our policy. The problem here is a problem of whether one wants recovery in western Europe and what is necessary to achieve it. If one does try to develop trade in noneconomic channels the process of recovery is that much more difficult.

We have not looked with a critical eye on the development of this trade as it is going on, because it is one of the important elements in the recovery of western Europe.

Trade is presumably something which benefits both sides. I would say that this trade is of benefit to eastern Europe, and it is also a benefit to western Europe.

Mr. HART. Well, then, regardless of what the objective of State Department policy is, the result will be that in time it will build up and make strong economically and financially the countries that are now dominated by the Soviet in eastern Europe?

Mr. THORP. Well, this is hard to value in terms of the effect of trading with those countries. If you did not trade with them you would have a greater delay in the building up of strength in western Europe. It is a relative matter as between these two areas. Our objective has been to achieve western European recovery just as quickly as possible.

Mr. HART. Well, the United States does not deal directly, generally speaking, with these eastern countries in the matter of trade, does it?

Mr. THORP. We carry on trade with them. This is subject to export controls administered by the Secretary of Commerce. Our trade with these areas is substantially less than it has been in recent years.

Mr. HART. And that is an objective of the State Department, that it should be less, and only such trade as is necessary for our own welfare should be carried on between ourselves and the eastern European countries?

Mr. THORP. Our objective in connection with the export controls has been to consider it case by case and situation by situation. There certainly has been a reduction in the volume of trade.

Mr. HART. Does not the United States exercise some care with respect to the trade between western European and eastern European countries? Also the matter of prohibition against reexporting to eastern Europe goods obtained through the aid afforded by the United States to western Europe?

Mr. THORP. In the legislation which set up the European Recovery Administration, the Administrator was directed not to give assistance to European countries which would be used in the production of commodities which we would not license for export from the United States. So through that device you have an extension of American policy into the exports of western European countries.

Mr. HART. Of course that policy will be spent with the expiration of legislation providing for the European recovery program. At that time, when the western European countries have been built up to a strong position economically, they will be then in a position to deal as they please with eastern Europe and to carry on trade, insofar as the Soviet will permit trade to be carried on, as trade was carried on before these countries became subjects of the Soviet.

Mr. THORP. That is correct. But I think it is important to realize that the western European countries are not entirely dependent upon the United States in determining matters of policy. From time to time when western European countries may arrive in their own way and in their own judgment at policies parallel to American policies, it may be interpreted that this has been brought about by the United States.

However, the fact is that you have governments who are well aware of the political problems in the world and who are concerned about them just as we are concerned about them. I am not sure that one can necessarily, therefore, predict that at the end of the European recovery program they might not have policies similar to ours.

Mr. HART. Then getting back to my original question: Can the western European countries achieve full economy recovery without indulging in free interchange with the countries of eastern Europe?

Mr. THORP. I don't quite know what you mean by "free interchange"?

Mr. HART. I mean trading in the ordinary course of events, such as was the situation before these countries were swallowed up by the Soviet.

Mr. THORP. I think trading with eastern Europe is one of the elements that makes their recovery much easier.

Mr. HART. But you do not think it necessary for full recovery that they should carry on unrestricted trade with eastern Europe?

Mr. THORP. I think one would have to answer that in terms of alternative sources of supply and what the cost would be that would be involved if they determined to try to shift their sources to other places.

Mr. HART. Well, will the threatened absorption of China by the Soviet tend to diminish the alternate sources of supply?

Mr. THORP. I don't think that has very much bearing, because there never has been a large volume of goods flowing from China to western Europe.

Mr. HART. Isn't that because China is largely undeveloped economically?

Mr. THORP. That is correct.

Mr. HART. So that it would probably be an alternate source of supply if the country were properly developed?

Mr. THORP. Well, there are many underdeveloped areas which can become sources of supply and which can contribute to the general expansion of trade throughout the world.

It is important, I think, that in connection with European recovery we not focus exclusively on European recovery. I think your point is valid: That European recovery is related to the development of other areas. Such development would facilitate an expansion of trade with the European countries.

The CHAIRMAN. Congressman Buchanan.

Mr. BUCHANAN. Looking to the immediate period of the next 3 or 4 years and the continued problem of exports over imports which is the situation at the present time and was in 1947 and 1948, but is reducing itself, what is the State Department doing relative to the future period when we will have a reversal of that policy and it will be necessary to take more in the way of imports over exports? What kind of an atmosphere are we developing here in this country looking to that future potential?

Mr. THORP. Toward the increase of imports into the United States?

Mr. BUCHANAN. An excess of imports over exports, assuming that this present period may go on for 3 or 4 years. It certainly cannot go on forever with us being the creditor nation.

Mr. THORP. In the long run, to work out this situation on an economic basis, we will have to become a country in which our imports are greater relative to our exports. This is, of course, related to the extent to which there is a continuing flow of capital abroad, but sooner or later that catches up with you and at some time in the future the payment of interest on that capital loaned abroad itself leads to the necessity of greater imports.

Now, as far as the State Department's operations in this field are concerned, I think the most important thing is the negotiation of reciprocal-trade agreements, a process through which barriers to trade, including tariffs into the United States and tariffs into foreign countries, are reduced on a bargaining basis. This has some bearing, I would think, on the volume of imports that could come into the United States.

We are also very much concerned with the problem of many raw materials in which the American supply has been seriously affected, things like lead and zinc, for instance, where the war quite changed our situation because of the tremendous usage during that period.

Through the European recovery program and in other ways we are trying to encourage the development of new sources of supplies in other areas, which can in turn provide imports into the United States, because we foresee with regard to quite a number of items a very real problem for us in the future unless we can begin to increase imports of these items.

Mr. BUCHANAN. Manganese, for example?

Mr. THORP. Manganese is something for which we are dependent on foreign supply. We have been doing what we could for some time to encourage the development of manganese in various other areas.

The CHAIRMAN. Senator Myers.

Senator MYERS. Would you discuss very briefly, Mr. Thorp, the effect upon our foreign trade of the reciprocal trade program and whether or not in your view any changes are needed in the present law?

Mr. THORP. We have a fundamental belief that while one can proceed through such things as the recovery program in an effort to get the world back into balance, if it is to be continued as a healthy situation it is necessary that trade be able to flow without any substantial amount of arbitrary interference by governments.

The reciprocal trade agreements program has been a way in which this Government, for virtually 15 years, has been endeavoring to clear away some of these interferences to the flow of goods back and forth.

Now, in terms of the present law the difficulties which we feel with respect to it are that, as now set up, one of the most expert groups in the Government on these problems has to operate independently of the rest of the executive branch of the Government.

So, in developing plans for negotiating a new trade agreement and in connection with the process of negotiation itself, the present law holds the Tariff Commission as a separate agency which cannot advise the rest of the Government but which advises the President. When he makes a determination as to the limits for negotiation he then has before him a study prepared by the Tariff Commission and a study prepared by the remainder of the Government.

It is the belief of the State Department—and I have so testified before the House and expect to testify before a Senate committee on Thursday—that there is a very real loss in efficiency and wisdom by not including the Tariff Commission in the group which carries out this program. That is the chief suggestion we are making with respect to modifying the law as it is on the books at the moment.

I might say also that we are asking its extension for 3 years instead of 1 year, the time it was extended by the last Congress, because that is historically the length of time for such an extention. Also because we have felt we did not even want to suggest to other countries that our foreign policy was on a day-to-day or even a year-to-year basis, with respect to a matter of this kind.

Senator MYERS. I take it then it is your opinion that after some economic stability has been obtained in Europe through our present ERP or ECA, then the reciprocal trade program becomes one of the cornerstones of our whole foreign trade?

Mr. THORP. That is right. There are two or three fundamental conditions necessary for trade to be carried on an economic basis. One has to do with trade barriers and the other has to do with foreign-exchange rates. The foreign-exchange problem is a problem which, in our new structure of international organizations, would be under the jurisdiction of the International Monetary Fund. It is a fundamental requirement for trade expansion that there be some stability in foreign-exchange operations.

Senator MYERS. Do you believe that recovery in western Europe or stability in western Europe can be maintained after the ECA program has been completed, if trade barriers continue in that area or if further barriers are erected in that area?

Mr. THORP. I think the reduction or elimination of trade barriers is very important. In the recovery program that is clearly set up as one of the objectives of the program. And in the agreement which the European countries have entered into among themselves—to which we are not a party—they have set up as one of the objectives of their own organization the reduction of trade barriers, not only among themselves but between themselves and other countries.

Senator MYERS. Has the present act stimulated or deterred the negotiation of agreements under the Reciprocal Trade Agreement Act?

Mr. THORP. I do not think I can answer that categorically. We have been trying to work as well as we can within the limits of the act as it exists.

My position is that we cannot work as wisely or as efficiently under the present arrangements as under the arrangements which existed in the past. We have proceeded, however, and, in fact, negotiations are set up with a number of countries to start in April. Those arrangements were set up many months ago.

Senator MYERS. When does the present act expire?

Mr. THORP. It expires sometime in June of this year, I think June 30 of this year.

Senator MYERS. I take it then with an expiration date facing you each year you cannot work as efficiently as you might if you had a 2- or 3-year period within which to work?

Mr. THORP. Well, that is part of it. I think it also makes other countries hesitate to go through all the difficulty of working out negotiations and so forth, if the United States policy is not clear.

Senator MYERS. Therefore, year-to-year extension makes negotiations with other countries much more difficult?

Mr. THORP. That is right.

Senator MYERS. That is all, Mr. Chairman.

The CHAIRMAN. Congressman Herter.

Mr. HERTER. During the course of the testimony before this committee one of the soft spots, or temporary soft spots, that showed up was in the textile field, particularly in the woolen situation. You have just been mentioning some of the barriers to trade. One of the difficulties is the currency obstruction. I am told that the American merchants, the American mills trying to buy Australian wool, are forced to buy at the official rate of $4.05, or whatever it may be, but on the other hand competing countries buying at the auctions in Australia are buying their sterling in the so-called free sterling market at around $3.05. As a result they have been driving prices up and up in Australia to a point where the American cannot buy at all. We are practically excluded because we are shut out of the free sterling area, whereas other countries are not.

In view of the softness of the textile situation I am wondering if you can tell us just what is being done in an effort to correct that situation?

Mr. THORP. I am really not sure that I could tell you anything that would be helpful. You know much more about the wool situation than I do, I am sure.

Mr. HERTER. The same thing is developing in hides.

Mr. THORP. The problem you refer to is a problem which arises out of the fact that there are varying exchange rates in existence. There are the official rates and then there are other rates, oftentimes open and recognized, but not official rates. I have no doubt that individuals are able to get foreign currencies at varying prices, according to the channels through which they are willing to go.

It has seemed to us that this problem basically was related to the problems of the countries getting themselves back in a condition of financial stability, so that the official rate would correspond to the realities. Then you would not have these alternatives in existence.

That does not answer the immediate situation and I am not familiar with the situation you have outlined.

Mr. HERTER. I think what has happened is that we have agreed with the British that we would respect the official rate, and I believe we have had the cooperation of our banks and so on in this respect. But there seemed to be no other such agreement elsewhere. The Australians themselves would be willing to sell us sterling at the lower rate but because of these agreements they are unable to do so. Hence, the Dutch, the Russians, and others are in that market in a very big way with much cheaper sterling.

I think it is mitigating very seriously against us when two-thirds of all the wool we are using in this country today has to come from external sources.

The CHAIRMAN. Congressman Herter, is it not also a fact that Russia is bidding for that Australian wool and is using British sterling for the purchase, whereas we cannot?

Mr. HERTER. Well, we can use sterling but we have to pay high for the sterling. They are buying sterling on the so-called free market at a very large discount over ourselves. It seems to me to be a fairly important factor for at least one segment of our economy.

The other question I wanted to ask you about, and which seemed a mysterious one, was the pegging of premiums on gold in various countries of the world. I take it that both Canada and South Africa today are paying a subsidy on the mining of gold, a subsidy which brings the internal price above the world price at which we are purchasing gold from wherever it is offered. Is that an advantageous thing, for us to have more gold mined in Africa and in Canada than we can absorb and put under the ground?

Mr. THORP. I think the answer to that is very clear. The gold picture seems to be moving in two directions. There is the situation you describe where there may be subsidies in the producing countries. Then there is the premium sale with respect to gold which is for noncurrency purposes, when an attempt is made to distinguish between gold which may go into currency use and gold which may go into gold teeth, industrial uses, and so on.

This is a problem with which I know the International Monetary Fund is very much concerned. From our point of view it certainly is undesirable to have methods develop which expand the production of gold through subsidies as a way of getting dollars. That, after all, is what it comes down to—the gold is of significance primarily because it is a way of getting dollars.

Mr. HERTER. You would not want to comment generally on our gold policy in relation to international trade?

Mr. THORP. I think I would prefer not to.

The CHAIRMAN. Senator Watkins.

Senator WATKINS. I am sorry I was not in here earlier to have heard the statement by Mr. Thorp, but there was a question raised by Congressman Hart, I think, which might be pursued a little further.

Recently I read a report that Great Britain had entered into a trade agreement with Poland involving about $600,000,000. Could you give us any light on what is covered by that agreement, what commodities, for instance, are going to be exchanged?

Mr. THORP. I could supply you with that. I do not have it in my head but I would be glad to supply you with the character of the agreement.

Senator WATKINS. Do you know whether or not it involves the sending and shipping of steel products to Poland by Great Britain?

Mr. THORP. I do not know in exact detail but I presume that it does.

Senator WATKINS. Would that be, in your judgment, in harmony with the European recovery program?

Mr. THORP. I think that depends to a great extent on what they get from Poland in exchange—whether or not they are getting in exchange from Poland things that are exceedingly important to them and which might be difficult for us to supply.

Senator WATKINS. As I understand it at least a part of the money and the resources they are using to enable them to carry out their part of the agreement, comes from the ECA funds. Am I correct in that?

Mr. THORP. I just do not know on that.

Senator WATKINS. I remember that during the debate in the Senate on the matter of helping these countries which would enter into agreements such as this with satellites of Russia, it was stated by the proponents of the program that if the United States or any of its officials furthered or aided that program they would almost be guilty of treason. I mention that because it seemed to be of great importance at that particular time.

I am wondering what the position of our Government is, and particularly the State Department, with respect to treaties of this kind between Great Britain and satellites of Russia, or Russia itself. I understand there are also trade agreements between Great Britain and Russia at the present time.

Mr. THORP. We have no objection to there being trade arrangements. Our interest and concern is in the character of the goods moving in both directions. It seems to us that that is where one has to look to make a judgment as to whether the exchange is a desirable or undesirable exchange.

Senator WATKINS. Is there a close coordination with your Department, for instance, and the defense set-up of this country as to what would be proper for those countries to exchange?

Mr. THORP. We coordinate with them in developing our views. This comes back, of course, to the same kind of studies that are necessary in connection with the operation of our own export controls, where the Military Establishment takes a very active part.

Senator WATKINS. Does the State Department have anything to do with our export controls?

Mr. THORP. Yes.

Senator WATKINS. I understood that was largely in the hands of the Commerce Department.

Mr. THORP. The authority is given to the Secretary of Commerce. He has an advisory committee on which the State Department has a member.

Senator WATKINS. Does that have anything to do with the particular field that you are connected with in the State Department?

Mr. THORP. Yes, it does.

Senator WATKINS. Now, for instance, on this shipping of steel or steel products to satellites of Russia, which of course might eventually be building up the war potential of that bloc of nations, what is the attitude of the State Department with respect to the shipping of steel or the export of steel to these countries which in turn reship either that steel or something made by reason of the steel they get from here—what is the attitude with respect to that?

Mr. THORP. The attitude with respect to our export controls is that shipments to eastern Europe should be considered in terms of the particular commodities involved and whether or not the various agencies of the Government—of which the State Department is one and the National Military Establishment is another—feel that they do represent items which contribute to the war potential of the eastern European countries.

Senator WATKINS. Well, that is taken into consideration.

Do you know whether or not there has been any objection to the shipment of steel products from Great Britain to the satellites of Russia, or to Russia itself?

Mr. THORP. Do you mean by the United States?

Senator WATKINS. No, by Great Britain. As I understand it, we actually have been shipping steel ourselves to Great Britain.

Mr. THORP. Yes.

Senator WATKINS. Steel, as you know, is a short commodity in the United States. Great Britain, in turn, is shipping it to Russia and the satellites of Russia, probably in the form of agricultural implements and maybe airplane parts and other things, which we actually found were being shipped a year ago.

Mr. THORP. These agreements with Russia and the satellite countries were negotiated by the British Government and therefore the British Government would necessarily decide what items it will or will not permit to be exported.

Senator WATKINS. Do we have any influence on that or do we attempt to try to influence the British Government in the matter of these trade agreements with the other countries I have mentioned?

Mr. THORP. We have had consultations with the other countries, as I described before, because of the requirements in connection with the recovery program.

Senator WATKINS. Well, we have consultations but what, effectively, do we do about it to stop the shipping of steel which may be very helpful to an enemy nation or a group of enemy nations? We are in a cold war now and we do not know at what time we may be in a shooting war.

As I understood the debate when the matter was advocated by the proponents of the program, they said we should not and would not ship any ourselves or permit those nations that we were helping to ship any of that steel to our potential enemies. I was wondering if there is anything effective being done about it.

How is it implemented?

Mr. THORP. This is implemented through the Economic Cooperative Administration where the authority rests in their act. I am sure they are carrying out the requirements of their act with all these countries.

Senator WATKINS. But you cannot tell me now whether or not there is any steel included in this deal between Great Britain and Poland?

Mr. THORP. No; I cannot tell you now.

Senator WATKINS. Or any other war potential material, a material that would be helpful in building up a war potential?

Mr. THORP. I would rather supply you with the full details of that because I do not know what commodities are involved.

Senator WATKINS. I would appreciate it very much if you would give me such a statement, or give it to the committee if they desire to have it.

Now, with respect to the reciprocal trade agreements, I understood you to say, of course, that it would be much more helpful to have a longer extension of time for the reciprocal trade agreements?

Mr. THORP. Yes, sir.

Senator WATKINS. Personally, I am converted to the fact that reciprocal trade agreements are good, providing there are some safeguards. Now what is the particular difficulty with the safeguards that the last Congress placed around the operation or the negotiation of the reciprocal trade agreements?

Mr. THORP. The difficulty is that in connection with that so-called safeguard the Tariff Commission is set up in a position of complete insulation from the rest of the executive branch of the Government.

Senator WATKINS. You mean independence?

Mr. THORP. No; this is quite different.

Senator WATKINS. You mean insulation in such a way that they cannot be called on for information?

Mr. THORP. They can be called on for facts, but they cannot be called on for advice. One can ask them for something which can be put in a statistical table but cannot say to them, "What do you think about this or what do you think about that?"

Senator WATKINS. Well, the bill itself, as I remember the safeguard put in there, calls on them to give judgment and advice to the President.

Mr. THORP. It calls on them to give a judgment to the President, in the sense of fixing a particular point at which damage to a particular industry concerned appears.

Senator WATKINS. You do not think that is objectionable, do you, to have someone point out a danger signal?

Mr. THORP. Well, if you want to get into that I think it is impossible. There is no such fixed point.

Senator WATKINS. Then why have the escape clauses in the treaties, if there is no such point at which danger appears, and you know what I mean by "escape clause"?

Mr. THORP. Yes. The Tariff Commission makes an elaborate study as to what the trends are and comes to a conclusion as to whether an industry is or is not being threatened. But that is quite different from setting up a hypothetical point and saying, "This is the point at which such and such an industry is threatened." The costs are different for the different people in the industry; conditions of importation vary from time to time.

It always has seemed to me as an economist interested in statistical work and cost work, that this was an impossible concept to utilize.

It becomes a matter of judgment.

Senator WATKINS. Well, somebody has to exercise that judgment. If the Tariff Commission does not do it the President is supposed to do it and how does he do it if it is impossible for the Tariff Commission, which is made up of experts? How is the President going to do it? The escape clause is there for some reason. He has to make a determination at some time or other as to when to invoke that escape clause. How does he do it?

Mr. THORP. To get the whole picture, you have a progressive situation with respect to threat to an industry. You have a situation where there may be a point at which it is pretty clear that they may be threatened or another point at which it is conceivable that they might be. What has to happen with respect to it is the best judgment one can get as to where a tolerable point is.

Senator WATKINS. Who should give that judgment?

Mr. THORP. It has seemed to us the best way to get that judgment was to bring all the people concerned with the problem together, instead of picking out one particular group who would look at it without respect to any other elements and considerations of the problem.

Senator WATKINS. Who are all the people now that would be brought together?

Mr. THORP. Well, the usual procedure has been for the Departments of State, Commerce, Agriculture, the Military Establishment, the Tariff Commission. I am not sure whether the Labor Department is in this, or not. But that is approximately the group of agencies which, in the past, have worked together on the problem.

Senator WATKINS. In other words, you have a larger group do it, rather than this expert group? As I understand it, one of the troubles has been, or the claim has been—as you just mentioned a moment ago—that you have these large groups now coming in from these various departments to sit down and make a judgment as to when the danger signal appears and also as to the point beyond which you cannot go.

Mr. THORP. Well, the larger group has now carried on this program for 14 years. We think it has carried it on very wisely and very well.

Senator WATKINS. Is the President bound to respect that opinion after it is once formed and given to him?

Mr. THORP. No; the President can do as he pleases about it.

Senator WATKINS. He can ignore it completely?

Mr. THORP. That is right.

Senator WATKINS. Or under the set-up he would have to at least follow the recommendation of the Tariff Commission?

Mr. THORP. Oh, no.

Senator WATKINS. Well, he would not have to do that but at least he would have to come to Congress and state publicly his reasons for making the change, or not, and accepting the recommendation?

Mr. THORP. That is right.

Senator WATKINS. You see, that is of vital importance to many of the industries in the United States, and particularly my State in the West, where we have a woolen industry that has gradually been going down over the years. It comes into competition, of course, with the wool industries of South America, and other places, where apparently they can produce wool much cheaper than they can in the United States. We are anxious to have someone who would be there to watch the matter closely and invoke those powers whenever necessary.

Mr. THORP. I wonder if you realize that under the law now, when these trade agreements are negotiated—and there are 13 countries, I think, that we will start negotiating with in April—those negotiations will be carried on with no Tariff Commission people participating whatsoever, because that is the requirement in connection with the law.

Senator WATKINS. Should not they be in on that and give advice all the time?

Mr. THORP. I think they should be in on it, and that is why we are asking to have the law changed.

Senator WATKINS. Cannot they be in on it now?

Mr. THORP. No.

Senator WATKINS. Is there anything in the law that forbids them being in on it?

Mr. THORP. That is right. They are forbidden under the law from being in on it. Their duty is to send this report to the President. That is all they can do. They can give facts to the other agencies.

Senator WATKINS. They can give facts to all these negotiators, as I understand it.

Mr. THORP. That is right, they can give facts; but they cannot advise, they cannot negotiate, they cannot participate in the way they have in the past, most helpfully.

It has seemed to us that those who have faith in the Tariff Commission, as we have, would want to have the Tariff Commission as an integral part of the whole process instead of having it separated.

Senator WATKINS. Well, that is just one reason why I think we probably will not agree. My information is that the Tariff Commission has not been consulted in the past as much as it should have been, and it was to give it some voice in the proceedings that that amendment was adopted. They had very little voice, if any, in the proceedings.

Mr. THORP. I must say that that is not a correct reflection of the operation. The Tariff Commission has been very active. The Tariff Commission, in many respects, has the best experts. We have relied on them very heavily in the past in connection with the work.

The CHAIRMAN. Mr. Thorp, your discussion with Congressman Herter suggested to my mind the question of deposited foreign currencies. Would you care to comment upon that? How much do they amount to in the aggregate? Has anything been planned with respect to them, particularly in relation to the President's fourth point in his inaugural message, for the stimulation of economic development in undeveloped areas?

Mr. THORP. The amount of local currencies which have been deposited is, of course, the equivalent of our total grants. When the United States has given assistance on the basis of loans then there were no currency deposits. But in connection with grants that is required. So this does become a tremendous sum, adding up among all the countries to the neighborhood of $4,000,000,000.

These funds may be used only when the foreign government involved and the United States Government have agreed as to the use to which they should be put. Actually, they are being put to varying uses in the different countries, on the basis of such agreements.

The European Recovery Administration is filing, in connection with their presentation to Congress, a very elaborate statement on what these various uses have been. Among the uses in which we are particularly interested are those which represent the development of resources since this constitutes a most constructive use. We have been trying to work out with the other countries various programs of that sort.

It is also important to note that within the law 5 percent of these funds may be used for United States Government expenses, and then for the purchase of strategic materials. The program for strategic materials is developing, although up until now it has not amounted to very much. I understand there are prospects for considerable expansion in the future.

As to the technical cooperation aspects, under the present law that has to be done through United States dollars. Actually, when there is a technical cooperation project the foreign government under the old law has had to put up counterpart funds in connection with the technical cooperation project.

One of the modifications in the law being suggested is that in connection with technical assistance the foreign government be not required to put up counterpart funds. Ordinarily the counterpart fund problem is a rather hazy one because what happens is this: We send a ton of coal to France; the French Government receives that ton of coal; it sells it; it gets francs for it. It puts francs into the deposit based on the United States costs at the official rate of exchange. So that the counterpart funds, while they may not balance out exactly, nevertheless are generated by the flow of goods into the country.

In the case of technical assistance you do not have the same sale in the country which generates the counterpart funds. Therefore, the way in which the law has been drafted, or was drafted a year ago, has tended to discourage the use of technical assistance.

We hope that that situation will be corrected in the new law. It was not anticipated. In fact, the law was not modified or changed by Congress, it was just a situation that had not been foreseen in connection with the drafting of the original law.

The CHAIRMAN. Mr. Thorp, your responses to all these questions are very interesting. I think we could keep you here all day, to our own great advantage, but I do not want to go into this question of reciprocal-trade agreements which was opened up by my distinguished friend from Pennsylvania.

I am prompted, however, to ask you a question based upon your response to Senator Myers. As I recall your statement it was to the effect that the objective of this policy is to avoid arbitrary interference by government.

Mr. THORP. That is the reciprocal-trade agreements program; yes.

The CHAIRMAN. Yes. Now, does your policy go far enough to involve also the elimination of arbitrary interference by private sources, to avoid the erection of private barriers to trade? As, for example, by the private cartel system upon the one hand or by government agreements, such as the Benelux agreement which was publicized considerably a year or so ago?

Mr. THORP. We are very much concerned about that problem. We did include in the bilateral agreements with the western European countries a provision which gives us the opportunity to deal with the matter of cartel arrangements.

We also have worked very hard to incorporate a provision with respect to that in the international trade organization, which will be coming before Congress for consideration in the near future.

As far as United States Government policy is concerned, as applied by the State Department, I think we are very clear on the fact that it is useless to endeavor to deal with governmental interferences if there are private arrangements which constitute barriers to trade as well. We feel very strongly that they must be dealt with as well.

The CHAIRMAN. Well, there are such interferences, are there not? There are many reports now coming out of Europe, particularly with respect to the rehabilitation of Germany, that some tendency at least has appeared to reestablish the old German cartels. At least that is what we hear from those who are in Europe and those who have come back.

Mr. THORP. Yes; we are studying that very closely in the State Department.

The CHAIRMAN. I recognize the fact, of course, that since the main objective of our international policy is to win peace, it cannot very well assume a policy of economic warfare, although the "cold war" is imposed upon us by the attitude of the Russian Government. I suppose we would like to eliminate the "cold war" without drifting into a "hot war." But is there not a possibility that if in the pursuit of military strength among western Europeans we should build up these private restraints to trade, nothing in the last resort will be won?

Mr. THORP. I would agree that it represents one of the threats to the kind of situation I have been hopefully describing to the committee.

The CHAIRMAN. In any event, you want this committee to understand that the over-all objective of State Department policy is to eliminate unnecessary interference by government in the conduct of those relations, but also you recognize that such elimination of government interference is perfectly useless if we permit private monopolistic combinations to set up their own interference?

Mr. THORP. That is a correct statement.

Senator WATKINS. I have one other question.

Since you are going to get me some information about materials contained in this exchange agreement between Great Britain, Poland, and other countries, and with Russia as well, I take it for granted you have access to the copies of these treaties? The State Department must have copies of these treaties in its files.

Mr. THORP. We do not have access to all agreements among all countries.

Senator WATKINS. But the one I am calling your attention to now.

Mr. THORP. I am quite sure that the trade agreement between the United Kingdom and Poland has been made public.

Senator WATKINS. Could you furnish me a copy of that treaty at the same time?

Mr. THORP. Yes.

(The matter requested is as follows:)

TRADE AND FINANCE AGREEMENT BETWEEN THE GOVERNMENT OF THE UNITED KINGDOM OF GREAT BRITAIN AND NORTHERN IRELAND AND THE GOVERNMENT OF POLAND

Warsaw, 14th January, 1949

The Government of the United Kingdom of Great Britain and Northern Ireland and the Government of Poland prompted by a sincere desire to ensure the development of Anglo-Polish trade to their mutual advantage and attaching particular importance to the development of Anglo-Polish trade on a long-term basis and to a settlement of the financial questions outstanding between the two countries have agreed as follows:—

Article 1

The Polish Government undertake to make available for export to the United Kingdom in the five-year period 1949 to 1953, and the Government of the United Kingdom undertake to purchase or to permit the import of, as the case may be, the quantities of foodstuffs set out in Schedules I to IV of Annex A to the present Agreement in the years specified therein.

Article 2

(*a*) The Polish Government undertake to make available for export to the United Kingdom in the year 1949 and in the three-year period 1949 to 1951, and the Government of the United Kingdom undertake to purchase or to permit the import of, the classes and quantities of timber specified in Annex B (1) to the present Agreement. The contracting Governments will consult together in the autumn of 1949 and 1950 for the purpose of determining the quantities to be supplied in the years 1950 and 1951 respectively.

(*b*) The contracting Governments agree to facilitate and encourage the trade in timber between the United Kingdom and Poland so that Poland shall regain her traditional position as exporter of timber to the United Kingdom.

(*c*) In particular the Polish Government shall use their best endeavours to supply to the United Kingdom over the five-year period 1949 to 1953, out of the total quantities available for export or re-export, the classes of timber specified in Annex B (2) up to the quantities shown.

(*d*) The Government of the United Kingdom undertake to grant for the year 1949 import quotas to a value of £600,000 for Polish furniture and other wooden articles to be agreed between the contracting Governments. They will also ensure that the internal regulations in force in the United Kingdom governing the manufacture and sale of furniture and other wooden articles of the classes which shall have been agreed by the contracting Governments shall not discriminate against such goods when of Polish origin.

Article 3

The undertakings set out in Articles 1 and 2 of the present Agreement are subject—

(*a*) to price, type, specification and quality being satisfactory;

(*b*) to the terms of any contracts that may have been or may be concluded between the contracting Governments;

(*c*) in the case of foodstuffs to compliance with any health regulations in force in the United Kingdom where they are applicable; and

(*d*) in the case of goods imported otherwise than through Government channels, to application being made for an import licence.

Article 4

The quantities or values shown in the Annexes referred to in Articles 1 and 2 (*a*) of the present Agreement are minima unless otherwise specified and they may be increased from time to time by agreement between the contracting Governments.

Article 5

(*a*) The Government of the United Kingdom shall facilitate the supply to Poland of the following goods through the appropriate trade channels up to the quantities stated below and subject to agreement on prices:—

(i) Raw wool—£10 million in each of the years 1949 to 1953. In regard to this figure of £10 million any supplies which the Polish Government may purchase from other parts of the Commonwealth shall be taken into account. The Polish Government shall use their best endeavours to ensure that purchases are reasonably distributed over all qualities and types of wool.

(ii) Crude rubber—3,000 tons in 1949 increasing by 500 tons yearly to 5,000 tons in 1953.

(iii) Tinplate—300 tons in the period April to December 1949 and 300 tons in 1950; and in addition—

(*a*) in the year 1949, 400 tons of tinplate for packing 2,000 tons of canned meat for supply to the United Kingdom; and

(*b*) in each of the years 1949 to 1953 tinplate for packing frozen eggs for supply to the United Kingdom in the proportion of 300 tons of tinplate to 3,500 tons of frozen eggs.

(iv) Rubber conveyor belting—30 miles in each of the years 1949 to 1953.

(v) Shellac—200 tons in 1949 rising to 400 tons in 1953.

and in addition, the following goods assuming that Polish buyers are able to place orders for suitable types to meet their requirements.

(vi) Rubber tyres for cars and tractors—£125,000 in each of the years 1949 to 1953.

(vii) Dyestuffs of types for which United Kingdom export licences are normally granted—£250,000 in each of the years 1949 to 1953. In addition, the Government of the United Kingdom shall facilitate the supply of such dyestuffs to Poland during this period to the maximum extent possible within the available types and grades.

(viii) Spare parts for cars and trucks—£250,000 in each of the years 1949 to 1953.

(ix) Semi-manufactured copper goods—3,000 tons in each of the years 1949 to 1953, provided that purchases are reasonably distributed over the whole range of semi-manufactured copper goods.

(x) Wool rags for the textile industry of types for which export licences are normally granted—6,000 tons in each of the years 1949 to 1953.

(*b*) (i) The Government of the United Kingdom shall place no obstacles in the way of the supply to Poland of 180,000 tons of crude oil f. o. b. Middle East during 1949 rising by regular quantities to 250,000 tons in 1953. They will raise no objection to the supply of additional quantities of such oil, if they are commercially available, in the second half of 1949 and in the succeeding years up to and including 1953. The supply of such oil shall be in accordance with contracts to be arranged by the appropriate Polish organization and the United Kingdom oil companies.

(ii) The Government of the United Kingdom shall place no obstacles in the way of the Polish Government ordering in each of the years 1949 to 1953 reasonable quantities of sisal, manila and electrolytic nickel through London merchants, provided that payment is made in accordance with the normal United Kingdom exchange control procedure.

(iii) The Government of the United Kingdom shall place no obstacles in the way of the Polish Government obtaining in the year 1949 through the appropriate trade channels reasonable commercial quantities of ferro-tungsten, ferro-vanadium and refined ferro-manganese.

(*c*) (*i*) The Government of the United Kingdom undertake that within such allocation as may be made to Poland for each of the years 1949 to 1953 by the Combined Tin Committee they will facilitate the supply to Poland of a quantity of tin not exceeding 1,000 tons per annum from sources within the Scheduled Territories within the meaning assigned from time to time to that expression under the United Kingdom Exchange Control Act, 1947.

(ii) The Government of the United Kingdom undertake that within such allocation as may be made to Poland by the International Emergency Food Council for each of the years 1949 to 1953 from sources within the Scheduled Territories (within the meaning assigned from time to time to that expression under the

United Kingdom Exchange Control Act, 1947) they will facilitate the supply to Poland through the appropriate trade channels of cocoa, copra and oil seeds.

Article 6

The Government of the United Kingdom shall not prohibit the export to Poland of capital equipment produced in fulfilment of orders placed by or on behalf of the Polish Government with United Kingdom firms on or before the date of signature of the present Agreement.

Article 7

(*a*) The Government of the United Kingdom undertake to issue in the year 1949 licences upon application for the import from Poland of goods to be agreed from among those specified in Annex C to the present Agreement up to a total c. i. f. value of £2 million. This total shall include the quotas for Polish furniture and other wooden articles established in accordance with the provisions of Article 2 (*d*) of the present Agreement. The contracting Governments agree that the individual quotas within this total shall be determined in London not later than 1st March, 1949.

(*b*) The Polish Government undertake to issue in the year 1949 import licences and to make available the requisite foreign exchange for the import from the United Kingdom of the goods specified in Annex D to the present Agreement up to the c. i. f. values shown.

(*c*) The contracting Governments agree that the import quotas referred to in paragraphs (*a*) and (*b*) of this Article shall come into operation simultaneously on a date not later than 15th March, 1949.

(*d*) (i) The contracting Governments have agreed to effect in each of the years 1950 to 1953 an exchange of miscellaneous goods of classes corresponding to those specified in Annexes C and D to the present Agreement, with additions or deletions to be agreed. For this purpose they shall enter into negotiations in the last three months of each of the years 1949 to 1952 with a view to making arrangements for such an exchange of goods for entry into force on 1st January of each of the years 1950 to 1953 respectively.

(ii) The quotas for Polish goods imported into the United Kingdom shall amount to a total of £9 million for these years but no quota for any one year shall exceed £2.4 million.

(iii) The quotas for United Kingdom goods imported into Poland shall amount to a total of £5.25 million for these years.

(*e*) The Polish Government shall authorise the purchase from the United Kingdom in 1949 of cured herrings to a value of not less than £400,000 and if possible to an increasing value in each of the years 1950 to 1953, in accordance with the requirements of Poland, the actual quantity to be negotiated by the contracting Governments each year. The contracting Governments agree that if the value of such purchases in any one year exceeds the value of Polish landings of white fish and sales of Polish frozen salmon in the United Kingdom in that year, the excess shall be taken into account as soon as possible in the fixing under the provisions of paragraph (*d*) of this Article of the Polish import quotas for United Kingdom goods.

Article 8

(*a*) The Polish Government place on record their intention to continue to purchase on at least the same scale annually as hitherto United Kingdom industrial products such as are specified in Annex E to the present Agreement.

(*b*) It is also their expectation that with the improvement in the economic situation of Poland they will be in a position to authorise within the arrangements provided for in Article 7 of this Agreement the import into Poland on an increasing scale of United Kingdom miscellaneous consumer goods.

Article 9

The Government of the United Kingdom take note of the wish of the Polish Government to place orders for capital equipment to the extent of £20 million beyond their current programme. They will continue to take whatever steps are open to them in the light of their general export policy to facilitate the placing of Polish orders for such capital equipment and are prepared to arrange for discussion with the Polish Commercial Counsellor in London or with the Polish Purchasing Mission in London of any particular order which the Polish Government wish to place.

Article 10

(*a*) In order to facilitate the purchase by the Polish Government of raw materials (mainly wool) on terms of payment not exceeding 90 days' credit, the Government of the United Kingdom undertake to raise no objection to arrangements being made in London for the grant or renewal of a revolving acceptance credit or credits up to a limit of £2.5 million, to be fully repaid by 31st December, 1949. The Government of the United Kingdom, through the Export Credits Guarantee Department, shall arrange that guarantees on normal terms as hitherto are given for this credit.

(*b*) The Government of the United Kingdom will be prepared to consider favourably the possibility of facilitating the renewal of this arrangement after 31st December, 1949.

(*c*) The Government of the United Kingdom undertake to raise no objection to the extension of the credit arrangements for the purchase of capital equipment which are now in force between the Polish Government or Polish financial institutions and London financial institutions, so as to provide that the credit permitted shall become a revolving credit within the existing limit of £6 million available up to 30th June, 1955, in addition to the revolving credit or credits up to a limit of £2.5 million referred to in paragraph (*a*) of this Article. The provisions of this paragraph shall not apply to orders placed after 31st December, 1951.

Article 11

In view of the facilities afforded to Poland under Articles 5, 7, 9 and 10 of the present Agreement, and of the new possibilities for the import into the United Kingdom of Polish agricultural products under Article 1, the Polish Government have agreed with the Government of the United Kingdom upon the provisions of Articles 12 to 17 of the present Agreement.

Article 12

(*a*) Not later than 15th February, 1949, discussions shall begin in London between the Polish Government and the Government of the United Kingdom, together with representatives acting on behalf of the United Kingdom interests concerned and approved in that capacity by the Government of the United Kingdom.

(*b*) The purpose of these discussions shall be—

(i) to consider the possibility of replacing the arrangements set out in the Anglo-Polish Minute of 31st October, 1947,[1] concerning compensation for British interests, confirmed by the Exchange of Notes of 24th January, 1948,(1) by provision for the payment of a sum in sterling in satisfaction of the claims of British claimants as defined in Article 1 (*b*) of that Minute; and to determine the amount of that sum, and the dates on which it shall be paid;

(ii) to determine the sterling amount to be paid, and the dates on which it shall be paid, in respect of all forms of pre-war debts, public and private, in connexion with which it will be agreed that a liability of the Polish Government exists.

(*c*) The meeting-place for futher discussions concerning the settlement of matters referred to in paragraph (*b*) (i) and (ii) shall be determined during the preliminary stages of the London discussions.

(*d*) The contracting Governments shall use their best endeavours to ensure that these discussions result in agreement by 30th September, 1949.

Article 13

(*a*) The Polish Government shall ensure that the National Bank of Poland instructs the Bank of England within thirty days of the date of entry into force of the present Agreement to open in the name of the National Bank of Poland an account at the Bank of England denominated "National Bank of Poland No. 3 Account."

(*b*) This account shall receive moneys provided under Articles 15 and 17, and out of this account shall be made such payments in respect of United Kingdom claims as may be agreed in pursuance of Article 12.

(*c*) The Polish Government shall arrange at the time when the National Bank of Poland No. 3 Account is opened that the Bank of England be given

[1] "Treaty Series No. 23 (1948)," Cmd. 7403.

irrevocable instructions, in a form satisfactory to the Government of the United Kingdom, so as to secure the making of the payments mentioned in paragraph (*b*) of this Article.

Article 14

(*a*) The Custodian of Enemy Property in the United Kingdom (hereinafter referred to as "the Custodian") shall, on the request of the Polish Government, communicate to them as soon as possible after 1st June and 1st December in each year, until a date to be agreed in accordance with the provisions of Article 16, the Custodian's estimate of the value of the money and property released by him in the preceding six months in accordance with the Anglo-Polish Money and Property Agreement(2) signed this day.

(*b*) The Custodian, in estimating the value of the money and property released by him shall use, and the Polish Government shall accept—

(i) in respect of all moneys held by the Custodian in his own account, the actual amount released by him;

(ii) in respect of bank balances held to the order of the Custodian, the actual amount of the bank balance on the date of release, as reported by the holding bank;

(iii) in respect of securities quoted in the London Stock Exchange Daily List of Officially Quoted Securities the mean of the quotations for each such security on the date of release by the Custodian, or if there is no quotation on that date, then on the next date on which there is a quotation;

(iv) in respect of gold coin and bullion, and of any foreign currency, the buying prices quoted by the Bank of England, and in respect of silver, the London market price quoted at the daily fixing, each on the date of release by the Custodian, or, if there is no such price or quotation on that date, then on the next date on which there is such a price or quotation.

(*c*) The Custodian, in estimating the value of the money and property released by him shall use—

(i) in respect of commercial debts, the amount of the debt as reported to him;

(ii) in respect of all other money and property released, except money and property of the kinds referred to in the preceding paragraph (*b*), the value as reported to him.

(*d*) The Polish Government may question any estimate made in accordance with the preceding paragraph (*c*) on the following grounds, evidence of which they shall communicate to the Custodian—

(i) in respect of commercial debts, either—

(*a*) that the debtor is bankrupt; or

(*b*) that the debtor is no longer in business; or

(*c*) that the debtor disputes his obligations;

(ii) in respect of other money or property released, except money and property of the kinds referred to in the preceding paragraph (*b*), that the value reported to the Custodian is greater than a reasonable estimate of the market value on the date of release.

(*e*) If the Polish Government produce evidence that the value of the money and property referred to in the preceding paragraph (*c*) which the Custodian used in his estimate was incorrect, his estimate of the value of the money and property released shall be reduced by an amount to be agreed between him and the Polish Government.

(*f*) If the Polish Government produce satisfactory evidence that any money or property referred to in the preceding paragraphs (*b*) and (*c*) released by the Custodian has not passed under the control of the Polish Government or of a person subject to Polish exchange control regulations, then the amount payable by the Polish Government under the provisions of Article 15 of this Agreement shall be reduced accordingly.

Article 15

On receipt of the estimate to be communicated by the Custodian under the provisions of Article 14 (*a*) the Polish Government shall pay into the National Bank of Poland No. 3 Account—

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2 "Treaty Series No. 10 (1949)," Cmd. 7627.

(i) forthwith, subject to the provisions of Article 14 (*f*), the equivalent of the total sum estimated by the Custodian to be the value of the money and property of the kinds referred to in Article 14 (*b*) released by him in the preceding six months;

(ii) immediately after agreeing with the Custodian any necessary adjustments in accordance with the provisions of Article 14 (*e*) and (*f*) the equivalent of the total sum then estimated by the Custodian to be the value of the money and property of the kinds referred to in Article 14 (*c*) released by him in the preceding six months.

Article 16

The obligations of the Custodian under the provisions of Article 14 (*a*) and those of the Polish Government under Article 15 shall continue until the Custodian has released all money and property which he has reason to believe may belong to Polish persons within the meaning of the Anglo-Polish Money and Property Agreement signed this day, or until the contracting Governments agree that these obligations shall cease. The contracting Governments shall discuss not later than 30th June, 1951, the possibility of terminating these obligations.

Article 17

(*a*) In each of the years 1951 to 1953 the Polish Government shall pay into the National Bank of Poland No. 3 Account three and three-quarters per cent. of the sterling proceeds based on the f. o. b. value of all retained imports from Poland into the United Kingdom during those years plus ten per cent. of the sterling proceeds based on the f. o. b. value of all retained imports from Poland into the United Kingdom during those years of the goods referred to in Annex F.

(*b*) Payments under paragraph (*a*) of this Article shall be made by the Polish Government by quarterly instalments on 31st March, 30th June, 30th September and 31st December of each of the years 1951 to 1953 in accordance with the provisions of paragraph (*c*) except that on 31st March, 1951, the payment to be made to the said account by the Polish Government shall be £400,000 which sum shall be taken into account in determining the total amount for 1951 due in accordance with paragraph (*a*) above.

(*c*) The amount of each quarterly payment to be made under paragraphs (*a*) and (*b*) of this Article shall be calculated upon the basis of the figures for the quarter immediately preceding that in which payment is due to be made as prepared by the Government of the United Kingdom and extracted from the declared value of the United Kingdom imports from Poland as published in the Accounts relating to the Trade and Navigation of the United Kingdom and supplemented where practicable by a detailed analysis of such figures, less a deduction of ten per cent. for freight and other appropriate charges. The amount so calculated shall be communicated to the Polish Government not less than fourteen days before it is due to be paid under paragraphs (*a*) and (*b*) of this Article.

(*d*) In the first quarter of each of the years 1952 and 1953 the final amount due in respect of each of the years 1951 and 1952 respectively shall be determined by agreement between the contracting Governments and the diffeernce between the amount so determined and the amount actually paid under paragraphs (*a*) and (*b*) of this Article shall be compensated accordingly by increasing or reducing the payment to be made in the second quarter of each of the years 1952 and 1953 respectively. In respect of the amount due for the year 1953 the adjustment shall be made by agreement between the contracting Governments one month after the final statement of declared value in accordance with paragraph (*c*) of this Article has been communicated to the Polish Government.

Article 18

In the event of the denunciation or expiry of the Anglo-Polish Payments Agreement of March 1948 [3] and of no agreement being reached for its replacement by a new Payments Agreement, the contracting Governments will review the position as it affects the present Agreement.

[3] "Treaty Series No. 12 (1948)," Cmd. 7352.

Article 19

(*a*) The contracting Governments agree to refrain from discriminatory action and unnecessary restrictions affecting shipping engaged in international trade.

(*b*) If a multilateral agreement aiming at the removal of discriminatory action and unnecessary restrictions affecting shipping engaged in international trade to which the contracting Governments are parties comes into force the provisions of the foregoing paragraph (*a*) shall be regarded as superseded by the provisions of any such multilateral agreement.

(*c*) The contracting Governments agree that at the request of either of them, officials of the two Governments shall meet in order to determine whether the shipment of goods by sea between the two countries has been carried on in accordance with the principle of non-discrimination between their two flags and to take any measures which may be necessary with a view to avoiding the recurrence of any difficulties which may have occurred.

Article 20

The contracting Governments agree that during the period of validity of the present Agreement meetings of a committee of officials representing the two Governments shall take place by agreement as may be necessary for the purpose of reviewing the progress of the trade between the two countries, of examining any difficulties which may arise and of suggesting solutions for their removal. Such meetings shall be supplementary to, and are not intended to replace, the existing channels of communication between the two Governments on matters arising out of the present Agreement.

Article 21

(*a*) The present Agreement shall come into force on the date of signature and subject to the provisions of paragraph (*b*) of this Article shall continue in force until 31st December, 1953.

(*b*) Articles 13, 15 and 17 shall remain in force until the obligations thereunder have been fulfilled. The date of termination of these Articles shall be decided by agreement between the contracting Governments.

In faith whereof the undersigned, duly authorised to that effect, have signed the present Agreement.

Done in Warsaw, 14th January, 1949, in duplicate in the English and Polish languages, both texts being equally authentic.

(L. S.) D. St. Clair Gainer.
(L. S.) H. Minc.

ANNEX A

SCHEDULE I—*Ministry of Food purchases for which contracts will be negotiated to the end of 1953*

(Figures in thousand long tons throughout)

	1949	1950	1951	1952	1953
1. Bacon*	20	30	40	50	60
2. Eggs—shell—(boxes)*	(435, 000)	(620, 000)	(860, 000)	(1, 110, 000)	(1, 200, 000)
frozen*	3. 5	5	7	8	8
3. Cheese†	. 3	1	2	3. 5	5
4. Butter†		. 5	2	5	10
5. Lard†		. 5	. 6	. 8	1

* The Heads of Agreement to be in accordance with the terms of letters exchanged between the two Governments.

† Target figures only: the contracting parties will discuss further when export surpluses arise.

SCHEDULE II—*Items on which individual minimum import quotas will be granted up to the end of 1953, or where appropriate, for which the Ministry of Food will contract annually*

(Figures in thousand long tons throughout)

	1949	1950	1951	1952	1953
6. Frozen salmon	0.5	0.7	0.8	0.9	1
7. Fruit pulp	.9	1.5	2	2.5	3
8. Onions	25	35	45	50	60
9. Canned meat	2	2.5	3	3.5	4
10. Bacon factory products—					
Maws and chitterlings	1.65	1.87	2.1	2.27	2.45
Hog casings	.2	.23	.25	.28	.3
11. Canned fish (in varieties to be agreed)	.1	.13	.16	.18	.2
12. Poultry—					
Turkeys	.8	1.1	1.5	1.7	2
Geese, ducks, hens and chickens	5.5	6.6	7	8.1	8.1
Years beginning 1st April					
13. Pulses	3	5	5	5	5
14. Starch	15	10	10	10	10‡
Years ending 30th September					

‡A similar figure is agreed for the 1953 campaign.

SCHEDULE III—*Items for which a minimum over-all import quota of £500,000 will be given for each of the five years subject to upward revision annually*

(a) *Items for which individual minimum quotas within the over-all total are established for 1949* — *Figures in £'000 throughout 1949*

15. Bilberries (including red and dried)	250	per annum 1949–53
16. Game	5	1950–53 for annual negotiation
17. Canned peas and beans	12	
18. Tomato powder	11	
19. Preserved and salted mushrooms	10	
20. Fruit juices	40	
21. Vodka, liqueurs	17	per annum 1949–53
22. Sugar and chocolate confectionery	30	1950–53 for annual negotiation
23. Seasoned meat	75	
(b) *Items without individual minimum quotas but which may be imported within the total for this group*		
24. Miscellaneous—specified below§	140	1950–53 for annual negotiation
25. Miscellaneous—not specified elsewhere	10	
Total	600	

To the extent that licenses are under-applied for on some items, the value of licenses for other items may be increased by mutual agreement.

§ Agricultural seeds.
Fresh vegetables—cauliflowers, cucumbers, horse radish, asparagus (subject to seasonal limitations).
Frozen vegetables—peas and beans, onions, pickles, small pickles.
Canned vegetables—other than cucumbers.
Fresh fruit—cherries, strawberries, wild berries.
Frozen fresh fruit—cherries, strawberries, raspberries.
Fruit salads—peaches, pears, cherries.
Frozen eels.
Dried mushrooms.
Cucumbers in barrels in brine.
Pro Memoria: Canned hams (for annual consideration; no imports in 1949).

SCHEDULE IV—*Items subject to annual and ad hoc arrangements*

(a) *Minimum quantities now established for 1949—*	*Tons*
26. White fish	5,000
27. Feed barley (ex-1949 crop)	30,000
28. Malt (ex-1949 crop)	4,000‖

‖ Licences will be granted on application in the ratio of 1 ton for every 7 tons of feed barley contracted by the Ministry of Food.

(b) *No minimum quantities established—*

29. Oats—The Ministry of Food may be a buyer of Polish oats and will be willing to consider samples and availabilities after each harvest.

ANNEX B (1)

(SEE ARTICLE 2 (*a*))

Imports of timber from Poland

	1949	1949–51
Softwood ('000 standards)	70	270
Sleepers ('000 pieces) (redwood, to usual British Railways specification)	50	50
Pitprops ('000 fathoms)	30	200
Oak staves (cubic metres)	300	1, 400
Plywood (cubic metres)	300	900
Hardwood (cubic metres)	10, 000	23, 000
Pulpwood ('000 fathoms) (white wood, fully barked and basted)	25	120

ANNEX B (2)

(SEE ARTICLE 2 (*c*))

Target deliveries of certain classes of timber from Poland in the five-year period, 1949–53

Softwood ('000 standards)	450
Pitprops ('000 fathoms)	275

ANNEX C

(SEE ARTICLE 7 (*a*))

I.—Textiles

Cotton fabrics (book cloth and mattress ticking included)
Woollen fabrics
Rayon fabrics
Plush and hangings
Ready-made clothes (workers' clothes, trousers, shirts, etc.)
Carpets, woollen covers and rugs, hand-made cloth (home-spuns)
Woollen yarn worsted and carded
Haberdashery
Curtains

II.—Chemicals

Sodium chloride
Calcium chloride
Caustic potash
Charcoal
Arsenic (white)
Thallium sulphate
Montan wax
Turpentine

III.—Wood and Wood manufactures

Joinery furniture
Joinery chairs
Bentwood chairs and armchairs
Bentwood coat stands
Chair seats
Plywood wet glued
Plywood dry glued
Block boards
Joiners' work for buildings (flush doors and block board doors)
Ready-made parquet and flooring strips
Oak barrel sets and staves
Redwood barrels for herrings
Boxboard sets
Picture frames gilded and silvered
Wooden fancy goods
Domestic woodware (kitchen and household articles, dowels and bungs, etc.)
Baskets (for soft fruit)
Wood wool of soft wood
Willows
Willow goods

IV.—Metals and Manufactures

Enamel ware
Galvanized buckets
Cast iron enamel goods
Zinc containers for small batteries
Zinc sheets

V.—Glass, China, Cement

Window glass
Carboys
Bottles
Table glass ware
Lighting glass
Table china
Cement

VI.—Miscellaneous

Bristles
Feathers and down
Medicinal herbs
Matches
Buttons
Christmas tree ornaments
Toys
Fancy art goods
Gloves
Casein

and other items to be agreed.

ANNEX D

(SEE ARTICLE 7 (b))

	£'000		£'000
1. Private motor cars	50	26. Sports equipment	25
2. Mechanical handling trucks and equipment	50	27. Sensitised photographic material	20
3. Commercial vehicles (special types)	100	28. Artists' materials	5
4. Garage servicing equipment	30	29. Books, dictionaries and encyclopaedias	20
5. Trailers	10	30. Maps	5
6. Motor cycles	25	31. Newspapers and periodicals	10
7. Cinematograph equipment	60	32. Cutlery	5
8. Still cameras and accessories	5	33. Razors and blades	3
9. Drawing instruments, mathematical instruments and slide rules	10	34. Toilet preparations	10
10. Calculating and adding machines	10	35. Pharmaceuticals and alkaloids	75
11. Duplicators	40	36. Proprietary remedies	15
12. Clocks and watches	5	37. Dental equipment and deaf aids	25
13. Road rollers	10	38. Polishing rouge	5
14. Industrial laundry machinery	10	39. Musical instruments and gramophone records	10
15. Industrial sewing machines	10	40. Bakelite and Trolit powder	5
16. Domestic sewing machines	5	41. Laminated plastic materials	10
17. Cloth cutting machines	5	42. Moulded plastic goods (industrial and domestic)	25
18. Cloth spreaders	5	43. Linoleum and felt base	25
19. Domestic refrigerators	5	44. Paints	15
20. Small tools	65	45. Printing inks	5
21. Portable power tools	80	46. Special varnishes	30
22. Grinding wheels	10	47. Cotton yarns and wool tops (except merino)	25
23. Silk yarn, threads and fabrics	10	48. Canvas hose pipes	10
24. Waterproofs	5		
25. Tobacco pipes	2		

ANNEX E

(SEE ARTICLE 8)

Small pumps (standard)
Gauges and measuring instruments
Divers' equipment
Concrete mixers and vibrators
Agricultural tractors
Machinery for ink, paint and varnish manufacture
Electrical measuring instruments
Fire-fighting equipment
Lighthouse equipment
Pesticides and disinfectants
Hoists and winches
Commercial refrigerators
Brake bands, linings and parts
Ships measuring equipment
Standard laboratory instruments and apparatus
Radio equipment, parts and industrial electronics
Rubber hoses, sheets and tubes

ANNEX F

(SEE ARTICLE 17)

1. The goods specified in Schedule III of Annex A.
2. The goods specified in Annex C.
3. Farina.
4. Onions.
5. Fruit pulp.

Senator WATKINS. Also one between Great Britain and Russia?

Mr. THORP. Very good, I will furnish that also.

(Text is set forth below.)

TRADE AND PAYMENTS AGREEMENTS BETWEEN THE GOVERNMENT OF THE UNITED KINGDOM OF GREAT BRITAIN AND NORTHERN IRELAND AND THE GOVERNMENT OF THE UNION OF SOVIET SOCIALIST REPUBLICS

Moscow, 27th December, 1947

No. I

PROTOCOL OF AGREEMENT BETWEEN THE GOVERNMENT OF THE UNITED KINGDOM OF GREAT BRITAIN AND NORTHERN IRELAND AND THE GOVERNMENT OF THE UNION OF SOVIET SOCIALIST REPUBLICS ON QUESTIONS OF TRADE AND FINANCE

The Government of the United Kingdom of Great Britain and Northern Ireland and the Government of the Union of Soviet Socialist Republics, prompted by a sincere desire to ensure the development of Anglo-Soviet trade to their mutual advantage and attaching particular importance not only to the establishment of a short-term programme of supplies having the object of facilitating the satisfaction of current needs of both countries but also to the development of Anglo-Soviet trade on a long-term basis, have, through their respective trade delegations appointed for that purpose, reached the understandings embodied in the Annex to the present Protocol.

The present Protocol together with its Annex shall come into force on the date of signature.

In faith whereof the undersigned, duly authorised to that effect, have signed the present Protocol.

Done in Moscow, 27th December, 1947, in duplication both in the English and Russian languages and both texts being equally authentic.

(L. S.) MAURICE PETERSON.
(L. S.) A. MIKOYAN.

ANNEX TO THE PROTOCOL OF AGREEMENT BETWEEN THE GOVERNMENT OF THE UNITED KINGDOM AND NORTHERN IRELAND AND THE GOVERNMENT OF THE UNION OF SOVIET SOCIALIST REPUBLICS OF 27TH DECEMBER, 1947

PART A.—SHORT-TERM ARRANGEMENTS

Article I

There will be made available from the Union of Soviet Socialist Republics to the United Kingdom the following goods in accordance with the terms and conditions of the contract which has been concluded between Vsesojuznoje Objedinenije "Exportkhleb" on the Soviet side and the Ministry of Food on the British side.

Grain—

Out of the 1947 harvest (for delivery during a period of eight months from 1st February, 1948, to 30th September, 1948, inclusive)—

450,000 metric tons barley.
200,000 metric tons maize.
100,000 metric tons oats.

Article II

The Government of the United Kingdom will ensure the supply from the United Kingdom to the Union of Soviet Republics of the following goods in accordance with the contracts to be concluded between Vsesojuznoje Objedinenije "Promsyrioimport" on the Soviet side and the Ministry of Supply or the appropriate British manufacturers on the British side and the agreement already reached between the two Parties in respect of prices and periods of delivery:—

Light rails with fishplates, bolts and nuts for narrow-gauge railway: 25,000 English long tons (including not less than 10,000 English long tons from new production and the balance from United Kingdom military surpluses) and in addition 10,000 English long tons from any further United Kingdom military surpluses which may become available during the year 1948 in the United Kingdom and overseas.

Article III

A.—(i) The Soviet economic organisations and the appropriate British firms will conclude contracts for supplying from the United Kingdom to the Union of Soviet Socialist Republics equipment mentioned in the attached Schedules I and II. The Government of the United Kingdom has indicated in these Schedules the prospective dates of delivery of the equipment in question.

The Government of the United Kingdom recognising the importance for the economy of the Union of Soviet Socialist Republics of the equipment mentioned undertakes to afford all possible aid for ensuring that the contracts between the Soviet economic organisations and the appropriate British firms for the delivery of the equipment in question shall be signed in good time and carried out by the prospective dates of delivery specified in the Schedules. For this purpose the Government of the United Kingdom will as necessary use any of the powers exercised by it in such matters, in particular with regard to the giving of permission to the supplying firms to acquire the materials necessary for the orders.

(ii) It is understood that the buyers and suppliers may agree to earlier dates of delivery. In such an event the Government of the United Kingdom will do their utmost to apply the facilities under the preceding sub-paragraph in respect of the contracts concerned.

B.—(i) Both sides being desirous of extending trade between the two countries are agreed that apart from the carrying out of deliveries provided for in Article II and paragraph (A) of this Article corresponding negotiations will immediately be commenced with the object of supplying to the Union of Soviet Socialist Republics wool, rubber, aluminum, cocoa beans, coffee and other goods to be agreed.

The Government of the United Kingdom for its part declares its readiness to facilitate the supply of such goods through the appropriate trade channels.

(ii) Both Governments in the near future will enter into additional negotiations concerning the question of obtaining supplies of tin to the Union of Soviet Socialist Republics.

C. In the event that by 31st May, 1948, the total value of Soviet orders placed for equipment provided for in the above-mentioned Schedules I and II does not reach half of the whole value of this equipment, then the Government of the Union of Soviet Socialist Republics will have the right to reconsider its undertaking relating to the making available to the United Kingdom of the last 200,000 tons out of the 750,000 tons of grain mentioned in Article I. In reviewing the position on 31st May, 1948, the value of contracts actually concluded and prepared for concluding for the above-mentioned equipment will be taken into account.

PART B.—LONG-TERM ARRANGEMENTS

Article IV

The aim of the two Governments is to secure as soon as possible a balanced trade on an expanding basis between the United Kingdom and the Union of Soviet Socialist Republics, due account being taken of other transactions which enter into the balance of payments between the two countries.

The two Governments will appoint representatives who will meet not later than May 1948 for the following purposes:—

(i) to review the payments position between the two countries resulting from shipments made and orders placed under the preceding Articles of this Agreement and from other financial transactions between the two countries;

(ii) to draw up in the light of this review a balanced programme of shipments between the two countries consisting of—

(*a*) further supplies of the goods enumerated in Articles I, II and III and in the Schedules I and II mentioned in Article III;

and of

(*b*) supplies of the following goods—

(1) from the Union of Soviet Socialist Republics to the United Kingdom:—

Wheat,
Pulses,
Pit props,
Cellulose,
Canned goods;

(2) from the United Kingdom to the Union of Soviet Socialist Republics:—

Oilwell tubes,
Tinplate;

and of

(*c*) such further goods as may be agreed;

(iii) to arrange for the appointment of representatives who will as often as may be necessary, but in any case not less frequently than once a year, meet alternately in London and in Moscow to discuss the progress made in fulfilment of this Agreement and to make recommendations to the two Governments designed to improve, develop and widen the basis of trade between the two countries.

PART C.—FINANCIAL ARRANGEMENTS

Article V

I. The Government of the United Kingdom and the Government of the Union of Soviet Socialist Republics have agreed on the following amendments to the terms of the Agreement of16th August, 1941, concerning mutual deliveries, credit and methods of payment:—

(*a*) As from 1st May, 1947, the interest payable on the amount of the advances outstanding under the Agreement of 16th August, 1941, shall be calculated at the rate of one-half of one per cent. per annum; similarly the rate of interest on all further advances, including that of 1st August, 1947, will be one-half of one per cent. per annum.

(*b*) The Account mentioned in Article 5 of the Agreement of 16th August, 1941, shall be balanced as at 31st July, 1947, and at the end of every three months thereafter.

Amounts due from the Government of the Union of Soviet Socialist Republics for goods delivered and still intended for delivery from the United Kingdom under the Agreement of 16th August, 1941, will continue to be dealt with through this Account.

Any debit balance shall be discharged in sterling, to be paid to the Account by the Government of the United Kingdom by way of advances to the Government of the Union of Soviet Socialist Republics.

(*c*) As from 1st May, 1947, repayment of 50 per cent. of the amount of the advances then outstanding under the Agreement of 16th August, 1941, shall be made in twelve equal yearly instalments of which the first shall be paid at the end of the fourth year and the last at the end of the fifteenth year counting in each case from 1st May, 1947.

(*d*) The advance being made available as on 1st August, 1947 (in connection with the settlement of the Account on 31st July, 1947), as well as all advances to be made available in connection with future settlements of the Account under the Agreement of 16th August, 1941, shall be repayable in twelve equal yearly instalments of which the first shall be paid at the end of the fourth year and the last at the end of the fifteenth year, reckoned in each case from the date on which the advance was made.

(*e*) The Government of the Union of Soviet Socialist Republics shall have the right at any time to make repayments of advances before the due date of any instalment or instalments.

Except as modified by this Article the provisions of the Agreement of 16th August, 1941, shall remain in force.

II. The Government of the United Kingdom agrees to waive its claims for the repayment of the costs of all supplies and services to the Government of the Union of Soviet Socialist Republics during World War II, other than those arising out of the Ships' Expenses and Freights Agreement, as set out in the Exchange of Letters of 22nd June, 1942, between the British Embassy in the Union of Soviet Socialist Republics and the People's Commissariat for Foreign Trade in the Union of Soviet Socialist Republics.

PART D.—TRANSPORT ARRANGEMENTS

Article VI

Having regard to the considerable expansion of trade between the two countries which will result from the present Agreement and with a view to facilitating the transport of the goods concerned both Governments have agreed—

(*a*) to give their fullest support and co-operation in fostering the development of the shipping trade between the two countries and to refrain from actions tending to hinder arrangements to enable the shipping of each of them to participate on an equitable basis in the trade between the two countries.

(*b*) to grant facilities to enable their respective shipping organisations to engage immediately and thereafter periodically in direct negotiations in order to put into effect the principles set out in paragraph (*a*) of this Article.

These organisations will meet alternately in London and Moscow or as otherwise mutually agreed but not less often than once a year to consult in accordance with the needs of the trade.

(Signed) MAURICE PETERSON.
(Signed) A. MIKOYAN.

SCHEDULE I (to Article III of the Annex)

EQUIPMENT FOR DELIVERY FROM THE UNITED KINGDOM TO THE UNION OF SOVIET SOCIALIST REPUBLICS

Item Number	*Description of Equipment*	*Quantity or Amount*	*Prospective Period of Delivery*
1	Narrow Gauge 750-mm. Locomotves	1,100	75 in first two years from placing of order; 350 per annum thereafter. Complete in 2¾ years from commencement of delivery.
2	Flat Trucks, 750-mm	2,400	Commence 18 months after placing of order at 25 a month. This rate will increase to 100 a month and the delivery period will cover approximately 2¼ years.
3	Winches (2 and 3 Drums)	2,400	Commence 12 months after placing of order. Delivery at rate of 1,000 units in 1949 and 1,400 units in 1940. One-half will be fitted with electric motors.
4	Excavators	210	In 1948—30 units. In 1949—60 units. In 1950—120 units.
5	Caterpillar loading cranes (Diesel types in substitution for equivalent number of excavators)	54	In 1948—4 units. In 1949—20 units. In 1950—30 units.
6	Auto timber carriers	250	2 a week commencing 18 months after placing of order.
7	Tugs	14	In 1948—4 from surplus, 10 from new building starting 18 months after placing of order. Delivery one per month.
8	Dredgers	4	First—24 months after placing of order. Remainder at rate of one every 3 months.
9	Locomobiles	200 units	Commence delivery in 21 months from placing of order and complete in further 18 months.
10	50-K. W. Mobile Diesel Electric Generators.	150	15—4 months from placing of order. 135 in further 12 months.
11	Steam Power Turbine Stations, 500 K. W.	24	First set would be delivered in 2½ years from placing of order and thereafter 1 set per month.
12	Plywood Equipment	£1,050,000 value	1949—£100,000 per annum 1950—£200,000 " 1951—£200,000 " and after at the rate of £200,000 per annum.
13	Timber Mill Equipment	£400,000 value	1949—£50,000 1950—£100,000 1951—£100,000 and after at the rate of £100,000 per annum.

(Intld.) M. P. (Intld.) A. M.

SCHEDULE II (to Article III of the Annex)

EQUIPMENT FOR DELIVERY FROM THE UNITED KINGDOM TO THE UNION OF SOVIET SOCIALIST REPUBLICS

Item Number	*Description of Equipment*	*Quantity or Amount*	*Prospective Period of Delivery*
1	Scientific and Laboratory Apparatus	£150,000 value.	In 1948–49.
2	Pile Drivers mounted on Pontoons	4	Deliver first one in 2 years after placing of order and then one every five months.
3	Winding Gear	4 sets	Start in 2 years after placing of order and complete in further 6 months.
4	Electro Dredger	1	Delivery 2½ years after placing of order.
5	Ball Mills for Copper Ore Grinding	18	Start 2¼ years after placing of order. Deliver 4 mills a month.
6	Ball Mills for Grinding Apatite	8	Start 2¼ years after placing of order. Deliver 4 mills a month.
7	Rod Mills for Grinding Ores	3	Deliver in 2¼ years after placing of order.
8	Spiral Type Classifiers	8	Deliver in 2½ years after placing of order.
9	Gyratory Crushers	2	Deliver in 2 years after placing of order.
10	Railway Steam Cranes	3	Delivery 2 years after placing of order.
11	154-K. V. Voltage Transformers	48	Delivery to commence 2½ years after placing of order and complete in further twelve months.

Schedule II (to Article III of the Annex)—Continued

EQUIPMENT FOR DELIVERY FROM THE UNITED KINGDOM TO THE UNION OF SOVIET SOCIALIST REPUBLICS—Continued

Item Number	*Description of Equipment*	*Quantity or Amount*	*Prospective Period of Delivery*
12	Complete Distributing Sets (13.8 K. V.)	6	Delivery to commence 2½ years after placing of order and complete in further six months.
13	Isolating switches (154 K. V.)	45	Delivery to commence 2¾ years after placing of order and complete in further six months.
14	Oil Purifying Apparatus	10	Delivery to commence 2 years after placing of order and complete in further six months.
15	100-K. W. Electric Motors	300	Delivery to commence 2 years after placing of order at rate of 150 a year.

(Intld.) M. P. (Intld.) A. M.

No. II

PAYMENTS AGREEMENT BETWEEN THE GOVERNMENT OF THE UNITED KINGDOM OF GREAT BRITAIN AND NORTHERN IRELAND AND THE GOVERNMENT OF THE UNION OF SOVIET SOCIALIST REPUBLICS

(1)

Sir Maurice Peterson to M. A. Mikoyan

British Embassy,
Moscow, 27th December, 1947

Monsieur MIKOYAN,

With reference to the recent consultations which have taken place between representatives of our two Governments, I have been instructed by my Government to propose that the following procedure relating to payments between the Union of Soviet Socialist Republics and the "Scheduled Territories" as defined in paragraph 6 (i) below and the use of sterling for payments between the Union of Soviet Socialist Republics and other countries should apply:—

1. All payments between residents of the Union of Soviet Socialist Republics and residents of the Scheduled Territories shall continue to be settled in sterling.

2. (*a*) As from 15th January, 1948, the existing Account at the Bank of England called the "State Bank of the Union of Soviet Socialist Republics No. 1 Account" shall be designated "State Bank of the Union of Soviet Socialist Republics No. 2 Account."

(*b*) As from 15th January, 1948, the existing "ordinary" undesignated accounts of the State Bank of the Union of Soviet Socialist Republics at the Bank of England and at the Moscow Narodny Bank, London, shall each of them be designated "State Bank of the Union of Soviet Socialist Republics No. 1 Account." Each of these accounts shall be a transferable account and they are hereinafter jointly referred to as "the Transferable Accounts."

3. The Government of the United Kingdom shall not restrict—

(*a*) The availability of sterling standing to the credit of "Transferable Accounts" for making payments for current transactions to residents of such countries outside the Union of Soviet Socialist Republics and the Scheduled Territories as may be agreed between the Bank of England and the State Bank of the Union of Soviet Socialist Republics acting as agents for their respective Governments.

(*b*) The availability of sterling standing to the credit of the "Transferable Accounts" and of any Union of Soviet Socialist Republics Account as defined in paragraph 6 (ii) below for making payments to other residents of the Union of Soviet Socialist Republics or to the residents of the Scheduled Territories.

4. The Government of the Union of Soviet Socialist Republics shall not restrict the acceptance by residents of the Union of Soviet Socialist Republics of sterling at the disposal of residents of such other countries outside the Union of Soviet Socialist Republics and the Scheduled Territories as may be agreed between the Bank of England and the State Bank of the Union of Soviet Socialist Republics acting as agents for their respective Governments in settlement of payments for current transactions.

5. All transactions authorised by the State Bank for payment through the "Transferable Accounts" shall be in respect of current transactions.

6. For the purpose of these arrangements the expression—

(i) "The Scheduled Territories" shall have the meaning from time to time assigned to it under the United Kingdom Exchange Control Act, 1947.

(ii) "Union of Soviet Socialist Republics Account" means any account so designated by the Bank of England under the United Kingdom Exchange Control Act, 1947.

I have the honour to suggest that the present letter and your reply should be regarded as constituting an agreement between the two Governments in this matter with effect from 15th January, 1948.

I avail, &c.

(Signed) MAURICE PETERSON.

(Translation) (2)

M. A. Mikoyan to Sir Maurice Peterson
Ministry of Foreign Trade of the U.S.S.R.,
Moscow, 27th December, 1947

M. l'Ambassadeur,

Acknowledging receipt of your letter of to-day's date, I have the honour to inform you that the Government of the U.S.S.R. accepts the proposals set forth in that letter relating to payments between the U.S.S.R. and "the Scheduled Territories" and the use of pounds sterling between the U.S.S.R. and other countries.

Your letter and this answer will be considered as constituting an agreement between the two Governments, coming into force as from 15th January, 1948.

I take this opportunity, &c.

(Signed) A. MIKOYAN.

APPENDIX

AGREEMENT BETWEEN THE GOVERNMENT OF THE UNITED KINGDOM OF GREAT BRITAIN AND NORTHERN IRELAND AND THE GOVERNMENT OF THE UNION OF SOVIET SOCIALIST REPUBLICS CONCERNING MUTUAL DELIVERIES, CREDIT AND METHODS OF PAYMENT

Moscow, 16th August, 1941

The Government of the United Kingdom of Great Britain and Northern Ireland (hereinafter referred to as "the Government of the United Kingdom") and the Government of the Union of Soviet Socialist Republics, desiring to arrange for mutual deliveries and to provide for the associated payments, have agreed as follows:—

Article 1

(*a*) The Governments of the United Kingdom and of the Union of Soviet Socialist Republics have agreed to deliver goods to one another. Such mutual deliveries of goods shall be regulated by special lists to be agreed upon between the two Contracting Parties. Such lists may be supplemented or modified by agreement between the two Contracting Parties.

(*b*) In the event of either Contracting Party requesting the other to act as its agent in the purchase of any goods in third countries, such transaction shall not fall within the scope of this Agreement.

Article 2

Unless otherwise agreed in writing delivery of goods in accordance with Article 1 of this Agreement shall be taken:—

(*a*) in cases where shipment is made in vessels other than those of the seller, at the port of shipment; and

(*b*) in cases where shipment is made in the vessels of the seller, at the port of discharge.

Article 3

(*a*) The prices to be charged by the seller to the purchaser for the goods to be delivered in accordance with Article 1 of this Agreement shall be based on world prices. However, in regard to the price of any commodity in respect of which the

Government of the United Kingdom have or shall have an agreement with the Government of any foreign country concluded after 2nd September, 1939, the Union of Soviet Socialist Republics shall receive treatment at least as favourable as that country.

(*b*) Prices shall in every case be calculated f.o.b. port of shipment, and the buyer shall pay the freight from such port onward and shall bear the risks of maritime transportation.

(*c*) All contracts shall be concluded in sterling, and prices which are normally quoted in United States dollars shall be converted into sterling at the official middle rate of exchange for United States dollars in London on the day on which the contract is concluded.

Article 4

The British Government War Risks Insurance Office and the Trade Delegation of the Union of Soviet Socialist Republics in the United Kingdom shall negotiate the insurance against marine and war risks of the goods purchased by Soviet organisations under the present Agreement, of the Soviet ships effecting the transportation of such goods, and also of gold and of such other cargoes and ships effecting the transportation of these cargoes belonging to the Union of Soviet Socialist Republics as may from time to time be agreed upon between the two Contracting Parties.

Article 5

(*a*) All payments between the United Kingdom and the Union of Soviet Socialist Republics for the deliveries provided for in this Agreement shall be made, upon receipt of advice that the delivery of the goods has been taken, in sterling through an Account in the name of the State Bank of the Union of Soviet Socialist Republics to be established at the Bank of England (hereinafter referred to as "the Account"). For this purpose, the Bank of England and the State Bank of the Union of Soviet Socialist Republics shall agree together upon the necessary technical measures for effecting payments hereunder.

(*b*) Repayment by the Government of the Union of Soviet Socialist Republics of existing indebtedness under the 1936 Export Credit Guarantee Agreement may also be made in each three-monthly period through the Account, up to the value of their deliveries of goods hereunder during that period.

(*c*) Such other payments may also be made through the Account as the two Banks, with the approval of their respective Governments, may from time to time agree.

ARTICLE 6

The Account shall be balanced on 31st October, 1941, and at the end of every three months thereafter. Any debit balance shall be discharged as follows:—

(*a*) As to 40 per cent. by sterling received by the State Bank of the Union of Soviet Socialist Republics from the sale to the Bank of England of United States dollars or of gold to be delivered at centres agreed upon between the Bank of England and the State Bank of the Union of Soviet Socialist Republics; or by delivery of platinum up to such amounts as the Government of the United Kingdom may from time to time specify, the sterling value of such platinum to be agreed between the two Governments.

Sales of United States dollars to the Bank of England shall be made at the official middle rate of exchange for United States dollars in London on the day of sale.

Unless otherwise agreed between the Bank of England and the State Bank of the Union of Soviet Socialist Republics, sales of gold to the Bank of England shall be made at the official price of gold in the United States of America on the day of sale, and the United States dollars shall be converted into sterling at the official middle rate of exchange for United States dollars in London on the day of sale.

(*b*) As to 60 per cent. in sterling to be paid to the Account by the Government of the United Kingdom by way of advance to the Government of the Union of Soviet Socialist Republics.

Any credit balance shall be at the free disposal of the State Bank of the Union of Soviet Socialist Republics.

ARTICLE 7

(*a*) The total of the advances outstanding made hereunder by the Government of the United Kingdom to the Government of the Union of Soviet Socialist Republics shall not exceed the sum of 10 million pounds. When the total of the advances outstanding approaches the said 10 million pounds the Contracting

Parties shall enter into negotiations for a further credit to be granted on the same terms and to be used for the same purposes as are laid down in this Agreement.

(*b*) The amount of each advance so made shall be repayable in sterling or United States dollars, at the option of the Government of the Union of Soviet Socialist Republics, in five equal yearly instalments, of which the first shall be paid at the end of the third year and the last at the end of the seventh year, reckoned in every case from the date on which the advance was made.

(*c*) Interest, reckoned in every case from the date on which the advance was made, shall be payable on the amount of the advances outstanding, half-yearly on 30th April and 31st October, at the rate of three per cent. per annum in sterling or United States dollars at the option of the Government of the Union of Soviet Socialist Republics.

(*d*) The conversion of sterling into United States dollars for the purpose of calculating payments under this Article shall be effected at the official middle rate for the United States dollar in London on the day on which payment falls due.

Final Article

This Agreement shall come into force on the date of signature, and shall remain in force for the whole period of the utilisation of the credits and of the effecting of deliveries under this Agreement.

In witness whereof the undersigned, duly authorised by their respective Governments for that purpose, have signed the present Agreement and have affixed thereto their Seals.

Done at Moscow, in duplicate, the sixteenth day of August, nineteen hundred and forty-one, in English and Russian, both texts having equal force.

On behalf of the Government of the United Kingdom of Great Britain and Northern Ireland:

(L. S.) R. STAFFORD CRIPPS.

On behalf of the Government of the Union of Soviet Socialist Republics:

(L. S.) A. MIKOYAN.

Senator WATKINS. May I ask you further, are there any economic features or sections in the treaty of alliance between Great Britain and Russia that might in any way affect us, or are there any provisions of any kind with respect to economics in that treaty of alliance between those two countries?

Mr. THORP. I will have to check on that. If there are, we will send them along, too.

Senator WATKINS. Send me a copy of that treaty, as well, if you will, please.

Mr. THORP. Yes, sir.

(Text is set forth below:)

TREATY OF ALLIANCE IN THE WAR AGAINST HITLERITE GERMANY AND HER ASSOCIATES IN EUROPE AND OF COLLABORATION AND MUTUAL ASSISTANCE THEREAFTER CONCLUDED BETWEEN THE UNION OF SOVIET SOCIALIST REPUBLICS AND THE UNITED KINGDOM OF GREAT BRITAIN AND NORTHERN IRELAND

His majesty The King of Great Britain, Ireland, and the British Dominions beyond the Seas, Emperor of India, and the Presidium of the Supreme Council of the Union of Soviet Socialist Republics;

Desiring to confirm the stipulations of the Agreement between His Majesty's Government in the United Kingdom and the Government of the Union of Soviet Socialist Republics for joint action in the war against Germany, signed at Moscow on the 12th July, 1941, and to replace them by a formal treaty;

Desiring to contribute after the war to the maintenance of peace and to the prevention of further aggression by Germany or the States associated with her in acts of aggression in Europe;

Desiring, moreover, to give expression to their intention to collaborate closely with one another as well as with the other United Nations at the peace settlement and during the ensuing period of reconstruction on the basis of the principles enunciated in the declaration made on the 14th August, 1941 by the President of the United States of America and the Prime Minister of Great Britain to which the Government of the Union of Soviet Socialist Republics has adhered;

Desiring, finally, to provide for mutual assistance in the event of an attack upon either High Contracting Party by Germany or any of the States associated with her in acts of aggression in Europe.

Have decided to conclude a treaty for that purpose and have appointed as their Plenipotentiaries:—

His Majesty The King of Great Britain, Ireland, and the British Dominions beyond the Seas, Emperor of India,

For the United Kingdom of Great Britain and Northern Ireland: The Right Honourable Anthony Eden, M. P., His Majesty's Principal Secretary of State for Foreign Affairs;

The Presidium of the Supreme Council of the Union of Soviet Socialist Republics:

M. Vyacheslav Mikhailovich Molotov, People's Commissar for Foreign Affairs,

Who, having communicated their Full Powers, found in good and due form, have agreed as follows:—

PART I

Article I

In virtue of the alliance established between the United Kingdom and the Union of Soviet Socialist Republics the High Contracting Parties mutually undertake to afford one another military and other assistance and support of all kinds in the war against Germany and all those States which are associated with her in acts of aggression in Europe.

Article II

The High Contracting Parties undertake not to enter into any negotiations with the Hitlerite Government or any other Government in Germany that does not clearly renounce all aggressive intentions, and not to negotiate or conclude except by mutual consent any armistice or peace treaty with Germany or any other State associated with her in acts of aggression in Europe.

PART II

Article III

(1) The High Contracting Parties declare their desire to unite with other like-minded States in adopting proposals for common action to preserve peace and resist aggression in the post-war period.

(2) Pending the adoption of such proposals, they will after the termination of hostilities take all the measures in their power to render impossible a repetition of aggression and violation of the peace by Germany or any of the States associated with her in acts of aggression in Europe.

Article IV

Should one of the High Contracting Parties during the post-war period become involved in hostilities with Germany or any of the States mentioned in Article III (2) in consequence of an attack by that State against that Party, the other High Contracting Party will at once give to the Contracting Party so involved in hostilities all the military and other support and assistance in his power.

This Article shall remain in force until the High Contracting Parties, by mutual agreement, shall recognise that it is superseded by the adoption of the proposals contemplated in Article III (1). In default of the adoption of such proposals, it shall remain in force for a period of twenty years, and thereafter until terminated by either High Contracting Party, as provided in Article VIII.

Article V

The High Contracting Parties, having regard to the interests of the security of each of them, agree to work together in close and friendly collaboration after the reestablishment of peace for the organisation of security and economic prosperity in Europe. They will take into account the interests of the United Nations in these objects, and they will act in accordance with the two principles of not seeking territorial aggrandisement for themselves and of non-interference in the internal affairs of other States.

Article VI

The High Contracting Parties agree to render one another all possible economic assistance after the war.

Article VII

Each High Contracting Party undertakes not to conclude any alliance and not to take part in any coalition directed against the other High Contracting Party.

Article VIII

The present Treaty is subject to ratification in the shortest possible time and the instruments of ratification shall be exchanged in Moscow as soon as possible.

It comes into force immediately on the exchange of the instruments of ratification and shall thereupon replace the Agreement between the Government of the Union of Soviet Socialist Republics and His Majesty's Government in the United Kingdom, signed at Moscow on the 12th July, 1941.

Part I of the present Treaty shall remain in force until the re-establishment of peace between the High Contracting Parties and Germany and the Powers associated with her in acts of aggression in Europe.

Part II of the present Treaty shall remain in force for a period of twenty years. Thereafter, unless twelve months' notice has been given by either Party to terminate the Treaty at the end of the said period of twenty years, it shall continue in force until twelve months after either High Contracting Party shall have given notice to the other in writing of his intention to terminate it.

In witness whereof the above-named Plenipotentiaries have signed the present Treaty and have affixed thereto their seals.

Done in duplicate in London on the 26th day of May, 1942, in the English and Russian languages, both texts being equally authentic.

ANTHONY EDEN.
V. MOLOTOV.

Senator WATKINS. I also understand France has a treaty of alliance with Russia, is that correct?

Mr. THORP. I do not know.

Senator WATKINS. Would you check, and if there is, may I have a copy of that?

Mr. THORP. Yes, sir.

(Text is set forth below:)

TREATY OF ALLIANCE AND MUTUAL ASSISTANCE BETWEEN THE USSR AND THE FRENCH REPUBLIC

The Presidium of the Supreme Soviet of the Union of Soviet Socialist Republics and the Provisional Government of the French Republic, determined to prosecute jointly and to the end the war against Germany, convinced that once victory is achieved, the reestablishment of peace on a stable basis and its prolonged maintenance in the future will be conditioned upon the existence of close collaboration between them and with all the United Nations; having resolved to collaborate in the cause of the creation of an international system of security for the effective maintenance of general peace and for insuring the harmonious development of relations between nations; desirous of confirming the mutual obligations resulting from the exchange of letters of September 20, 1941, concerning joint actions in the war against Germany; convinced that the conclusion of an alliance between the USSR and France corresponds to the sentiments and interests of both peoples, the demands of war, and the requirements of peace and economic reconstruction in full conformity with the aims which the United Nations have set themselves, have decided to conclude a Treaty to this effect and appointed as their plenipotentiaries:

The Presidium of the Supreme Soviet of the Union of Soviet Socialist Republics—Vyacheslav Mikhailovich Molotov, People's Commissar of Foreign Affairs of the USSR

The Provisional Government of the French Republic—Georges Bidault, Minister of Foreign Affairs

Who after exchange of their credentials, found in due form, agreed upon the following:

Article I

Each of the high contracting parties shall continue the struggle on the side of the other party and on the side of the United Nations until final victory over Germany. Each of the high contracting parties undertakes to render the other party aid and assistance in this struggle with all the means at its disposal.

Article II

The high contracting parties shall not agree to enter into separate negotiations with Germany or to conclude without mutual consent any armistice or peace treaty either with the Hitler government or with any other government or authority set up in Germany for the purpose of the continuation or support of the policy of German aggression.

Article III

The high contracting parties undertake also, after the termination of the present war with Germany, to take jointly all necessary measures for the elimination of any new threat coming from Germany, and to obstruct such actions as would make possible any new attempt at aggression on her part.

Article IV

In the event either of the high contracting parties finds itself involved in military operations against Germany, whether as a result of aggression committed by the latter or as a result of the operation of the above Article III, the other party shall at once render its every aid and assistance within its power.

Article V

The high contracting parties undertake not to conclude any alliance and not to take part in any coalition directed against either of the high contracting parties.

Article VI

The high contracting parties agree to render each other every possible economic assistance after the War, with a view to facilitating and accelerating reconstruction of both countries, and in order to contribute to the cause of world prosperity.

Article VII

The present treaty does not in any way affect obligations undertaken previously by the high contracting parties in regard to third states in virtue of published treaties.

Article VIII

The present treaty, whose Russian and French texts are equally valid, shall be ratified and ratification instruments shall be exchanged in Paris as early as possible. It comes into force from the moment of the exchange of ratification instruments and shall be valid for 20 years. If the treaty is not denounced by either of the high contracting parties at least one year before the expiration of this term, it shall remain valid for an unlimited time; each of the contracting parties will be able to terminate its operation by giving notice to that effect one year in advance.

In confirmation of which, the above plenipotentiaries signed the present treaty and affixed their seals to it.

Done in Moscow in two copies, December 10, 1944.

On the authorization of the Presidium of the Supreme Soviet of the USSR

MOLOTOV

On the authorization of the Provisional Government of the French Republic

BIDAULT

The CHAIRMAN. Senator Sparkman.

Senator SPARKMAN. No questions.

The CHAIRMAN. Mr. Thorp, we are very grateful to you for your presentation. Thank you so much.

Dr. Clark, are you ready to proceed?

Mr. CLARK. Yes, sir.

FURTHER STATEMENT OF JOHN D. CLARK, COUNCIL OF ECONOMIC ADVISERS

The CHAIRMAN. When you appeared before the committee at the opening of these hearings time caught up with us and you were prevented from completing the statement you had planned. That was due to the fact that questions of the committee made it impossible for you to conclude. So the committee has invited you back, Dr. Clark, to sum up the situation as you see it.

Mr. CLARK. Secretary Brannan has assigned to me the responsibility to summarize the views and recommendations of the administration offered in the economic report of the President and in the statements in these hearings by department chiefs and by members of the Council of Economic Advisers.

In doing this, I shall be able to add the points which I was not able to bring forward before.

When there are as many cross-currents in the business world as there are now, the citizen is disposed to read a few of the conflicting judgments about the situation and decide that it is too complicated for him to make any decision about the trend of the economy. The President of the United States and the members of this committee are not permitted to take that easy course. The Employment Act of 1946 requires him to make this report at this time and to set forth therein the current and foreseeable trends in the levels of employment production, and purchasing power, together with the program which he recommends to attain the declared policy of the Congress that all of the plans, functions, and resources of the Government shall be used, within certain limits, to promote maximum employment, production, and purchasing power.

This committee, established by the same statute, is enjoined to offer, as a guide to the standing committees, its findings and recommendations with respect to each of the main recommendations made by the President. Since any legislative program you may recommend must be prospective and can be valid only if it is relevant to the business conditions in the coming months, you cannot meet your obligations under the statute without reaching some conclusions about the probable course of the economy in that period. Even a negative conclusion that no action need be taken by Government would involve an affirmative judgment that the economic trend does not create a threat to the attainment of the objective of the Employment Act.

In some lines of business the excess of demand over supply which causes inflation is so obvious that the Congress has already begun to provide measures to restrain spiraling prices. The extension of rent control, and of control of exports, and the renewed waiver of antitrust law restraints upon agreements to channel steel and other key commodities into preferred uses are justified only because it is believed that demand in these areas is so great in comparison with the supply that socially desirable distribution of these goods cannot be attained through the free operation of the price mechanism.

The program now proposed by the President in his annual economic report, which you are studying, is based upon the judgment that the postwar inflationary forces are still strong and will probably become more active in the near future, requiring the provision of measures now to curb spiraling prices. This is the interpretation of the economic situation presented to the President by the Council of Economic Advisers, and it has been discussed at length during these hearings by members of the Council.

The anti-inflationary measures recommended by the President upon the advice of the Council are those which he first pressed upon the Congress in the special session in November 1947, following a report to him by the Council that the period of relative stability in the first three-quarters of the year had given way to a dangerously strong inflationary situation. I have already called to your attention the quarterly data of gross national product, national income, and personal income, each of which, after jumping upward in the final quarter of 1947, climbed higher in each quarter of 1948, while industrial production failed to increase. The vindication by events of the report by the Council to the President on October 1, 1947, encourages the hope that the economist has professional tools which enable him to analyze business conditions correctly, and what is perhaps more important, to analyze them quickly.

There I wish to add that the data on national product, national income, and personal income for 1948, included in the tables in the economic report to which I referred in my earlier statement, have now been revised by the Department of Commerce as the year-end figures became more certain, resulting in an increase in each of these figures in every quarter of the year, and in the last quarter of the year increasing by enough to make the increase over the third quarter greater than that to which I called your attention before.

The CHAIRMAN. In other words, it emphasizes the position which you took at that time?

Mr. CLARK. Yes. I think it fortifies the judgment I offered that we ended 1948 with the economy in a strong inflationary movement.

The CHAIRMAN. Do you have those modified figures?

Mr. CLARK. I do not. They were just shown me in pencil this morning.

The CHAIRMAN. When will they be available?

Mr. CLARK. Immediately.

The CHAIRMAN. Will you see that they are made a part of the record?

Mr. CLARK. I will include them, if you wish, in the table you have asked me to prepare, to be inserted in my earlier statement. (See table II p. 136.)

The CHAIRMAN. Very good.

Mr. CLARK. Since October 1947 the Council has made a report to the President each quarter, with many intermediate reports, and upon each occasion it has renewed its warnings that the postwar inflation had not been liquidated and therefore must be feared. The course of business in 1948 confirmed these judgments, although only once did business analysts generally agree with our view. With no increase in industrial production, wages crept upward, utility charges and other costs of production increased, and the price index of the 700 commodities other than farm and food products gained 5 percent.

The price trend of these 700 commodities is more important than that of food in determining the course of the economy, because the price of food does not directly influence the cost of production of other goods. The current decline in food prices may have some effect upon the size of wage demands, but there is no indication that it will cause labor to forego a drive for another round of wage advances.

Inflationary forces have been so strong that they withstood a terrific jolt when grain prices collapsed a year ago and they continued to press the price level upward during the rest of the year notwithstanding the erratic performance of prices of farm and food products. More than once in the past 2 years the price level has seemed to become stable as some prices have declined, and soft spots and reduced demand have appeared in the economy, but each time the inflationary movement has been resumed. Conditions are developing for the same thing to happen again.

We can never forget that the collapse of an inflationary boom is always around the corner, and for all the Council knows that corner may be immediately ahead. We have our data about all kinds of identifiable business conditions, but those data fail to inform us whether and when business sentiment will change. If this inflationary boom levels off by itself, it will be a new experience. The typical ending has been a sudden collapse followed by a rapid deflation, and the collapse has occurred unexpectedly when the business indexes are most favorable. Business sentiment changes some night for reasons and at a time which no one can foresee. Inventories which were comfortable the day before now appear to be dangerously large and orders are canceled. Business plans lose their attractive aspect and are put on the shelf. Production is cut back, workers are laid off, and the deflationary spiral is under way.

We have no experience to support the belief that a strong and long-continued inflation which is permitted to run its course can have any other ending than a business collapse. Those who interpret the current situation as the end of advancing prices and the beginning of a period of readjustment which will soon turn into full production and employment at slightly lower prices not only see an economy far more docile than the one the Council studies, but they fail to explain how forces powerful enough to drag the economy back from a beginning recession are not powerful enough to withstand counteracting forces which, according to their own premise, cannot be very strong. I am emphatic about the need to control inflation because I have a deep respect for the devastating strength of forces of deflation which feed upon themselves, and I do not join in the confidence that if they once take charge of the economy they will be easily controlled, or that they will evaporate and need no control.

While the members of the Council have said that in their analysis they find greater significance in the facts that the number of workers employed in civilian production in January was greater than a year ago when the inflationary boom was most active and that the flow of income to consumers is greater, we are fully aware that unemployment increased 720,000 during the month. There is no sound basis for saying that this increase was more than seasonal. We have no experience by which to determine the seasonal trend in a labor force of more than 60,000,000. It was not until immediately before the war that we had statistics of unemployment which permitted serious study of seasonal trends in a much smaller labor force, and the war upset that foundation. Since the war, we have found seasonal trends in all parts of the producing economy smothered by conditions of short supply of all kinds of goods. We do know that in January a year ago the increase in unemployment was 420,000, but I have described the conditions at that time and they did not permit normal seasonal changes to appear.

It will be April before we will know whether a real decline in employment has set in. It is because we foresee conditions arising at that time which in our opinion will again tighten the labor market that we have not changed the advice we have given to the President about the trend of the economy.

In April, the increase in agricultural employment will be setting in. We will feel more effect of the increasing expenditures of the Government for defense and for foreign aid. The Government will end the accumulation of a Treasury surplus in March, and in April it will begin to spend more than it collects from the taxpayers. Bank reserves will no longer be suffering the effect of large transfers of funds to the Federal Reserve banks. And businessmen, who are too prone to listen to tales of distress elsewhere even when they consider their own prospects bright, may be expected to accept the significance of the report in the New York Times on February 13, 1949, that [reading]:

> Not one of five leading engineering companies could cite a single plant construction contract that had been canceled because of business recession. * * * Large new contracts for either engineering services or new plant construction are moving ahead because demand in many lines is still running ahead of supply.

Taxation: The program proposed by the President includes certain policies to reduce inflationary pressures by reducing general demand, and others to hold specific points of pressure by direct action. In the first category are the recommendations that taxes be increased $4,000,000,000 and that the credit control powers of the Federal Reserve System be strengthened.

I need not discuss the desirability of providing revenue large enough to permit a substantial payment upon the Government debt, and perhaps there is no need to discuss the suggestion offered in some of your hearings last year that an increase in income taxes is inflationary and not deflationary. The current argument of those opposing the tax proposal is that its effect would be so deflationary as to bring on a depression.

Would the specific proposal of the President to impose the greater part of the additional tax burden upon corporate profits result in reducing the incentive of business managers to invest? I have no doubt that a unanimous vote in the affirmative would come from a poll of businessmen, but I have found that their policies have to be ascertained by considering what they do rather than what they say.

And on account of an item in the morning paper I wish to add a comment here, Mr. Chairman. The committee was responsible for a remarkable survey of business purpose by Dun & Bradstreet, something less than 2 years ago. Our admiration for that report was both on account of the comprehensiveness of the material and on the marvelous technique of the operation itself.

You may recall that they commented upon the fact that at that time when there were the same kind of suggestions of a lagging business situation that we have now, they found businessmen quite generally very optimistic about their own firm's success in the near future. They were optimistic, but not enthusiastic, about the success of the industry, of the other firms in the same line of business; and they were rather pessimistic about the prospects of the people beyond their industry.

The nearer they were to the facts, the more confident they were, and the further away they were from the facts, the more pessimistic they became.

This morning's paper reports that yesterday the National Industrial Conference Board reported upon a survey of business sentiment which again showed that businessmen as a whole were pretty sure that we were in for some degree of recession, but three out of five of them thought their own businesses were going to have a bigger year than last year.

That survey was made after certain events early in November, which we have been told badly upset business confidence.

Looking at what they have done, we find that corporate profits of 21.8 billion dollars before taxes and of 12.8 billion dollars after taxes in 1946 caused American corporations to institute a tremendous campaign of investment in new plant and equipment and that corporate profits of 18.1 billion dollars after taxes in 1947 was large enough to induce corporate managers to expand new investment in plant and equipment in 1948. The proposal of the President would leave corporate profits after taxes at a level at least as high as the profit figures in 1947 and far above those of 1946.

Mr. HERTER. May I ask what exactly is the proposal of the President relative to this? I have not seen any figure mentioned at all with regard to corporate profits.

Mr. CLARK. Of course, there has not been any specific proposal made by the administration. We have only the statement in the economic report that there should be an increase of $4,000,000,000, most of which should be in the shape of increased taxes upon corporate profits.

State and gift taxes also were recommended. Beyond that he suggested that perhaps other sources of new taxes might have to be sought, depending upon how much was imposed upon the two designated sources.

The whole four billion could be imposed upon business corporate profits and leave my statement true; of course, assuming that this year is what we think it is going to be, with business activity and business profits as high as the current rate.

Mr. HERTER. Does that still make allowance for the usual retained earnings for replacement of equipment or increase in equipment, on the same purchasing level as in 1946 or 1947? In other words, does it make an adjustment for depreciation of the dollar in that period of time?

Mr. CLARK. I would have to make a direct computation. I am sure you would find that net profits would be more than in 1946. The comparison with 1947 I do not have in mind because I cannot immediately relate the increase in prices to the added amount of taxes.

A second argument against increasing the taxes on corporate profits is that this would reduce the funds available for new investment and it is said that equity funds are not available in capital markets and that it is undesirable or dangerous for business to use borrowed funds, which are available in large amounts. Despite the persistent assertion that business cannot attract equity capital, there is little proof that this is true. The American Telephone & Telegraph Co. has had no trouble in securing very large additions to its equity capital by the simple device of offering attractive subscription rights to its stockholders, who first buy debentures and then turn them into stock.

The fact is that corporate managers have not made any serious attempt to secure equity capital because they are unwilling to dilute their capital structures under present market conditions and they find it very attractive to finance their needs by loans.

Senator FLANDERS. Mr. Clark, what are the present market conditions which make them unwilling to dilute their capital?

Mr. CLARK. It means offering rights to stockholders at an attractive rate which would be below the market, which would mean that the subscription price for new stock would not, in their minds, represent the true value of the stock.

Senator FLANDERS. Isn't that just simply a rather roundabout way of saying that nobody wants to buy common stocks except at discount?

Mr. CLARK. As related to the offering of subscription rights to stockholders, I think that has always been true, that you must offer at a price somewhat below the market, which is a discount.

Senator FLANDERS. I wonder if that has always been true. I can remember when some rights have commanded a premium and I think you can too.

Mr. CLARK. The rights have commanded a premium because the right itself is offered below the market. That is the reason a premium is offered by the market, for the rights. Many transfers take place in that way.

Senator FLANDERS. I think your memory and mine can go back to the time when it was considered a privilege to be allowed to subscribe to the stock of certain industries.

Mr. CLARK. At a price at or above the market?

Senator FLANDERS. At par, we will say, and the securities concerned have gone to above par almost immediately after the stock went onto the market. Those conditions no longer exist.

Mr. CLARK. You are speaking of completely new issues of new enterprises?

Senator FLANDERS. Not of new companies, but of additions.

Mr. CLARK. I have never known of a time, Senator, when a subscription right was attractive when offered at a price above the market.

Senator FLANDERS. There certainly has been trading in them in years past, but nothing of that sort has happened lately.

It seems to me you are making quite a strong statement when the inference, as I read it here, is that there is easy access to the security market for equity capital at the present time.

Mr. CLARK. No; what I have said, Senator, is that there is an abundant supply of loan capital.

Senator FLANDERS. That is true.

Mr. CLARK. And that we have no basis upon which to agree with the current statement in financial circles that equity capital cannot be obtained.

Senator FLANDERS. Have we not had examples of withdrawals of offers of equity capital?

Mr. CLARK. We have, because the market has dropped away from the prospective offering price and they have not been willing to change the offer. Now when prior subscription rights are offered to stockholders, it actually makes no difference to the interest of the stockholder just what price is paid and how much goes into the treasury of the company, provided he has exactly the same right every other stockholder has to participate in that offering. The corporate managers are disinclined to seek new capital at that rate when the stock-market price is as low as it is today.

Senator FLANDERS. Is not that stock-market price a reflection of the bad state of the equity market?

Mr. CLARK. I never feel that I am competent to interpret the stock market, Senator. I long ago decided that I did not know what forces determined stock-market quotations.

Senator FLANDERS. Well, it looks to me as though the equity market was not good.

Mr. CLARK. Well, I can see plenty of reasons why you should feel that way. I offer reasons why I think, if it were actually tested, they would find it was pretty good. The point is that we simply do not know.

Senator FLANDERS. It would seem to me rather unwise to indicate that the preference of business is for loans rather than equities, in view of the fact that the equity market is such, from indications you might have had on stock prices at any time within the past 2 or 3 years, as to indicate that the equities would have to be diluted in order to be sold. They would have to be sold at something resembling the quotations of comparable securities of companies on the market.

Mr. CLARK. Oh, yes, sir; or lower.

Senator FLANDERS. Yes; or lower. That seems to me to make it unnecessary to suggest that loans are in themselves attractive. They are attractive in comparison, but not by themselves, necessarily. In other words, the equity market is in bad shape.

Mr. CLARK. The interest paid on loans is not only very low under the cheap-money policy of the Government but it can be deducted from income in computing income tax. Nor is there any reason to be concerned about the dangers of debt capital. The dogma which arose more than a century ago when interest rates were high, renewal or substitution of loans at maturity if times were hard was seldom accomplished, and bankruptcy was rigorously imposed upon default, has little validity in these days when interest rates are very low, many credit openings are arranged for cases of hardship, and defaults seldom lead to dissolution but only to reorganization of going enterprises.

Senator FLANDERS. Will you excuse me again?

Mr. CLARK. Yes, sir.

Senator FLANDERS. You said that very softly, "but only to reorganization of going enterprises." That is quite a mouthful.

Mr. CLARK. Well, from the standpoint of the stockholders who were squeezed out, of course it is pretty bad. From the standpoint of the economy as a whole it is a very different matter.

Senator FLANDERS. Well, still that needs to be underlined rather than passed over lightly, because it is exactly that danger of squeezing out the equities of the owners of a business, which is the danger of financing by debt instead of equities.

Mr. CLARK. I am quite glad you did underscore it. But let me add this proviso: Under our current bankruptcy law, even the owners are not squeezed out very often, because we have made provision for compulsory reorganization with the owners left in.

The business world itself no longer believes this dogma about the virtue of equity capital and the vice of debt capital. The most distinguished names in American finance are found in the lists of directors of the great insurance companies, whose funds must be administered with the caution and prudence imposed upon the guardian of trust accounts and must be placed in investments which are not expected to default. These funds have been and are now the sources of the most spectacular debt financing in multi-million-dollar terms. No one will believe that the insurance directors who make the loans believe they are assisting the borrowing corporation to place itself in jeopardy or that, on account of the loan, it may be forced into trouble or be threatened with liquidation in a period of business depression.

The CHAIRMAN. It occurs to the Chair to intervene at this point to remark that a study of the monopolistic conditions which exist in our economy will go far to explain the lack of public financing of new enterprises. It is precisely because of competition with private placement from such organizations as the life-insurance companies, that security dealers are unable to find a market for their wares. There has been considerable statement to that effect among the security dealers of the country and among the bankers who have vigorously criticized the private-placement policy of the large insurance companies.

Added to that is the fact—and I think it is not denied; it certainly has been revealed over and over again in congressional hearings—that when the large insurance companies make loans they do not want to be bothered with a loan that is less than half a million dollars, or certainly not less than a quarter of a million dollars, because, as they frankly say, the task of servicing such small loans is an annoyance that they do not want to pursue.

Mr. HERTER. One indication here is that the insurance companies, with all these fancy directors, are going into the equity market, which is just the opposite of what they are doing. In other words, they are going far away from the equity market; are they not? Their financing is all debt financing.

Mr. CLARK. That is what all of this relates to, Mr. Herter.

Mr. HERTER. The only time financing is done they may well be diluting the value of the equities in the process.

Mr. CLARK. Well, yes.

The CHAIRMAN. I think the Congressman is commenting on what the chairman said, rather than what the witness said.

My point was that because the big insurance companies are going into debt financing in a very big way, they are to that extent closing the door to equity financing, particularly by small enterprise.

Mr. CLARK. Credit control has been so thoroughly studied by this committee that I shall offer only the briefest summary of the reasons for the recommendation of the President that the Board of Governors of the Federal Reserve System be given the authority to increase the statutory reserve requirements of the member banks and of banks belonging to the deposit insurance system by 10 percentage points.

The tightening of bank credit is the oldest of the recognized measures to reduce overexuberant business activity. The use of this traditional policy is not related to any condition of overexpansion of bank credit itself, but arises from the fact that the commercial banks, perhaps to their misfortune, happen to be the important cogs in a machine which is easily subjected to social control for this purpose.

Although it is a point fully understood by the members of the committee, it is important to emphasize the fact that the central bank authorities are not now able to make very effective use of the original plan to influence the volume of bank credit by changing the discount rate because the Government debt-management policy forces the continuance of low interest rates. The policy of supporting the price of long-term Government bonds at not less than par must be maintained, and the President has said in such vigorous terms that it will be maintained that the financial world seems to have accepted the fact. The result has been that the effort of the past year to overturn the policy has subsided, the market is taking care of itself above the peg point, and the difficulties which arose because holders of bonds were disturbed by constant speculation whether the policy would be abandoned have disappeared.

The debt-management policy, like the farm price support program and many other national policies which our people are determined to continue is inflationary or is an obstacle to some anti-inflationary policy. This is an inevitable characteristic of our vast economy and it is our task to find ways while continuing those policies to meet dangers to continued prosperity from other sources. In the case of bank credit such a way is found in requiring larger bank reserves.

Installment credit: One selective control of credit which the President recommends is that of installment credit and the authority of the Board of Governors in this respect as well as in the matter of raising reserve requirements should be permanent.

Installment credit creates an especially precarious situation because it increases the demand for goods in periods of great prosperity and then, by largely drying up in periods of recession when contract debtors are straining their resources to liquidate their indebtedness, it contributes a double push to the deflation. There is another reason, from the standpoint of social policy, for controlling installment credit. It is disclosed in the very argument often made by objectors that it prevents a sale to a housewife who has only $5 in her purse and who would yield to the sales appeal of nothing down and a long time to pay.

Mr. HERTER. Mr. Clark, you heard the discussion yesterday with Mr. McCabe?

Mr. CLARK. A part of it, including Congressman Patman's first questions about installment credit.

Mr. HERTER. At the very end of his testimony he spoke at some length with regard to mortgages and the very sharp increase in the volume of mortgages in the last 3 years, which in volume exceeds all the other consumer credit by perhaps 100 percent. I wonder if you would care to comment on that, because there, again, you have a conflict in this credit structure through the housing legislation, the thing which, by making more and more credit easily available for housing construction, creates the very situation that you, in effect, are talking about in the last sentence of that paragraph.

Mr. CLARK. You have described the dilemma that we face constantly in this very uneven and vast economy. The increase in credit through easy loans for housing purposes is inflationary, and if we continue the policy it amplifies the problem we meet in trying to control the inflation.

But like other policies that have been very deliberately adopted, have had some period of test and now seem to be thoroughly approved, that policy is accepted by the people and they wish to have it continued. That simply makes our task that of finding a way to hold inflation while permitting mortgage increases to take place.

There is not nearly the same reason for the free use of installment credit to the extent that it would be offered, by those who offer easy terms in lieu of lower prices in the competitive structure. Therefore, we recommend the control of installment credit.

Senator FLANDERS. Would you be favorable to the provision in the Republican Senate housing bill for an elastic program on public housing, depending on the state of housing materials and housing labor, as to whether they were tight or available?

Mr. CLARK. Usually I back away rapidly from any question about housing, because there is a field so vast I never thought I knew much about it.

Senator FLANDERS. This element is in your field.

Mr. CLARK. On this one point I am able to say this: You refer to the proposal that instead of preparing a program for a total amount of public housing within a given period, to be divided equally over the period, that there be an arrangement under which the operation will fluctuate with certain business conditions?

Senator FLANDERS. Yes. As a matter of fact, we put into the bill that the President should consult with you and your associates as to whether the program at a given time would or would not serve to increase inflation, or would or would not serve to mitigate deflation. You would not feel averse to being asked that question?

Mr. CLARK. Well, my whole difficulty with the proposal is whether it is possible to shift a 5 or 7 year program periodically, or whether the practical difficulties of operation are not such as to require that when you start you must go on. That is true of most public works.

A very high percentage of the ultimate cost in our public works construction is pushed into the preliminary stages. If I were simply an ivory tower economist who does not have any consideration for the practical problems, I think I would rather like the proposal, Senator.

Senator FLANDERS. I wonder if this housing thing is not a little bit different from a great irrigation undertaking, or something of that sort? It consists of a multitude of comparatively small undertakings which can be completely prepared for and would be completed within a year's time, that is, it does not extend for over a year. It would seem to me that is one of the points where you could make the best and most effective use of the holding back, or the rapid initiation of Government projects.

Mr. CLARK. I would have to ask the questions of those who have administered this kind of operation before I would have any basis for knowing whether it is elastic enough to permit of that.

Senator FLANDERS. You have no definite allergy to the proposal?

Mr. CLARK. None at all.

Senator MYERS. I would think, Mr. Chairman, that once the program is undertaken, particularly in a period of a critical shortage of rental housing, it would be extremely difficult to resist public demand for a continuation of that program.

Mr. CLARK. I would suspect that would happen.

Mr. HERTER. Slight political pressures here and there.

Senator SPARKMAN. Aside from that, Doctor, if you followed that plan, remembering that public housing is to benefit a particular segment of our people—the very lowest income group of our people—are you not placing the whole burden of preventing this inflation upon that low income bracket and making them pay the price?

Mr. CLARK. Not the whole burden.

Senator SPARKMAN. Well, if you take away the housing you are.

Mr. CLARK. I understood the proposal was that the Council of Economic Advisers should be called upon to advise the President as to whether conditions were such that under all circumstances it would be desirable to modify the program for a particular season. And all the circumstances, I think I have made quite clear in our minds, include a great many factors.

The CHAIRMAN. The Chair is prompted to make a remark in view of the fact that the distinguished Senator from Vermont referred to the Republican housing bill. I think this inquiry illustrates the dilemma in which the Republican Party now finds itself. It desires to adopt inflationary policies, that is to say, give the people what they want by way of housing, flood control, reclamation and other things which involve great expenditure, and still at the same time not desert the customary and old-time conservative policies of the Republican Party. We hope that perhaps we may be able to help you solve your dilemma, Senator. [Laughter.]

Senator FLANDERS. Senator O'Mahoney, you remind me of what my grandma used to say to me whenever I was leaving home. She used to say to me, "May the Lord prosper you in all your rightful undertakings."

The CHAIRMAN. I am happy to be compared to your grandmother. You may proceed, Doctor.

Mr. CLARK. An important anti-inflationary policy commended by the President which requires no additional legislation is the encouragement of individual savings. The Treasury Department has been very successful in its effort during the past year to gain the support of an army of volunteer workers and to secure the reestablishment of payroll deduction plans which had lapsed. The appeal of the Postal Savings System should not be limited by new restrictions and there should be an adequate appropriation for the savings bond campaign of the Treasury Department.

The recommendation of the President that permanent authority be granted to regulate trading in futures on the commodity exchanges grew out of our experience a year ago when we were most fortunate to avoid a disastrous collapse of business following a crash of grain prices which had been carried by speculative trading far above any level supported by conditions of demand and supply for grain itself. We have now had a second experience with the widespread impact of the wild gyrations which can take place only in a speculative market and could not occur in a market dealing with actual commodities. The legislation recommended by the administration would control the purely speculative trading while leaving true hedging sales and purchases free from control. All of the arguments in favor of speculative trading were marshalled years ago in opposition to the bill to regulate the securities markets, which few would now say has not proved to be desirable. It has been a matter of great good luck that in this postwar inflation we have not been forced to meet the problems of wild speculation in the securities markets, and this has had some responsibility for the fact that this business boom has lasted without a crisis much longer than experience indicated would be possible.

Among the recommendations of the President for policies which directly attack points of particular inflationary pressure, that for rent control requires only the comment that the housing situation clearly proves that the economy has not yet entered the phase where Government intervention in the making of business decisions is not needed. If rents were freed from control, the inflationary forces underlying our deceptively quiet economy would become too clear to be discounted.

The case for export controls is generally accepted. Some support such controls upon the ground that they are needed in order to channel goods in such manner as to accomplish the purpose of the foreign-aid program, but there is inherent in this argument a recognition that the supply of certain commodities required for that program is too small in relation to total demand to permit the allocation of those goods to be made by the operation of the free-market mechanism.

Control of prices and wages: The recommendations of export controls, mandatory allocation powers, and of limited price and wage controls need to be considered together. In the first published report of the Council of Economic Advisers upon this problem, the report upon the impact of the foreign-aid program upon the domestic economy, the point was stressed that there were specific inflationary pressures affecting the prices of key commodities which particularly affect the cost of living and the costs of production. The conclusion then reached that general anti-inflationary measures affecting the entire economy should be supplemented by authority to apply specific controls of the prices to these key commodities is valid today.

Consumers' prices have been receding slightly, but the prices of many commodities which are important in determining the costs of production of manufactured articles have continued to rise. It is because there is a chain reaction when these prices move upward that direct action against price increases is necessary in order to break the circle of spiraling inflation.

The most important of these key commodities is steel, the cost of which enters in some way into every productive process. Second in importance may be coal, for most industrial power is produced by coal, and increases in its price spread their influence throughout the producing industries very rapidly. These two commodities are of great importance in another respect. The wage contracts negotiated in the steel and coal industries have had strong influence upon other wage negotiations even in industries in very different economic circumstances. A rise in wages in the steel industry tends to establish a pattern, and labor leaders now look upon the steel corporations as being especially vulnerable to new wage demands. Not only are profits running at a very high rate, but the pressure of demand clearly makes it possible for the steel producers to increase prices if wages are raised; they have been raising prices recently, and they have stated their purpose to raise prices further if costs are increased.

The recommendation for authority to control the prices of essential commodities of prime importance in determining the cost of living or the cost of production of goods is not, therefore, entirely forward-looking. It relates to a situation which is now developing to a climax. If wage increases are again secured in the steel and coal industries and the prices of those commodities are again raised, the inflationary cycle will be given another twist which will carry the economy we know not where. If the Government is unwilling to take any action to halt price increases, the workers will have no reason to withhold their wage demands in the expectation that prices will not continue to rise, and the Government will have no excuse for asking the workers to make a sacrifice which the owners of business will not make.

If action is taken to prevent price increases, the Government will be justified in taking action to discourage wage increases and the President has already accepted that responsibility.

Senator FLANDERS. Excuse me a moment.

Mr. CLARK. Yes, sir.

Senator FLANDERS. Can you refer us to the document in which he has accepted that responsibility?

Mr. CLARK. I am now going right on with it.

A part of his proposal is that in order to prevent an established price ceiling from being broken through as the result of wage increases, there shall be a determination by a board that wage advances are justified before those wage advances shall be accepted as a reason for permitting a price increase. The process is awkward and the definition of justifiable wage increases will please no one, but the plan would work for a time long enough, perhaps, to gain our objective of breaking the inflationary circle and attaining a stability in economic relationships which will permit us to scrap this and all other anti-inflationary programs.

The feature of the President's proposal which should come into immediate use is the holding off of price advances by applying to the fixing of prices on goods the same rule which we have applied to the fixing of prices on labor.

Senator FLANDERS. I want to be sure I understand the following statement thoroughly. [Reading:]

> There shall be determination by a board that wage advances are justified before those wage advances shall be accepted as a reason for permitting a price increase.

There is nothing said about whether or not the wage advances shall be permitted, but only as to whether or not the price increase shall be permitted.

Mr. CLARK. Yes, sir.

Senator FLANDERS. So it is really not a wage-control measure; it is a price-control measure.

Mr. CLARK. Part of the price-control measure, and very indirect control of wages.

Senator FLANDERS. I would rather tend to discount the wage control in view of the wording. It is fundamentally a price-control measure.

The CHAIRMAN. Does the Senator imply that we ought to have wage controls without price controls?

Senator FLANDERS. No, I certainly do not imply that, but the earlier part of the document rather led me to expect we were going to have a wage control and a price control, but it seems to turn out to be only a price control.

Mr. CLARK. I think, Senator, I used an appropriate word to describe the general proposal; that is, that the Government, if prices are going to be held, should discourage wage increases.

Senator FLANDERS. What would be the way in which this would work? There would be negotiations and at what point would the Government intervene, after the contracts had been signed, or during the course of the negotiations?

Mr. CLARK. The process proposed in the President's message 6 months ago, which he repeated in the economic report, on this particular point, was that where a price had been imposed it should always be permissible for the producer to come to an administrative officer or board, present facts justifying a lifting of the price ceiling, and increasing cost of production would always be the more important basis for such an application.

That was utilized to set up this amount of influence upon the decision of the employer as to whether he would increase wages. He is warned that an increase in wages would have to meet certain standards, or he would not be permitted to use it as a basis upon which the price ceiling should be lifted.

Senator FLANDERS. However, I am still not clear at what stage in a negotiation the governmental decision that a price rise would not be allowed takes place. Does it not come in too late?

Mr. CLARK. The Government does not enter at all into the wage negotiation. That is still left entirely to collective bargaining.

Senator FLANDERS. Then it does not discourage undesirable wage increases?

Mr. CLARK. The employer is always warned that if he wants to use that prospective wage increase, which is under negotiation, as a basis for asking for an increase in price, he is going to have to be certain that the wage increase meets the criterion established by the law. That, I think, would very much discourage the granting of wage increases too liberally.

Senator FLANDERS. It would discourage the manufacturer; but not the union.

Mr. CLARK. Oh, that is true.

The administration asks authority to order a delay in increases of those prices which are designated for this kind of attention until the expiration of a limited period after notice of intent to raise a price. Within that period the firm must furnish any information called for relating to the price and the propriety of a price increase, and submit, if directed, to a public hearing. At the end of the period, the Government Administrator may turn to the other provisions of the proposed statute and fix the price on the commodity, or he may free the firm to make its own decision about its action. Those who have followed the hearings before this and other committees during the past 2 years when you have looked into business decisions will have little doubt that the enactment of this waiting time provision will have a real restraining influence upon businessmen who would otherwise advance their prices as they have been doing steadily.

Senator FLANDERS. May I go back again, Mr. Clark, to the beginning of this paragraph, the first sentence [reading]:

> The feature of the President's proposal which should come into immediate use is the holding off of price advances by applying to the fixing of prices on goods the same rule which we have applied to the fixing of prices on labor.

I do not know that rule having been applied anywhere except on railroad labor. Is there any other use of that rule?

Mr. CLARK. Yes, we have the same thing in the current labor law, the 80-day possible suspension of any final effective action by labor to compel an increase in its price.

Senator FLANDERS. You are favorable to retaining that in the law?

Mr. HERTER. That is only for emergency provision, when public health or safety is affected?

Mr. CLARK. It would only be an emergency where this would be applied because it would be utterly impossible for any administrative process to be set up to survey prices and price advances throughout the whole line of commodities.

Mr. HERTER. What in effect you are doing is freezing a whole line of prices.

Mr. CLARK. Threatening to freeze; ask authority to freeze.

Senator FLANDERS. I am still interested in knowing whether this phrase here does give the administration's benediction to that part of the Taft-Hartley law.

Mr. CLARK. Well, I understand within what is represented as the administration's labor bill, there is a distinct provision for a waiting period of 25 days or so. So I guess the administration has spoken, Senator, and has said yes, they believe there should be a waiting period in critical, important cases, within which time such forces as are available can be marshaled, whether they are only those of public opinion, or those of social force.

Mr. HERTER. But the administration's proposal does not require that; it merely asks that it be allowed to do that. It does not make it mandatory and there are no powers of enforcement to act for it.

Mr. CLARK. I read the bill. I thought the bill said, "they shall."

Mr. HERTER. I think not. There are no sanctions of any kind applied whatsoever.

Mr. CLARK. There are no sanctions in it, but I understood the legal obligation was in the strongest term that the law has available that "they shall not" have a work stoppage.

Mr. HERTER. Those without sanctions are not entirely effective, are they, and you cannot use the injunctive procedure either?

Senator SPARKMAN. There is sanction, though, if I recall correctly, that failure to abide by that becomes an unfair labor practice.

Mr. HERTER. And then what?

Senator SPARKMAN. They lose the benefits that they might otherwise get under the labor law.

Mr. HERTER. In some cases that does not bother them at all.

Senator SPARKMAN. I know, but it is some degree of sanction.

Mr. CLARK. Congressman, when I started to practice law, like all young lawyers I thought I was somewhat of an expert on constitutional law. There is a little remnant of that, so I read the Attorney General's opinion with interest. I think there is a sanction all right. I think that when by statute, a positive obligation is established by statute, you do not have to write the sanctions into the law if you can find them elsewhere. There is an effective measure for the enforcement of that available under the ordinary procedures of the rules of law and the President would have the power to step in.

The CHAIRMAN. That is a little beyond our jurisdiction.

Mr. HERTER. Of course, that might apply to strikes which have nothing whatever to do with labor causes at all.

Mr. CLARK. Oh, yes.

The recommendations of the President with respect to long-term problems and policies cannot be considered in this brief statement, but that which is concerned with the expansion of productive capacity needs to be discussed because it has immediate importance. The one way to stop inflation which all will applaud is to increase production.

The administration is not yet proposing the policies to bring about the enlargement of productive capacity because the President has asked that a study be made both of the areas of shortage and of the manner in which the shortages can be overcome. Their general character may be described, however. There may be subsidies for high-cost producers of commodities, such as minerals, which are produced under conditions where plant capacity is not important. There may be special provisions in the tax laws for accelerated depreciation or even for tax abatement. There may be loans, or guaranties of loans, where credit is not available and capital hard to secure. Government procurement policies may be manipulated, and I use this invidious term in order to make distinct the point that all of these plans require the most careful study because in them are may pitfalls of discrimination and favoritism.

The enlargement of productive capacity is so essential to continued maximum employment and production that neither the concealed dangers in any given plan nor the required scope of Government intervention should prevent action which will be effective. The President has shown how earnestly he seeks effective action by declaring that if it comes to the point where the people cannot be furnished goods which they need in any other way and it is possible for them to secure them by having the Government itself become a producer, he is not afraid to take that final step. Who of us, if forced to answer that question without equivocation, would say otherwise? But I have no doubt that the President feels as strongly as I am sure many of us feel, that it is within our ability to adopt policies which will lead private enterprise to expand its productive capacity as may be needed over the long run, and that the Government will not have to go into the business of producing commodities except for one purpose.

The one exception is the building of plants to produce such new goods as synthetic fuel. Where technological progress in perfecting new methods of production are too slow to promise a flow of needed goods as quickly as they are needed, we may agree upon a Government policy of direct action in hastening the technical experimentation and in assuming the risks of constructing commercial plants before private capital would feel justified in doing so.

Mr. HERTER. Does that refer particularly to oil from coal?

Mr. CLARK. That is what is under way now, from coal and shale. I am not certain that the Government is doing anything in the development of processes for securing gasoline from gas, but that, type of work, being carried on by private industry, is not moving as rapidly as it should and only the Government is there to move the experimentation forward. Then when the pilot plant process has been completed and we are faced with the problem of whether commercial plants—which will discover many new difficulties—should be constructed, we will have to look to the Government for such construction, in some cases.

Mr. HERTER. Isn't it true that in that particular field there are actually in existence in Germany today a great many plants that are in operation? A very considerable portion of the fuel being used in Germany today is synthetic fuel.

Mr. CLARK. Yes, the hydrogenation process was on a commercial basis in Germany where, of course, the market price was very much higher. The problem here is how are you going to get synthetic fuel to match a natural product which, I suppose, results today in a refinery price of something like 8 cents a gallon?

The CHAIRMAN. It is about that.

Mr. HERTER. It is an economic problem at the moment, very largely, as to whether or not they could be built commercially in this country.

Mr. CLARK. I am not certain that the pilot-plant phase has been carried to the point where a commercial plant can be contemplated. I think we still have work to do in the pilot plant.

Mr. HERTER. That experimentation is still going on?

Mr. CLARK. The objective we must aim for is to see if we can develop a process that will produce the desired end product at a price comparable to the natural product.

Senator FLANDERS. Mr. Clark, have you and your associates given any consideration to the problems of increasing production under conditions of full employment?

Mr. CLARK. We have, of course.

Senator FLANDERS. When there are no more men to hire?

Mr. CLARK. We have, of course. Perhaps you have in mind the theory that is attracting quite a bit of attention among students of business, some of whom believe that you could not have full employment and not have inflation.

Senator FLANDERS. You would be willing, perhaps, to say that it would impose difficulties? One of the difficulties being the difficulty of increasing production when you are already fully employed.

Mr. CLARK. Of course. Although the easy answer to that is improved technique.

Senator FLANDERS. I am wondering how easy that answer is. That, I am satisfied, is the real answer, but it does get us back to the problem, which is a critical problem to my mind, of encouraging new investment and the flow of profits into the purchase of improved methods of production, rather than simple expansion.

Mr. CLARK. Yes. However, the problem is not a very serious one today. We do not have to discover new techniques today. We, today, are in the situation where business is unwilling to modernize its operations by installing proven machinery now available, unless they can recover the cost within 3 to 5 years.

I would say there is the area within which proved plant capacity will have to be looked for, rather than in completely new techniques.

We have to find a way to persuade business that they have to give their machinery more than 3 to 5 years to pay back its cost, and that they can do it. The way to do that, of course, is to find ways for establishing policies which make business more confident that we are no longer going through the boom-and-bust cycle; that the economy will be more stabilized than it has in the past.

When we do that, they will be willing to put in machinery which will amortize itself in 8 years.

Senator FLANDERS. I know that what you say is true in some cases. I do not know how generally it is true. It is true certainly in some cases where, up until now, there has been a ready market at any cost of production. Of course, they look at it more from the standpoint of cost, but in the over-all they are looking at it from an increased output, from the standpoint of an increased output, by a given labor force. What you said is true as to the unwillingness of many firms and many industries at this time to invest in labor-saving machinery.

Mr. CLARK. The administration should have the anti-inflationary measures the President has requested without delay, for the risk in delaying action until spiraling prices are more actively at work and are establishing the base for the ultimate crash is too great. I am not certain that the respected monthly letter of the National City Bank was correct when it said, in June last, that the longer the boom continues the more severe will be the reckoning. It is enough to say that the longer inflation is permitted to run its own course, the nearer we come to a collapse.

The CHAIRMAN. Dr. Clark, calling your attention to the previous paragraph, I note you said:

> We may agree upon a Government policy of direct action in hastening the technical experimentation and in assuming the risks of constructing commercial plants before private capital would feel justified in doing so.

In the discussion of this program I have heard it suggested that such commercial plants constructed by the Government for the purpose of increasing production and supply should not be operated by the Government, but should be leased to private organizations for operation. So my question is whether you left the word "operating" out with that in mind.

Mr. CLARK. No; I did not have it in mind at that point. In the earlier paragraph you will see I suggested that there is no reason to be startled greatly by anybody suggesting that under some conditions the Government might produce commodities.

The CHAIRMAN. We are very much indebted to you, Dr. Clark, for a very clear statement.

The Chair will say that tomorrow we expect to hold the first of the round-table sessions.

The committee is now in recess until tomorrow morning at 10 o'clock.

(Whereupon, at 1 p. m., a recess was taken until 10 a. m. of the following day, Wednesday, February 16, 1949.)

JANUARY 1949 ECONOMIC REPORT OF THE PRESIDENT

WEDNESDAY, FEBRUARY 16, 1949

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

The committee met, pursuant to adjournment, at 10:15 a. m., in room 301, Senate Office Building, Senator Joseph C. O'Mahoney (chairman) presiding.

Present: Senators O'Mahoney (chairman), Taft, Myers, Douglas, and Flanders; and Representatives Hart (vice chairman), Herter, Buchanan, and Rich.

The CHAIRMAN. The committee will come to order.

The Chair will first express the appreciation of the committee for the response of you gentlemen to its invitation. I suppose there never has been a time in the history of the Government when sound, impartial, and patriotic advice was more needed by the Congress of the United States, by the Executive, and particularly by this committee in handling the problems that are before us.

I want to emphasize the fact that we feel grateful to you for your ready response and for your presence here this morning.

Now, the reporter is going to labor under great difficulty, to say nothing of the reporters of the press behind me. So we will call upon each one of you to identify yourself.

I think it would be best to start by calling the roll. Will each of you, as your name is called, rise and identify yourself for the record, stating your business association?

Mr. Donald Woodward.

Mr. WOODWARD. Here, Senator. I am second vice president of the Mutual Life Insurance Co. of New York.

The CHAIRMAN. Mr. Dexter Keezer.

Mr. KEEZER. Here, Mr. Chairman; director of the department of economics of the McGraw-Hill Publishing Co.

The CHAIRMAN. Mr. Randolph Paul.

Mr. PAUL. Practicing lawyer, Washington, D. C.

The CHAIRMAN. And formerly——

Mr. PAUL. Formerly general counsel of the Treasury.

The CHAIRMAN. Mr. Roy Blough.

Mr. BLOUGH. Professor of Economics, University of Chicago.

The CHAIRMAN. Dr. Paul Raver.

Mr. RAVER. Mr. Chairman, Administrator of the Bonneville Power Administration.

The CHAIRMAN. Mr. David Ginsburg.

Mr. GINSBURG. Practicing lawyer, Washington, D. C., formerly general counsel of the Office of Price Administration.

The CHAIRMAN. Mr. George Terborgh.

Mr. TERBORGH. Research director of the Machinery and Allied Products Institute.

The CHAIRMAN. Mr. Harold G. Moulton.

(No response.)

The CHAIRMAN. I understand that Mr. Moulton has been detained by another conference and that perhaps Dr. Kaplan, senior staff member of the Brookings Institution, will be here for him today. Is Dr. Kaplan here now?

(No response.)

The CHAIRMAN. Mr. Martin Gainsbrugh.

Mr. GAINSBRUGH. Here, sir. Chief economist, National Industrial Conference Board.

The CHAIRMAN. Mr. Leonard Calhoun.

Mr. CALHOUN. Here, sir; practicing attorney, Washington, D. C.

The CHAIRMAN. Theodore Yntema.

Mr. YNTEMA. Research director, Committee for Economic Development; professor in the School of Business, University of Chicago, and also a consulting economist.

The CHAIRMAN. Mr. Bradford Smith.

Mr. SMITH. Economist, United States Steel Corp.

The CHAIRMAN. Mr. Theodore Schultz.

Mr. SCHULTZ. Professor of economics, University of Chicago.

The CHAIRMAN. Mr. Edward Falck.

Mr. FALCK. Consulting engineer, Washington, D. C.

The CHAIRMAN. Mr. Dewey Anderson.

Mr. ANDERSON. Executive director of the Public Affairs Institute.

The CHAIRMAN. Mr. Murray D. Lincoln.

Mr. CARSON. Mr. Lincoln is on his way—he will be here very shortly. He is the president of the Cooperative League; my name is Mr. John Carson.

The CHAIRMAN. Well, that calls the roll.

I am sure the answers indicate the deep interest which the professional world has in the work of this committee.

The Employment Act of 1946, under which we are operating, was adopted in the belief that the wide swings of the business cycle from high prosperity to deep depression can be brought under control by Government action, to the great benefit of all factors of the economy.

I suppose everybody will agree that the alternative to that is merely a repetition of the experience of the past under which we have trusted to luck, and Lady Luck has usually deserted the people.

There never was a time, as I said at the beginning, when the Congress of the United States was in greater need of straight-forward, practical and informed advice. We believe that we can get it from this group.

We are confronted with the problem of inflation or, shall I say, of deflation. We are confronted with problems of production and of supply. We are confronted with problems of employment or unemployment, with problems of purchasing power or lack of purchasing power, and of course the same is true with respect to production.

The President's program as laid down in the economic report, and as explained in the economic review of the Council of Economic Advisers, which was published recently, is an attempt to cover the entire sphere of economic activity involving agriculture, labor, and industry.

I think it would not be too much for the Chair to say that the greatest possible degree of cooperation among all of these groups is essential if we are to meet the problem because, in very truth, the peace of the world depends upon the success with which the people of the United States maintain the stability of our economy.

There are, I think, several subjects upon which, in principle, at least, there can be complete agreement. One of these is the desirability of maintaining a Treasury surplus. Some will doubtless say, as the President has said, that that surplus can be obtained only by taxation. Others will contend that the surplus can be attained by reducing Government expenditure which, in its terms, means reduction of Government activity.

Both of these alternatives are well understood, I think, by the administration. Perhaps it would be only proper to point out that the President in recent years sought to reduce Government expenditure by reorganizing the Government. During the last Congress when a Commission was set up to study the problem of the reorganization of the executive branch of the Government, the President sought the services of the former President, Herbert Hoover, and appointed him head of the Commission which has made that study and which is now submitting its reports to streamline the executive branch of the Government.

I do not intend to take advantage of my position as chairman to make a speech here, but merely to emphasize the gravity of the problem that we are grappling with.

Now, it is obviously impossible for us to get any result out of this experiment at the round table unless we impose some limitations of time. That may be a rather extraordinary thing to do on the Senate side of the Capitol where we ordinarily have no limit on debate.

The House operates very successfully under the 5-minute rule, and I feel that the various economists and professors assembled around this table can adjust themselves without difficulty to the 5-minute rule.

The staff has prepared three papers. They are entitled "Recommendations by President Truman and Supporting Statements by Witnesses Before the Joint Committee on the Economic Report," "Legislative Proposals To Meet Maladjustments," and "Suggested Topics for Discussion on the President's Economic Report." [1]

These have been distributed to all the members. I shall not undertake to read them, but merely with respect to the last, to recite the two headings. "What is the current economic situation" and, "What policies will currently meet the requirements of maintaining high-level national income."

Let us begin, therefore, with the views of the gentlemen around the table as to the current economic situation.

In order to afford the reporter the best opportunity, we shall begin with the gentleman closest to him. This is wholly a matter of luck—the chairman had no knowledge of the assignment of space, may I say.

Mr. Keezer, would you be good enough to make your opening statement within 5 minutes?

Mr. KEEZER. I can say what I care to say on that subject within less time than that, I believe.

[1] The papers referred to appear at the end of the round-table discussion pp. 674–683.

It is a broad question. You mean where we are today and where we are going, or where we may have been? My question is, Mr. Chairman; Is it something in the nature of a forecast that we are asked to make, or to indicate the present situation in terms of inflation or deflation?

The CHAIRMAN. The committee wishes to hear your own appraisal of the problem that we have to meet.

Mr. KEEZER. Well, in my judgment, speaking in terms of the business outlook, we will have a year of high business activity in 1949; I do not share the jitters and fears currently being expressed. I think that beyond the middle of the year, perhaps Labor Day, the business outlook will be conditioned primarily by what is done here in Washington, and that, perhaps, primarily turns on taxes, and taxes specifically in their bearing on capital expenditure.

We do have now a high level of capital expenditures. A high level of capital expenditures is and always has been characteristic of a high level of prosperity. If we cut a large amount in taxes away from profits we cannot, in my opinion, but adversely affect the volume of capital expenditures. If we do that I see no reason to believe that we will escape serious difficulty later on in the year.

In terms of inflation or deflation, I think certainly the postwar surge of inflation is stayed. Whether this is the end of it, I would not attempt to say.

I think we had enough trouble with Russia and if we have bad enough weather to get poor crops we might have more inflation.

I do not share my friend Dr. Clark's confidence that we shall certainly have more inflation as we move into the spring. I think that is problematical.

That, I think, would exhaust what I care to say now about the business outlook, unless you have some questions.

The CHAIRMAN. May I ask you this question: In judging the effect of high taxes in business activity, what consideration have you given to the obligation of the Government to continue a high level of expenditures? You speak, for example, about what the Russian situation may involve. The "cold war" presently requires vast expenditures for national defense. We are still burdened with the obligation of paying the interest upon the national debt. We are still burdened with the obligation of carrying on the international program.

Yesterday before the committee, Assistant Secretary Willard Thorp expressed the opinion that while the rehabilitation of Europe is progressing satisfactorily, it still will require governmental expenditures for some years to come. Have you taken those factors into consideration?

Mr. KEEZER. I have, Senator. I should certainly like very much to see a budget surplus. I am aware of the tremendous burden of Government expenditures. By addressing myself to the business outlook, I think the most crucial factor in that outlook is the volume of capital expenditures. I do not think you can tax several billion dollars out of corporate profits in 1949 and still maintain anything like the present volume of capital expenditures.

At a later time in the session I would like to say something, if I may, as to what I think the tremendous national importance of maintaining our capital expenditures is to get our industrial plant in good condition, which it is not in today.

But since addressing myself to the business outlook, I would much prefer to take my chances on the fiscal complications of not having a surplus, than take my chances on cutting down capital expenditures and investment in plant equipment. If it is a matter of judgment in weighing, I would make the judgment that way.

The CHAIRMAN. Mr. Ginsburg, do you care to make your statement?

Senator TAFT. May I ask one question of Mr. Keezer?

The CHAIRMAN. Certainly.

Senator TAFT. Mr. Keezer, do you think we will ever reach a time when, looking 6 months ahead, say, the two factors of deflation and inflation will be more evenly balanced than they appear today?

Mr. KEEZER. That effort covers a lot of territory. I would say they are extremely evenly balanced.

Senator TAFT. If we look ahead 6 months from today, don't you think the two factors are just about as evenly balanced as they can be?

Mr. KEEZER. Over that interim of 6 months, I would be inclined to say if I had to weigh it, it would be slightly on the deflationary side, but I recognize the possibility which was discussed here at length yesterday, of inflation returning.

Senator TAFT. Do you think any economist can look ahead for more than 6 months successfully?

Mr. KEEZER. Well, some of us try it, so I would have to say yes. [Laughter.]

The CHAIRMAN. Are there any other questions to be addressed to Mr. Keezer?

Senator MYERS. Mr. Chairman, I would like to ask a question.

The CHAIRMAN. Senator Myers.

Senator MYERS. I was very much interested in Mr. Keezer's statement that inflation is now stayed. I just wondered upon what he based that statement. The reason I ask that is, I notice in the Economic Indicators, which undoubtedly you have, that apparently wholesale prices seem to be continually rising, other than wholesale farm and food prices. I believe the estimate is they may drop a tenth of a percent in February, but for other than farm and food prices they seem to reach their all-time high in January. That is an increase over December and November and previous months.

So I would be very much interested to know upon what you base that statement that inflation is definitely stayed. I think the whole problem revolves around that.

Mr. KEEZER. I used a fairly simple term. You have inflation when prices are rising. It would be my judgment that the total price level—of course the agricultural prices have gone down very severely, as much as 50 percent from their peaks in some cases—but the entire price structure as a whole has leveled out and the cost of living element which has been perhaps our primary inflationary force, has been easing downward.

Senator MYERS. I merely noticed that the wholesale prices as indicated by the indicators had declined in December, the first week in January, and then started up again in the third and fourth weeks of January. Is that any indication they may continue to rise, or do you feel there is a definite stabilization of prices?

Mr. KEEZER. I would anticipate that certain industrial prices would continue to go up gradually; that food prices would continue to go down; that on balance—and you have to have some general point of view—that on balance the general level of prices would move off sideways and we would not have a continuing inflationary surge. I think you will have price increases, you are having them in many lines of industry. Is that responsive to your question?

Senator MYERS. I think so.

Mr. HART. Along that line, Mr. Keezer, Dr. Clark testified, I believe, that there were some 700 items, aside from food and farm products, whose prices were continually rising and that while food products had no influence whatever on the prices of commodities generally, most of these items whose prices are rising did affect every other element in the economy, except food and farm products.

Mr. KEEZER. Well, Dr. Clark really did not mean that the price of food has no influence on other prices because our principal inflationary source since the war has been the cost of living translated into wages and translated into increased prices.

Senator MYERS. Dr. Clark said it was not directly influenced.

The CHAIRMAN. Mr. Ginsburg.

Mr. GINSBURG. Mr. Chairman, with so many eminent economists present, I should prefer at the moment not to make any statement on the current economic situation. But I should like to ask one question to which I sought the answer in some of the statements made by administration witnesses during the last few days. I have not found the question answered in the testimony thus far received.

Of the several billions of dollars appropriated for ECA last year we know that all or most of the funds have been allocated. But in evaluating the problem of inflation for the coming year it would be interesting to determine—indeed, I think it is vital to know—how many of those billions of dollars have in fact made themselves felt within the economy. I understand that a good part of the funds have not yet actually been spent in terms of contracts placed within the country. In evaluating what it is we have to deal with by way of inflationary pressure, I think it is important that we have these data, data which have not as yet, so far as I have been able to determine, been presented to this committee, nor, I believe, to any other congressional committee.

The CHAIRMAN. I will say to you, Mr. Ginsburg, my understanding is that the ECA has asked for a new appropriation for the next fiscal year, which as you know begins in June, in the amount of approximately $5,000,000,000. Some suggestion was made that it should be cut by about 5 percent, because of the progress already achieved during the first year, concerning which there seems to be general agreement.

On the other hand, the chairmen of the Foreign Relations Committees of the Senate and the House last week issued a statement in which they decried the 5 percent reduction, saying that it would not be sufficient to make any appreciable difference in expenditures and it might prevent necessary expenditures from being made.

So I gathered from that, and the testimony yesterday of Assistant Secretary Thorp, that during the next fiscal year expenditures will be continued at a substantially similar level to those during the present year. But I do not have direct information as to what proportion of the 1949 appropriation has, to date, actually been spent.

I think that is a question which ought to be answered and we will ask the staff to get the information.

Are there any questions to be addressed to Mr. Ginsburg?

(No response.)

The CHAIRMAN. May I say that you gentlemen are free to ask one another questions. That will be the great advantage of the round table. We want the informed questions of the eminent experts who are assembled here.

Mr. RICH. May I ask a question of Mr. Ginsburg?

The CHAIRMAN. Yes, certainly.

Mr. RICH. As I understand it, the ERP has asked for $4,202,000,000 for 1950; and with the amount that we have to give for the balance of this year, it would make a sum total of $5,580,000,000. Five percent deducted from that would not be such a great amount of money, considering the whole amount, but it would be a great deal of money so far as this country giving it to some foreign country is concerned, would it not?

Mr. GINSBURG. Mr. Rich, I was addressing myself to a somewhat different problem. I do not think I have really made myself clear. It is this: We are trying to evaluate what are the inflationary pressures for the coming year. That really means, as we see it, how much money will be spent in the economy as compared with the available supply of goods and services, or what will be the demand—supply picture—during the coming year.

We have appropriated very substantial sums for ERP. The point for us to determine in evaluating the inflationary pressures is how much of that money has in fact made itself felt within the economy. It is that point which I think is an exceedingly important one and if, as I believe, a very substantial part has not made itself felt within the economy, then our inflationary problem may be even more difficult than has been suggested.

Mr. RICH. Do you think we can continue to take these vast sums of money out of our country without materially affecting our economy?

Mr. GINSBURG. I think, sir, that is a question the answer to which depends on a great many factors, including the consequences of not making those appropriations. It is a question which transcends the subject we are dealing with here.

Mr. RICH. In one way it does, yes; but if we go beyond the point where we can afford to pay to these foreign countries and wreck our own economy, it is not worth it, is it?

Mr. GINSBURG. I would certainly agree with you, Mr. Rich, that any action which would wreck, as you say, our own economy or indeed even seriously threaten the prosperity of our own country and its high level of activity would be dangerous and should be avoided.

Mr. RICH. Don't you think that the way we are spending money in this country we are affecting our economy to the extent that we will have a mighty difficult time getting out of the position in which we find ourselves?

Mr. GINSBURG. Although I do not pretend to be an expert on that issue, I should not be prepared to go that far with you, Mr. Rich.

Mr. RICH. It seems funny that we cannot find anybody in this country who thinks we are not endangering our economy and that we are going on and running a deficit from year to year. I would like to see somebody who is going to look after America, pretty soon, somebody who is interested in trying to protect America and our American economy.

The CHAIRMAN. May the Chair suggest to my good friend, Congressman Rich, that the Congressman and other members of the committee can argue these points among ourselves after this roundtable is over. We are only depriving ourselves of the information we can get from these gentlemen if we argue across the table with them.

If the Congressman will cooperate, let us try to get the information from them.

Mr. RICH. I want to cooperate, Mr. Chairman.

The CHAIRMAN. I know you do.

Mr. RICH. But I would like to find some man on the other side of the table who has come in here and who is interested in trying to keep this country from going on the rocks.

The CHAIRMAN. I think we will get a pretty broad expression of opinion before the day is over.

Mr. Calhoun.

Mr. CALHOUN. Mr. Chairman, I am unqualified to make any comments outside the rather narrow area of social security.

The CHAIRMAN. Mr. Bradford Smith. May I say Congressman Rich was not here when you were introduced, Mr. Smith, so I will introduce you again as the economist of the United States Steel Corp.

Mr. BRADFORD SMITH. Mr. Chairman, you asked for a diagnosis, as I understand it, of the present general business or economic situation in which the United States finds itself as a preliminary to prognosis.

I have felt for some time that the United States is in one of the phases of the series of ups and downs which have attended wars in the past, with rather repeated regularity. To get at that picture, I may recall to you, as I am sure you all remember, that in the 1930's there was a rather long depression. In the course of that depression people by inclination and by necessity postponed the purchasing of those goods which they could postpone. They stopped building houses; they stopped supplying houses with house furnishings, refrigerators, and those sorts of things. They did that because the goods of that sort which they already had on hand could be made to last a little longer.

Then just as we were getting out of that depression we got into the Second World War. Then, of course, through necessity, there was further enforced postponement of the purchases of those goods which could be postponed. When a nation goes to war its main job is to win that war and in order to do that it has to physically divert its manpower to the prosecution of that war and it has to devote the remaining part of its manpower to the supplying of the boys at the front. That calls for the suspending of the purchasing of those things which we can do without. That is part of the war.

Such injury as is done to the economy at that time is done by that physical diversion.

Now, attending that is the need for the Government to have great sums of money to purchase the goods and services from the civilian economy that are needed for the prosecution of the war at the fronts. The Nation—as ours has done twice in my lifetime, and as most modern nations do in periods of war—did not try to balance the budget. And as a result the national debt was greatly increased.

More than that, large parts of the national debt were lodged with the commercial banks, thus creating large amounts of bank deposits which we use for money in this country, to the major extent.

Now, since the Government was taking goods and services out of the market at the same time that it was putting into the markets the additional sums of money which came from this expansion, there was naturally an unbalance in those markets, and that, I believe, is the root of the wartime tendency toward inflation and the root of the present tendency toward inflation in this country.

It was, I believe, recognized in testimony by Mr. McCabe, by Mr. Clark, and I think also by Mr. Keyserling, and I think it is generally recognized.

The CHAIRMAN. Then do you believe there is still a tendency to inflation?

Mr. SMITH. Mr. Chairman, can I get to that in just one minute?

Now, when a war is over we are presented in a country with the necessity to do some physical things, that is, to demobilize the armies and to get to work making good those shortages which had accumulated. Following World War II, those shortages were greater than following World War I, by reason of the accumulation of shortages of goods which had developed during the 1930's.

I wish to point out, if I may, Mr. Chairman, that demand for goods is the most forceful, the surest, demand for goods known to modern markets. It is a demand by people for goods which they are accustomed to, which they know about, and which they know how to make, which they believe they are entitled to, which they think they deserve, and which they know darn well they have the money to pay for, because of the flush money supplies created during the war.

Now we are in some phase of that so-called reconstruction boom. It is a phase similar to that which we had in the 1920's. The economy since the war has been characterized by the overpresence of money in the markets, it has been characterized by this sure and certain demand for goods; it has been characterized by great activity.

That leads me up to the next transition which has historically been faced in this country following after each of its previous wars by about 10 years. It is a rather serious transition. It is the one which deeply concerns me.

Bear in mind that we are in an abnormal situation. Reconversion was not reconversion to normal; reconversion was reconversion from one abnormality to another abnormality. There were some 15 years during which there was subnormal production of peacetime durable goods, construction, housing, equipment, all those things. Naturally, and as we would desire, the people then swung over to buying again those things, and producing those things, and distributing those things, to themselves through their markets.

But bear in mind that is not what we can call a normal peacetime distribution of the manpower and the resources of this Nation, for the furthering of all segments of the economic society in its progress toward the goals which we seek.

We are faced now, or sometime in the future—I don't know whether it is immediate or not—but we are faced sometime in the future with that second transition, the return to normal. That transition in the past has not been made without going into depressions. The reason is this, that whereas following the war we are faced with shortages made, to the making good of which we may turn our hands and be very active, and where there is a high-pressure demand, the return to normal does not have any such high pressure behind it. We come up to that period with the shortages made good.

Then the difficult transition required is to get your manpower and your resources redistributed in the presence of not an imperative demand, but in the presence of a normal demand—a demand for a normal distribution of manpower and resources.

The reconstruction influence of the war has, in our history, tended to endure for about 10 years after the close of the war. World War I ended in 1918, for example, and the reconstruction boom terminated in 1929.

Now, the failure to make that second transition back to normal has in the past been the initiation of what the economists have come to call the secondary postwar depression. The depression of the 1870's was the secondary postwar depression following the Civil War; the depression of the 1930's was the secondary postwar depression following World War I. The timetable is about 10 years.

Now, no one can look blindly at the past, but no one, I think, can overlook the lessons of the past in trying to diagnose the present.

The CHAIRMAN. Assuming that to be correct, as I think it is, what do we do?

Mr. SMITH. I think we are in some phase of that reconstruction boom. I am puzzled to know just where we are.

I think at the present time the prospect for some months ahead of us, and as you have said, or as somebody said—I believe it was Senator Taft—"Can any economist make a guess more than 6 months ahead?" I sometimes doubt it. But I do not think the shortages are entirely made good. That is number one.

Secondly, I do not think there is a prospect for the tightening of the money supply which serves as the financial basis for facilitating the production distribution and lodging in consumers' hands of the production which makes good the accumulated shortages.

In the third place, I think that the international situation will react to insure high levels of spending in this country. More specifically, I think it will react to insure that we will continue the easy money policy to which we have become habituated, which means that in the event people find themselves short of funds, funds will be made available to them at low-interest rates to go ahead and do things which people think need to be done.

Now there has been a decline in agricultural prices; this has been held by a good many people as perhaps the beginning of the deflation. But I would like to call to your attention, if I may, that the decline in prices has primarily been the result of abundant production, something of the nature of a windfall, you might call it. Mother Nature took over the price phenomenon for a while.

A price decline which comes as a result of what an industry would call a sudden increase in productivity—which in agriculture we call a bumper crop—I think is to be interpreted in an entirely different and perhaps even an opposite manner from the kind of a price decline which comes from the tight money situations such as prevailed, say, in 1920, 1929, and to a lesser extent in 1936 and 1937.

The effect upon the farmers is quite different. A farmer's income is quite different when the price decline comes from abundant production than when it comes from a shortage of money or tightness of money. When the farmers have more to sell their prices go down.

Now if they did not have more to sell, and prices went down because of a shortage of money to purchase and carry those supplies, then their incomes would go down sharply.

In the meantime, what has happened as a reflex from that decline in agricultural prices, it seems to me, is that it has been taken as an encouragement to the continuation of the easy-money policy. People feel that we do not need to do much about this basic root of inflation inasmuch as the price indexes, which are the manifestations of the inflation of the money supply, are taking over for a time. So that I do not think, Mr. Chairman, that we are in for any serious deflation. As a matter of fact, such interpretation as I have made would mean that the abundant crops were the omen of further inflation later on, rather than a harbinger of a general deflation.

The CHAIRMAN. That is a very interesting statement, and I want to determine whether I understand it clearly with respect to agricultural prices. The statement, I take it, would be substantially this: That agricultural income on the whole does not fall necessarily with the fall of prices, particularly if the fall of prices is due to a superabundance of production.

Mr. SMITH. Yes, sir. That is, if they have more to sell at the lower price, the total dollars received is quite different than if they had no more to sell at the lower prices.

The CHAIRMAN. So when agricultural income is kept up, though prices fall because there is more food to sell, then the purchasing power of the agricultural segment of the economy remains up?

Mr. SMITH. Well, it does not go down so far as it would otherwise. It means that the Nation has an abundant food supply.

Mr. SCHULTZ. Let me ask this: I want to get clear certain facts.

The decline in prices of agricultural products from, roughly, August until today does fit into your statement. The sharp decline which occurred last February and came so abruptly—does it fit into the same pattern?

Mr. SMITH. In what prices?

Mr. SCHULTZ. Agricultural prices.

Mr. SMITH. Over the big corn crop?

Mr. SCHULTZ. No, the big price drop that came in February of 1948; the big drop especially in grain prices.

Mr. SMITH. Yes.

Mr. SCHULTZ. How do you fit that into your rationale?

Mr. SMITH. Well, do I have to? That is, we had a big crop and the price went down.

Mr. SCHULTZ. The big crop of 1948 did not come until 6 months later.

Mr. SMITH. Then I would have to ask someone who is skilled in the interpretation of the movements of particular commodity prices what caused that.

Mr. SCHULTZ. That is what I am asking you.

Senator TAFT. They did know by that time that there was a tremendous wheat crop.

Mr. SCHULTZ. Oh, no.

Senator TAFT. Oh, yes; because we entered the winter wheat season with a big sigh of relief from everybody.

Mr. SCHULTZ. Well, let us see—the outlook for the winter wheat crop had not changed since December 1, 1947. There still was the risk of dryness. Yet wheat dropped from $3 down to $2.20; a similar thing happened to corn of which there was a very short crop in 1947. In February the 1948 corn was not yet planted; and the same for barley and oats.

I like what you have said, Mr. Smith, because it does explain what has happened since August and it is an important contribution.

The CHAIRMAN. Well, Mr. Schultz, would you care to offer your explanation of the situation you have described?

Mr. SCHULTZ. It is one of those events that we cannot explain; that is my belief. An event of this kind may come upon us at any time and those who try to foresee the future have to be prepared to absorb. This kind of disturbance is not predictable, at least as far as I can see, and very hard to rationalize.

The CHAIRMAN. Well, when did the crop come in the futures market?

Mr. SCHULTZ. It actually came in the first week of February, as I recall, the 6th or 7th of February.

The CHAIRMAN. Might that not be the explanation of the change at that time?

Mr. SCHULTZ. Don't let me throw your witness, Mr. Smith, off in his testimony. The February 1948 drop does not fit into his rationale, is what I am saying. It is one of those difficult to explain economic events which did disturb a lot of people last year.

The CHAIRMAN. I suppose no witness can, in a brief 5-minute statement, cover all of the factors that enter into bringing about a particular result. That is why I suggested that possibly the drop in futures was the primary cause of the sitution which you described.

Mr. RICH. Mr. Chairman, may I ask the gentleman this question? Is it not better to have large crops, even if the farmer has to take a little less for his crops, so that the general public can benefit by having an abundance, than it is for the farmer to get high prices for short crops?

Mr. SMITH. Mr. Rich, there you are dealing with what I regard as one of the majestic trends in the evolution of the American productive society. Back in 1880 it took about half of our people gainfully employed just to produce the food that we needed. The last record indicates that now only one-fifth of the people are needed to provide food in abundance for the American people.

That is the course of progress. For people to live they have to eat and clothe themselves, and only after they have done that can they go on to creating the more abundant life. The reason for that has been the application of science, machinery, power, and understanding to the bringing of crops out of the broad acres of this land. That is one of the wonderful and one of the majestic trends. Of course, I am in favor of it, because only when you can provide for your necessitous needs is there a freeing of manpower and resources to provide for more and better things that make up the abundant life.

Senator MYERS. May I interject, Mr. Chairman?

The CHAIRMAN. Senator Myers.

Senator MYERS. Mr. Smith, I am in full accord with what the Congressman has suggested, and you have agreed that that might be a fine rule of thumb, but human nature being what it is, can we expect that abundant production to continue if farm prices continue to drop?

Mr. SMITH. Well, at the extremes I must say no, we cannot expect it.

Senator MYERS. So more production and less price might be an answer here, and in the end the farmer and all the rest of us would probably prosper and be better off in the long run. Nevertheless, I doubt very much if steel or any other industry is going to continue to produce at high levels if the demand begins to drop.

Mr. SMITH. Well, Senator, those situations of sharp price changes——

Senator MYERS. Let me interrupt again. That is what worries me, Mr. Smith. When supply does meet demand, and everyone can get all the steel they want, and everyone can get an automobile next week or the week after, or whatever else he might desire to purchase, I think then we should worry indeed. Then we may reach that secondary postwar depression that you have talked about.

The CHAIRMAN. Mr. Lincoln indicated that he wanted to ask a question, but perhaps before Mr. Lincoln puts his question, Mr. Smith may want to answer the Senator.

Mr. SMITH. Well, Senator, there can, of course, be particular situations. A bumper crop does not always guarantee the future. We may have a drought this year. Incidentally, that may have some bearing on the price index manifestation of the course of inflation.

The CHAIRMAN. I might interject at this point that yesterday's newspaper, the Evening Star, carried on the front page the story of testimony given by Dr. Clark before this committee, and in an adjoining column a story from Chicago as to the increase in the price of meat, which may have followed apprehensions about the shortage of the meat supply by reason of the western storms.

Mr. SMITH. The particular situation of the moment was not what I was trying to describe when I replied to Mr. Rich. The way the thing works out over the longer run, and has worked out for 50 years in this country, is that as a nation discovers a relatively smaller proportion of its people can provide on the farms the agricultural products that a nation needs and wants, to the extent that they are willing to pay for it, in terms of covering their costs, then those on the farm are free to move into urban life and to take up the new occupations which come as the result of an invention, marketing, and those sorts of things which in turn loop back to the farm, and in turn elevate the living standards of all the people.

Mr. LINCOLN. Senator, I always wanted to get near enough to one of the steel men to ask a question. I have been secretary of the Ohio Farm Bureau for a long time. I don't know whether we will go through the same thing we did before, but I am honestly concerned about it. Farm prices are starting down. I have seen the report of the profits of the United States Steel Corp. Now, why in the world cannot we lower the price of steel so that we can lower the price of machinery, and if we have to go down, all go down on the same level? What is the answer to that? It seems to me as the price of farm products goes down, if everything the farmer has to buy could go down in proportion, we would not be in trouble. Why cannot that be done?

Mr. SMITH. Well, did they go up in the same proportion?

Mr. LINCOLN. Not exactly.

The CHAIRMAN. Of course, that is a question which this committee will eventually have to attempt to answer.

Mr. LINCOLN. I think there is a reason for it, but I always wanted to ask somebody from the United States Steel Corp. why that could not be done.

The CHAIRMAN. Well, if the Chair may venture to make a comment on that, I think Mr. Smith's statement has already suggested the answer. He spoke of agricultural prices dropping as the result of superabundant production, but he also said that he believed the demand for the things industry produces is still ahead of supply, if I understood him correctly.

Mr. SMITH. In terms of backlog demand.

Mr. LINCOLN. It is catching up.

The CHAIRMAN. In terms of backlog demand?

Mr. SMITH. I think so.

Mr. LINCOLN. It is catching up pretty fast.

The CHAIRMAN. I am just interpreting the testimony of this witness who said that the backlog of demand is still ahead of supply.

Mr. LINCOLN. Can you answer that question? Why can't we reduce the prices of the commodities the farmers buy almost in the same proportion we do the others, particularly in view of the line of profits that we see published? I am for profits, don't misunderstand me. It seems to me that is a perfectly natural thing that could take place if we would all set our sights to get it done, but nobody seems to want to do it.

Mr. YNTEMA. May I ask the gentleman a question?

The CHAIRMAN. Just a moment. Let us see if Mr. Smith has an answer. Do you care to answer the question, Mr. Smith?

Mr. SMITH. I thought somebody else had taken the ball.

I do not think I care to answer that question specifically because that story has been presented before your committee, or a subcommittee, within the past couple of months, and it is detailed by people who are better informed with respect to it than I am.

There is a partial answer that I think perhaps is important. It is a phase of these postwar evolutions that I did not bring in because I was limited to 5 minutes.

During wartime there is, of course, a great demand to enlarge the various capacities to produce the goods that are needed to fight the war. That goes also to agricultural production because, as in World War I and again in World War II, parts of the world whose agriculture had previously contributed to the feeding of the world are blanked out and the movement of foods between nations is blanked out. As the result, the remaining areas expand their acreage and seek to produce more food, more goods.

Now, when the war is over, there is restoration of the areas of production, farm production, which were blanked out by the war. And one of the phases of the present agricultural price situation has been that all over the world there have been good crops. I believe the agricultural economists will bear me out on that.

That also applies to the capacity to produce minerals. That is one way that a Nation can recoup and recover some of its wartime effort, and that is in having basic materials and basic foods relatively cheap in the reconstruction period. It leads, however, sometimes to various sorts of situations we do not like.

You will recall that during the 1920's farm prices were relatively depressed in this country. Well, it is that kind of reaction, and I think if you will look back over the records you will find that, say, copper prices and steel prices, too, did not share as much in the post-war buoyance as did the activities in the fabricating of these materials into the things wanted by the people. Profits, if you will recall, in the 1920's were made in the fabrication and the distribution of goods. Those were the days of Montgomery Ward, for example. Of course, finally, it ended up in the fabrication and distribution of securities. [Laughter.]

The CHAIRMAN. Congressman Buchanan.

Mr. BUCHANAN. I just wanted to point out that farm income was the only one in the entire segment that declined.

The CHAIRMAN. Would you repeat that statement, Mr. Buchanan?

Mr. BUCHANAN. I want to point out that in the statement of the witness, that there were declining farm prices, he said that farm income did not necessarily decline during the year, is that correct?

Mr. SMITH. It does not decline as much as the price.

Mr. BUCHANAN. I want to point out that it did decline a billion dollars in the fourth period as against the first period of 1948. Just one further point, Senator.

I would like to have Mr. Smith point out what he means by the phrase "return to normal." Does that mean the 1935–39 period as normal, or just what period are you referring to as "return to normal"? In your remarks you referred to that.

Mr. SMITH. I referred to "normal" as the distinction from the condition in which we find ourselves at present, which is characterized by the presence of long accumulated backlogs of demand. Perhaps it would have been more accurate for me to have said that we return to a condition of production in which certain segments of production are not channeled into the filling up of past created backlogs.

The CHAIRMAN. May I add this: I understand you to mean that since the war economy was an abnormal economy and the reconversion which followed it was a reconversion to adjust production to accumulated backlog——

Mr. SMITH. To another abnormal situation.

The CHAIRMAN. That being another abnormal situation, we have not yet reached the reconversion, not to a particular period in the past, but to the peacetime operation of production and consumption.

Mr. SMITH. Thank you, Mr. Chairman. You said it better than I could.

Senator TAFT. Mr. Smith, may I ask a question. Do I understand your general thesis is that you have today an economy of full employment, but containing certain abnormal elements?

Mr. SMITH. Yes, sir.

Senator TAFT. Namely, the accumulation of backlogs which are bound to disappear?

Mr. SMITH. Yes, sir.

Senator TAFT. And that the danger you see is that when they do disappear, if we have not replaced them with anything else, there may be such a substantial fall as to bring about a serious depression?

Mr. SMITH. That has happened three times in our history.

Senator TAFT. As I understand it, in the first place it seems to me we ought to recognize that what we have today is an abnormally inflated activity, that it is not a normal activity; isn't that correct?

Mr. SMITH. And maladjusted, that is, concentrated over in one area.

Senator TAFT. On certain things that are still short, and other things have been made up?

Mr. SMITH. That is correct.

Senator TAFT. So that the problem from a broad planning standpoint would be what kind of new consumer expenditures or capital expenditures can replace these expenditures that result from the accumulated war deficit?

Mr. SMITH. That is the problem, sir, and I think it is a very serious one.

Senator TAFT. And a very difficult one?

Mr. SMITH. A very difficult one.

Senator TAFT. It would be hard to sit here and say just how you are going to increase consumer spending or capital spending, just what ways you could increase it to take up these things that are going to fall off. I suppose it would be impossible to estimate what this abnormal factor is in the present situation, but with $220,000,000,000 of national income it may be 20 percent, at least 20 percent, I would assume.

Mr. SMITH. I have not made any quantitative estimates on it. There is one advantage we have this time—the knowledge of these long depressions, like those of the 1870's and the 1930's, which knowledge did not exist in the land until the 1930's.

You undoubtedly knew the late Gen. Leonard Ayers. He invented the terms "primary" and "postwar depressions" and did the researching to uncover them and establish the hypothesis. For the first time in this country we are coming up to something for which we have past measurements, records, and understanding. That is a hopeful thing. We at least know what the sequences have been and have some notion of how they came about and why. That will assist us in dealing with the possibility of a recurrence.

Senator TAFT. Coming back to Mr. Lincoln's question, this index on prices shows farm products were up from 65 to 168 in 1939—or over 200 percent, no, about 150 or 160 percent—and other products were up from 81 to 153, up to the first of February. That is after this reduction. So that as far as increases from 1939 are concerned, you have the fact that farm prices were probably depressed in 1939 more than other prices. But do you think today that farm prices and other prices are out of line generally? To what extent do you think the price situation is out of line?

Mr. SMITH. I suspect it is perhaps coming more into line, if I mean the same thing by "line" as you do.

Senator TAFT. Mr. Lincoln seems to assume that the price of steel can be controlled by the steel companies. Whether you admit that or not, let us assume it can be. If steel had been subjected to the same free market conditions as farm products, where would the price be today?

Mr. SMITH. That is a hypothetical question to which I do not know the answer.

Senator TAFT. This whole black market thing shows it would have been very much higher than the control price, whatever it is, if it is a control price.

Mr. SMITH. Such evidence as there is, I think, indicates that the prices of steel products have, for the most part, been submarket, subcompetitive market.

Senator TAFT. Mr. Lincoln's suggestion is that the companies should get together and do a better job on reducing prices below the normal price, which would be produced by competition, than they are doing? Isn't that his suggestion?

Mr. SMITH. It might be, but so far as I know the steel companies never get together. [Laughter.]

The CHAIRMAN. I don't think Mr. Lincoln was suggesting that the steel companies openly violate the antitrust laws.

Mr. LINCOLN. I just asked why they could not reduce prices.

Senator MYERS. You mean get together to lower prices, Mr. Smith?

Mr. SMITH. Just get together.

The CHAIRMAN. Mr. Yntema wanted to ask a question.

Mr. YNTEMA. I just wanted to ask a question of Mr. Lincoln, whether he would be at all interested in putting any money into a new steel factory today.

Mr. LINCOLN. I think so.

Mr. YNTEMA. You are a bolder man than I am. I think you can make a case that the price of steel has been too low. I for one would not put money into a new steel plant at the present cost of building new steel equipment, because the opportunity for profit at present steel prices is not in the least attractive in relation to the investment necessary to produce steel.

Senator TAFT. Of course, your suggestion may be brought out by the fact that a rich oil man in Texas would not be willing to put money into a steel plant in Texas, but they want $65,000,000 from the Reconstruction Finance Corporation for that purpose.

Mr. YNTEMA. It seems to me the function of prices is to get the work of the country done.

The CHAIRMAN. Do you mean by that, Mr. Yntema, that prices should respond to the old law of supply and demand without any controls of any kind?

Mr. YNTEMA. No, I do not mean that there should never be any controls of any kind.

The CHAIRMAN. The next question, then, arises about the controlled price of commodities, as suggested by Senator Taft, and as testified to by Mr. Smith. The steel industry, for example, and the automobile industry, have both been selling their products below the price which the law of supply and demand would impose. That is acknowledged, is it not?

Mr. YNTEMA. And so may the corner grocer or the corner drugstore. This is not peculiar to the steel industry.

The CHAIRMAN. Of course, I do not assume that it is. I am trying to illuminate, if I can, the question asked by Mr. Lincoln.

He, as spokesman for agriculture, sees the prices of agricultural products fall when production is high with no control over those prices. At the same time he sees the prices of certain industrial commodities stay up.

Mr. YNTEMA. One possible explanation, of course, is that steel prices did not go up with agricultural prices. Agricultural prices tripled. They went up 200 percent, while the price of steel was going up 60 to 70 percent. What was it, Mr. Smith?

Mr. SMITH. Seventy-two percent.

Mr. YNTEMA. To take a base last year seems to be completely irrelevant to the situation. That is, the fact that agricultural prices happen to be coming down from astronomical heights does not seem to me to be particularly relevant to the question of whether steel prices are too high or too low.

Mr. RICH. As long as you have the great demand for steel, the chances are the prices are going to be maintained, but will you get lower prices when you get into greater competition in the steel industry?

Mr. YNTEMA. That is the long-term question as to the price level. I think it is arguable that the price of steel may not have been high enough to induce investment in the industry on a scale which in the long run you may want. On the other hand, you can argue that it has been a blessing that steel has been in short supply.

The CHAIRMAN. Of course, we might be led aside from the object of this discussion if we begin to compare agricultural prices with steel prices.

Mr. YNTEMA. That is right.

The CHAIRMAN. What we are concerned with here, and in the discussion opened by Mr. Smith, is the general basis for inflation or deflation.

Senator TAFT. May I ask one question, Mr. Smith.

In view of the fact that this is a certain abnormal condition today, do you think every effort of the Government should be devoted to keeping the total gross production, whatever it is, 250 billion, or something of the sort, or do you think we should recognize the fact that this is an abnormal situation and that some falling off probably is desirable? That we just cannot replace this with normal permanent spending without some reduction before we get back to that figure again? I do not know whether I make myself clear.

Mr. SMITH. Yes, sir. I have been much worried about the same thing, Senator Taft. As backlog demand is filled up, there will be release of manpower and release of resources. There may be some surplus inventories. You are then at a position where the imperative demands have been substantially satisfied. That is the point where, in our history before, we have fallen into those secondary postwar depressions. They are long and dreary, because it takes a long time to build up shortages in a period of nonutilization of resources.

Theoretically it is not necessary to fall into a depression like that. We always have so far. We have never had an opportunity before not to. I think something needs to be done, somehow or other, to establish at that time the incentive of people to undertake to do new things, because it is only by doing new things after you have done the things that you have seen to do, that you can reemploy your people. That is the course of progress.

Senator TAFT. But supposing we thought this thing was going to come to an end, this extra demand, in another year. I was wondering whether we had to put in Government deficits, or something else, to fill that up, or whether we should recognize that we want to be on a basis which can be permanently maintained without artificial stimulation. Perhaps if you were making your economic plan just the way you wanted to do it, you would aim at a somewhat lower figure of total production than you have today. Or would you aim at the same figure you have today?

Of course, if you let the thing fall off 20 percent it could lead into a major depression, but if you cut it off at 5 percent, I don't know. Maybe it would be a more sound basis to work on than one that was artificially maintained at the point where we are today. That is the problem I have in mind.

The CHAIRMAN. I think Senator Taft has quite accurately stated the question which is before the country and before this committee, and before all of you gentlemen. The great expenditures undertaken for the war were undertaken to produce commodities which were destroyed, so the national debt represents about the biggest dead loss that this or any other country ever had to handle.

Since that time the Government has been obliged to undertake vast and unprecedented expenditures in the hope of stabilizing the world economy and restoring a basis of peace, perhaps of permanent peace. With that in mind, it is clear from what Senator Taft has said, and from what you have said, Mr. Smith, it seems to me, that we are confronted now with the question of whether we want to go back, whether we can go back to a peacetime situation in which production and demand will be so far below the standards we have reached under full employment that we would have the collapse to which the Senator has referred.

The question therefore is: Can the Government, and should the Government, take action to supply that gap, and if it should, what should it do? You have had a lot of time, Mr. Smith, so I am going to ask Mr. Gainsbrugh over here to join the discussion now.

Mr. GAINSBRUGH. Thank you, Senator O'Mahoney.

The CHAIRMAN. Mr. Gainsbrugh, I will give you the same injunction I have given the others, please raise your voice.

Mr. GAINSBRUGH. All right.

The CHAIRMAN. I understand you speak for the National Industrial Conference Board, or at least you are associated with them.

Mr. GAINSBRUGH. I speak primarily as the board's chief economist although on some questions I would like to speak as an individual.

The conference board has been in existence for more than a third of a century, I think primarily because it has refrained from formal forecasting of any type. [Laughter.] But we have recognized the need and the insistent demand for forecasts, and we have attempted to meet that type of demand by two special types of reports. Both of them, I think, are pertinent to this morning's discussion.

We have just concluded a report on the business outlook for 1949, not as viewed by economists, but as viewed by the businessman. The outlook is based primarily upon the businessman's report to us as to what he has on his order books. It is a very pragmatic approach to forecasting, one that is not greatly employed by the Council of

Economic Advisers which prefers to deal with such giant aggregates as national income, wages, and salaries. Our approach is the particularized type of business forecasting in which we emphasize the dynamic character of our society and place particular stress upon such newly developed statistical tools, as new orders, inventories, and shipments.

We have over more than a decade trained our members to respond to our questions rather freely. They understand that what is said to us will be kept in strict confidence, at least so far as company names are concerned.

They have given us their forecasts based on what is on their order books for 1949. And again, for the first 6 months of 1949, not for any longer period of time.

I think the results will perhaps tone down the note of optimism which has prevailed, in my personal judgment, to an overdegree in the earlier testimony. This is what we find on the basis of the report just submitted to us. This report comes postelection, post the disappointing record of Christmas sales, and in the midst of the disappointing level of retail sales in January of 1949.

Of the companies reporting—and ours is primarily a cross section of manufacturing and heavy industry—only 42 percent look for the same level of activity in the first 6 months of 1949 as in the closing 6 months of 1948; 32 percent look for a lower level of activity in the first 6 months of 1949 as compared with the closing months of 1948; only 26 percent—and this is the significant figure—anticipate a higher level of business operations for their individual companies in 1949 than in 1948.

Now, if you are a pessimist you can make this combination of of figures. You can say that 74 percent of American industry expects its rate of operations in the first half to be no higher, if not slightly lower, than in 1949. The optimist can combine the 26 percent and the 42 percent, and say that 68 percent look for the same, if not a higher rate of operation, as in 1948. I don't know whether I had that last figure right.

The CHAIRMAN. It was 68 percent.

Mr. SCHULTZ. Do you have the same figures for last year?

Mr. GAINSBRUGH. No, I do not have them.

Mr. SCHULTZ. You did the same thing, did you not?

Mr. GAINSBRUGH. Yes, but the general pattern, as I recall it, was not the same as this year. Our business survey last year revealed combined high levels of demand and further gains in sales for the first half of 1948. This is the first year in which our business outlook, as derived from industry, reveals a downward adjustment.

Mr. SCHULTZ. How good did that stand up last year? That would be quite revealing.

Mr. GAINSBRUGH. This forecast stood up fairly well against the actual course of events in 1948.

Now, that is just one of the series of questions we asked industry. Why is it that so many of them anticipate the same or lower levels of sales in the first half of 1949 than in 1948?

The CHAIRMAN. May I ask you a question, Mr. Gainsbrugh. These percentages you have just given us, are they based upon the replies of those to whom the inquiries were addressed, on the basis of their own business alone, their own industry alone, or on the basis of the entire picture as they see it?

Mr. GAINSBRUGH. This is based primarily on their own industry's position, or rather their own company's position. It is an attempt to measure the size of the woodpile of new orders they currently have and it's adequacy in terms of the first 6 months of 1949.

The CHAIRMAN. I ask that question because this committee a year and a half ago, or 2 years ago, asked Dun & Bradstreet to make a similar study. The answers that came in that similar survey were in some cases given in response to the question as to what would happen in the particular business that the person answering was engaged in, then the particular industry which he was engaged in, and then business and industry as a whole.

Mr. GAINSBRUGH. We found about the same results there that you did. Business was more pessimistic about the general level of activity than it was about its own rate of operations.

The CHAIRMAN. And what is the situation?

Mr. GAINSBRUGH. Just about the same; they are more optimistic about their own rate of operations than they are about the general rate of business activity.

The two elements that I would stress in the whole study, which can be submitted for the record if you would care to have it, are the new-order outlook and the backlog outlook. The new-order outlook is extremely important, I think, in business appraisal. About half of the companies reported that the new-order outlook was definitely downward for the first half of 1949, as compared with the last half of 1948. A quarter said the new-order outlook might be upward, and a quarter said the new-order outlook would be the same. The emphasis there is primarily upon the downward cast of new orders.

On the backlog position, two-thirds of the companies indicated that their backlog had decreased very sharply, as compared with a year ago. About a quarter said the backlog was the same, and only the remaining percentage, or less than a tenth, indicated any increase in backlog position at all.

In general, I would say the general tenor of our report is for some degree of business adjustment in the first half of 1949. As we went through the reports, we found the adjustment anticipated is much more severe the closer the industry is to the consumer. The textile, food, and shoe and leather industries indicate a far greater degree of adjustment than the primary producers of steel, let us say, or of aluminum, and some of the other metals which are still in a shortage position. That is the note of pessimism.

The note of optimism is to be found in a similar survey in which a dozen of the Nation's leading economists participated. We assembled them around a table, much as we are here this morning, and had them discuss the business outlook for 1949. Not only did we ask them to discuss the business outlook, but we asked them to quantify the various business indicators that are most commonly used for forecasting purposes.

The results of that were very pleasing to the business optimist. This group of eminent economists—some of them, such as Kaplan and Smith, are here this morning; the others are all well known to you, Fabricant, Backman, Saxon, McNair, and so on—anticipated about the same level of national income for 1949 as for 1948 and about the same level of industrial production. They also looked for lower wholesale and retail prices in 1949. Only one of the major business indicators was indicated to come down to any substantial extent, and that was corporate profits after taxes.

The group of economists on the average felt that it would not be possible for the corporations to pass along higher metal prices and higher labor costs which they anticipated in 1949, as readily as they had in the past, and that hence corporate profits would be substantially lower in 1949 than in 1948.

I suppose in part their forecast of corporate profits after taxes was also influenced by the belief that there might be some increase in corporate taxes in 1949.

The CHAIRMAN. Did you ask any recommendations from this group of economists or from those businessmen to whom you addressed the inquiries?

Mr. GAINSBRUGH. No, we did not. But the recommendations were, of course, forthcoming in some of the letters that we have received.

The CHAIRMAN. Did you analyze those, codify them, so to speak?

Mr. GAINSBRUGH. No, we have not done that, but my general impression was that they felt the burden of taxation ought not to be increased in 1949, that is, the burden of corporate taxation ought not to be increased in 1949.

They anticipated further reductions in the cost of living index and hence felt that the necessity for a fourth round of wage increases would not be so acute in 1949 as in preceding years.

The CHAIRMAN. Any questions?

Mr. HART. Excuse me, sir, but I would like to ask this:

Yesterday Dr. Clark referred to this survey you have just been discussing, and to similar surveys that had been made previously over the course of the past few years. His observation with respect to them, as I recall it, was that the closer those answering the questions were to the facts, the more optimistic they were about the future; conversely, the farther away they were from the facts, the more pessimistic they were. In other words, those men who replied on the basis of their own activities and their own business were far more optimistic than those who were commenting upon the industry in which they were engaged, or on the over-all economic activity.

What is your comment on that opinion, Mr. Gainsbrugh?

Mr. GAINSBRUGH. I think I would go along with it. We do find, however, that the closer the respondent is to the consumer the more pessimistic his response; the more aware he is of consumer resistance, the more aware he is of the necessity for reshuffling his whole price line and reshuffling his cost structure. Because the basic note which emerges from the consumer groups is the resurgence of a buyer's market and the necessity for readjustment under the newly emerging buyer's market, as compared with the backlog period and the period of ready acceptance of higher prices in the past.

I should say this survey also reveals definite indications that industry will not be in a position to pass on higher prices as readily as it has in the past. Many of the responding companies indicated this strange phenomenon: That they look for higher raw material prices and for higher labor costs, but they did not believe their product prices could rise in 1949. That was particularly true in the textile industry, for example, at least the wool sector of the textile industry.

(The survey to which Mr. Gainsbrugh referred is as follows:)

[From the National Industrial Conference Board, Division of Business Practices, New York, N. Y.]

Survey of Business Practices, January 1949

PREDICT BUSINESS ADJUSTMENT

A general business decline in 1949 is the prediction of most industrial executives participating in this month's survey of business practices. Nothing like the oft-heralded depression or violent recession is foreseen, but rather a mild adjustment in the general economic picture. Although pessimism is evident in the comments of the majority of executives, about three-fifths of them expect their own companies' 1949 level of operations to equal or exceed last year's.

More than half of the executives report that new orders will be lower in the first half of 1949 than in either half of 1948. Only a quarter of the cooperating companies expect an increase in new orders and the remainder look for no appreciable change. Inventories will be larger in 50 percent of the companies, the same in a third, and only one in five expects to have lower inventories. Further evidence of the filling up of pipe lines is the tendency for backlogs to dwindle. Nearly 6 out of 10 companies report smaller backlogs as opposed to 1 in 7 expecting increases during the first half of the year.

Less plant expansion

Adding to the gloom is the prospect of higher labor and material costs (and thus higher break-even points), a probable increase in corporate taxes, increased consumer resistance to higher prices, a drop in the level of general business activity because of the competition of many postwar expansion programs, and the prospect of a larger share of sales being diverted to Government agencies with attendant lower profits.

The gradual satisfaction of pent-up demand for many products and the resultant drop in backlogs have prompted many companies to curtail further plant expansion. Other companies which still believe that potential markets warrant further expansion, are delaying building at this time because of high costs. Only 40 percent of the cooperating executives report that their companies plan to make capital expenditures in 1949 and in many cases this will be for the concluding phases of building programs undertaken earlier in the postwar period.

Emergence of buyers' market

Growing resistance to rising prices, evidences of receding consumer demand, and more critical buying by both consumer and industrial customers are causing many companies to devote greater attention to their sales methods and plans. As one executive pointed out, we are now going into a buyers' market and "advertising, selling, and sales promotion are necessary to keep sales, earnings, and employment at high levels." As a result of the extra effort and expense which must be put into selling (contrasted with the low wartime selling expense of most companies), a number of executives expect a net decline in profits on sales during 1949.

THE BRIGHT SIDE

It is very evident that most executives are more pessimistic over the general business outlook than over their own business. A majority expect their own volume to hold up quite well in 1949. Also contributing to a brighter outlook is the improvement that has taken place in the supply of labor during the past year, with fewer than a fourth of the reporting companies expecting any difficulty in obtaining labor during the year ahead. The material situation has also shown some improvement, although steel is still in short supply, and foreign shipments and Government-sponsored allocation programs have made the procurement of other important raw materials, like copper and lead, more difficult.

LEVEL OF BUSINESS OPERATIONS

Approximately three-fifths of the industrialists expect their own level of operations for the first half of 1949 to be the same or higher than those of the first and last halves of 1948. The remainder forsee a probable drop in activity. While favorable comments are made by representatives of primary, metal and "other" manufacturers (see table), the companies most encouraged over the outlook are in the petroleum, aircraft equipment, automobile equipment, miscellaneous metal and chemical industries.

The optimism of several petroleum executives is predicated upon a healthier demand and supply situation. In many petroleum companies, inventories, which have been at dangerously low levels, have improved and it is reported that crude oil supply is at least keeping pace with the increase in demand. Frozen wage rates are cited as another reason for encouragement. Expressing the feeling of several executives is the statement by an executive in the automobile equipment industry, who says: "Our union contract does not expire until June 1949 and we therefore do not expect any increases in direct labor costs for the first half of the new year."

With many concerns foreseeing no change, operations are expected to continue at peak levels. The steel industry, for example, which has been operating at full capacity, expects to maintain its record operations during 1949.

Lower operations for some

The industrial machinery, machine tool and textile fields generally look for a lower level of activity than in 1948, although a few companies in these industries take exception to this view. Several executives cite possible material supply difficulties, reduced backlogs, higher inventories and increased costs resulting in pricing problems as leading factors that will contribute to the expected contraction of operations.

INVENTORIES GENERALLY HIGH

Half the cooperating companies report larger inventories than last year. Executives attribute this to efforts being made by some companies to build up stocks which had previously been at levels which were regarded as dangerously low. For example, the petroleum industry reports that it assumes responsibility for anticipating the demand of its customers without a backlog of formal orders. The industry is, therefore, planning future production and inventory accumulations to meet expected demand. At least for the first 6 months of 1949, the industry anticipates no problems in meeting demand comparable to those experienced during the past several years. In another industry, a company reports it is building up more than a normal amount of inventory against the possibilities of war.

There are some indications that inventories will drop as a result of a speed-up in deliveries and a general easing of the supply situation. Furthermore, some executives point to the fact that incentive to build up inventories because of price trends is of less importance now than it was during 1948.

Lower inventories are reported primarily in chemical and leather product industries. A few companies in machine tools and miscellaneous metals have lower inventories than 1948. In some instances it is indicated that reductions are so great that operations are approaching a hand-to-mouth basis.

More than half of the cooperators (58 percent) report a drop in their backlogs of unfilled orders. In some instances, executives point out that production is now exceeding sales, while others report that quicker deliveries are factors in this trend. One cooperator states: "Our backlog of unfilled orders has decreased about 50 percent. This is accounted for by improvement in deliveries which means of course, orders are taken and shipments are completed in less time."

Summary of views of all industries in survey on business outlook for first half of 1949

	Total
Level of operations for first half of 1949 compared with:	
Last half, 1948:	
Higher	45
Lower	55
Same	72
First half, 1948:	
Higher	57
Lower	59
Same	49
Current trend and outlook for new and unfilled orders:	
Upward	36
Downward	62
Same	33
Don't know	14
Inventories compared with 6 months and 1 year ago:	
Increase	64
Decrease	27
Same	36
Backlog of unfilled orders compared to 6 months and 1 year ago:	
Increase	19
Decrease	63
Same	32
Level of operations for first half of 1949 compared with—Continued	
Outlook for material:	
Easier supply	47
Satisfactory supply	15
Tight market	49
Outlook for labor:	
Easier supply	36
Satsifactory supply	27
Tight market	18
Trend in material costs:	
Up	76
Down	25
Same	48
Trend in labor costs:	
Up	108
Down	3
Same	38
Change in product prices:	
Up	34
Down	11
Same	75
Change in future buying policy:	
No	145
Yes	16
Plant expansion in 1949:	
No	105
Yes	68

Two out of three of the companies not experiencing any reduction report that their backlogs show little variation from levels of a year ago. This is particularly true in steel, paper and textile companies. Some of the companies in the metal manufactures group, however, report rising backlogs.

EASIER SUPPLY SITUATION

The material supply situation has eased considerably over the past year and continued improvement can be expected over the coming year. One industrial machinery company executive comments: "The material situation, generally speaking, has eased up except for steel, which, because of government allocations, has again become very tight." Another executive expects materials to be in easier supply "because of a break in hoarding which has heretofore made the supply situation tight." Easier material supplies are generally expected in the following industries: Foundries, industrial machinery, machine tools, office equipment, food, leather and products, paper, textiles, and rubber.

Important exceptions are reported in which material is still scarce. Little or no improvement in supply is found in industries such as steel, electrical manufactures, hardware, and miscellaneous metals.

Steel products and many metals necessary for the national stock-piling program are of greatest concern to many industries and the general outlook for such materials is well summed up by one executive's comment: "Materials vital to our operations—such as steel pipe, plate and structural shapes, steel valves, copper and lead, magnesia pipe coverings—will be in short supply because of expected increased requirements of the armed services, Government stock piling and Government-sponsored allocation programs."

Little concern is expressed over the labor supply which is generally regarded as more than adequate. Looking ahead, a few executives in the steel, machine tool, miscellaneous metal, and paper industries feel that a tight labor market might develop. Comments by several executives are typified by the following statement: "We anticipate no serious problems with regard to labor supply, with the possible exception of some skilled labor."

HIGHER MATERIAL COSTS IN SIGHT

Notwithstanding the general improvement in the supply of most materials, the consensus is that such improvement will not be reflected in lower prices. With but few exceptions all the industries reporting expect costs to be as high if not higher than they were during 1948. A continuation of the rising cost trend is expected to stem primarily from a fourth round of wage demands which, it is believed, will be won by labor. Industry thinking on this point is summed up in the following remarks of an executive: "We foresee an increase in labor costs. The result will be not only a rise in the cost of raw materials beacuse of the increased labor costs of our suppliers, but also an increase in our own direct labor costs."

However, a small group of those reporting (made up of a mining and quarrying concern and a few rubber companies) is of the opinion that costs will decrease somewhat. In addition, those companies with union contracts extending through the first 6 months of 1949 or the entire year are not apprehensive. While realizing that the general rise of wages will be reflected in some of their purchases, they feel that over-all costs will remain fairly stable for them.

Although business is generally reluctant to increase the prices of its products, the general feeling is that higher labor costs will make upward price adjustments necessary. Reluctance to charge higher prices is in part owing to concern over possible consumer resistance now beginning to be detected. Some companies plan to make an effort to absorb higher costs.

The general attitude on the question of price advances is reflected in the following statements: "Because of higher labor costs and material price increases which even now represent a jump of about 25 percent over last July there could well result an increase in the prices of our products. However, we are reluctant to make any increases and there is, of course, a fair question as to whether the market would absorb any increases." * * * "Our prices will vary with the cost of steel, freight, wage and salary rates." * * * "We believe that a strenuous effort will be exercised by union leadership to advance the price of labor in 1949. Whatever value this may reflect in our cost of production must be incorporated in upward price revision."

DECLINE IN PLANT EXPANSION

The results of this survey show that about 60 percent of the companies do not plan any new expansion of plant facilities for 1949. The majority of the companies in the aircraft equipment, auto equipment, foundry, industrial machinery, machine tool, railroad equipment, food, leather, paper and textile industries make up this group. Only 4 out of every 10 companies expect to make capital expenditures.

For the most part, such programs will be financed out of company earnings. The next most frequently mentioned source for plant expansion funds is stock and bond issues, followed by short-term bank loans, depreciation reserves, working capital, and long-term insurance-company notes, in that order.

Most of these programs will consist of plant building and extension work, but some of it will consist mainly of machinery purchases. One executive says: "We do not plan on any building program for we consider building costs too high. We shall purchase some machinery but will defer any building we have in mind for a later date."

Comments concerning expansion of plants emphasize that most of the programs have already been completed or are expected to be completed in the near future, and no further expansion plans are being set up now. As pointed out earlier, many companies are eating into order backlogs and no major expansion programs are therefore necessary. Instead, additional sums are being channeled into advertising and sales-promotion programs.

JAMES F. FOGARTY, Jr.,
G. CLARK THOMPSON,
Division of Business Practices.

EXCERPTS FROM REPLIES

PRIMARY PRODUCERS

Abrasives and asbestos: Plan to expand in 1949

"Over a year ago, we sold $10 million worth of 4% preferred stock and issued $10,000,000 worth of 10-year debentures, part of which is designed for the 1949 plant expenditures."

"We are now expanding plant facilities and will continue to do so in 1949 and pay for the expansion out of surplus."

"We expect to carry our modernization program to completion in 1949. This program was started in 1947. A part of the cost came from reserves; a larger segment of the cost is covered by a long-term note to an insurance company, and the remainder of the money came from short-term notes from a banking group."

Foundries: Fears wage demands in latter half

"We expect there will be very little variation in the price of our products unless we receive unexpected increases in material costs."

"We are not planning any plant facilities expansion in 1949, but are buying new equipment as we feel it will effect cost savings."

"It may well be that we will have no demands made on us for wage increases but we certainly will have for something else like pensions. Our profits figures do not indicate that we can absorb additional cost increases although we may get over the first 6 months of 1949 without having to meet this issue with labor because of our union contract."

"We are just completing expansions that were undertaken in 1948 which, considering the size of our business, were substantial. Our sales run about $10,000,000 a year and our expenditures for plant amounted to about $700,000 in 1948. We feel that we got little in exchange for our money and would not have gone ahead with the program had we not felt that we should not wait for that unknown date when construction costs would be cheaper, inasmuch as our operating costs were vitally affected. The money we spent came from our working capital and no special financing was necessary."

Mining and quarrying: Will buy carefully

"We are continuing on a major program of plant and equipment modernization which will be largely completed by the end of 1949. We are financing this on short-term bank loans."

"There should be an increase in prices as both our profits as a percentage of sales and on a per-ton basis are lower than 1940's level and considerably below that of 1937. We are examining very carefully our buying policies and, if anything, we will become more conservative. We are planning new mining expansion in 1949 which will be financed in the main from earnings and depreciation reserves."

Nonferrous metals: Stock piling restricts material supply

"The Government stock-piling program is taking away about 14 percent of the virgin copper for stock-piling purposes. How much of this we can offset by increased use of scrap we do not know, but we estimate that purely as a result of lack of this raw material, our mill business may be off 10 percent. Our manufacturing business will offset part of that—bringing our total level to about 5 percent below 1948."

"Our buying policy is to endeavor to maintain a 60-day inventory of supplies and materials required in our business. We do not anticipate any change in that respect."

Petroleum and products: Inventories up

"Except for certain supply contracts, the petroleum industry assumes responsibility for anticipating the demand of its customers without formal order backlogs to that effect. The industry must, accordingly, plan future production and inventory accumulations to meet expected demand. For the first 6 months of 1949, at least, the industry anticipates no problems in meeting a demand comparable to those experienced during the past several years. Inventories, which have been at dangerously low levels, have improved and the rate of new oil production or supply is now at a pace at least equivalent to the rate of increase in demand. Needless to say, any unusual demand arising from a national emergency or any curtailment in supply from labor difficulties would adversely affect the industry's ability to meet demand during 1949."

"Some materials which required a much longer than normal lead time in ordering during most of 1948 have eased and will be more readily available. However, other materials vital to our operations, such as steel pipe, plate and structural shapes, steel valves, copper and lead, magnesia pipe covering, and a few chemicals, will continue in short supply because of expected increased requirements of the armed services, Government stock piling, and Government-sponsored allocation programs. Any extended labor trouble in key industries could easily upset the present balance of supply and demand in various commodities. In general, we expect slight, gradual decreases in commodity price averages during the first half of 1949. We have not made, nor do we immediately propose to make, any significant changes in our buying policies. We shall continue to treat each commodity classification individually, endeavoring to keep our inventories reasonably in line with supply and required lead time for replenishment."

"Weighing the evidence on supply and demand, the peak of general industrial commodity price levels seems to have been reached. Their free movement in 1949 should fall within a range of 5 percent below, to 5 percent above, the present market. On the other hand, it would not be at all surprising if the Eighty-first Congress should enact legislation giving the executive branch of the Government the stand-by authority to control prices of certain critical commodities. We believe that a peak in prices of petroleum products has been reached and that near-term future changes will tend to be in the direction of lower prices to the consumer. To provide for the replacement, improvement, and expansion of plant, our company is planning to continue capital outlays in 1949 at about the same level as in 1948. Financing will be primarily through the use of retained earnings and depreciation funds, but supplemented, where necessary, with outside capital."

Business outlook for first half of 1949 as seen by primary producers

	Abrasives and asbestos	Foundries	Mining and quarrying	Nonferrous metals and products	Petroleum and products	Steel	Miscellaneous	Total
Level of operations for first half of 1949 compared with:								
Last half, 1948								
Higher	2	1	------	------	3	------	2	8
Lower	1	2	2	2	------	------	------	7
Same	1	2	1	2	2	7	1	16
First half, 1948								
Higher	2	1	------	------	4	1	2	10
Lower	1	2	1	1	------	------	------	5
Same	------	2	2	1	1	5	1	12

Business outlook for first half of 1949 as seen by primary producers—Continued

	Abrasives and asbestos	Foundries	Mining and quarrying	Nonferrous metals and products	Petroleum and products	Steel	Miscellaneous	Total
Current trend and outlook for new and unfilled orders:								
Upward	1	------	1	------	------	3	1	6
Downward	2	2	1	------	------	1	------	6
Same	1	1	1	3	------	------	2	8
Don't know	------	------	------	------	------	------	------	------
Inventories compared with 6 months and 1 year ago:								
Increase	1	2	------	------	4	1	------	8
Decrease	------	------	------	1	------	------	------	1
Same	1	1	2	2	------	3	1	10
Backlog of unfilled orders compared to 6 months and 1 year ago:								
Increase	------	------	1	------	------	1	------	2
Decrease	------	2	------	1	------	------	------	3
Same	2	1	1	1	------	3	1	9
Outlook for material:								
Easier supply	1	2	1	------	1	2	------	7
Satisfactory supply	1	1	------	------	------	------	1	3
Tight market	------	1	------	2	6	3	------	12
Outlook for labor:								
Easier supply	------	1	1	1	2	2	1	8
Satisfactory supply	1	2	------	------	------	------	1	4
Tight market	------	------	------	------	------	2	------	2
Trend in material costs:								
Up	1	1	2	3	3	3	2	15
Down	------	------	1	------	------	------	------	1
Same	3	2	1	------	------	2	------	8
Trend in labor costs:								
Up	1	1	2	3	5	4	2	18
Down	------	------	1	------	------	------	------	1
Same	2	3	------	------	------	2	------	7
Change in product prices:								
Up	------	1	1	1	1	1	2	7
Down	------	------	------	------	------	------	------	------
Same	2	3	2	1	3	1	2	14
Change in future buying policy:								
No	2	2	2	2	5	5	4	22
Yes	------	2	1	------	1	------	------	4
Plant expansion in 1949:								
No	1	3	1	2	1	2	1	11
Yes	3	1	2	2	5	4	1	18

"Expansion of plant facilities in 1949 will be restricted to development of new crude-oil supplies. We expect to finance such expansion out of earnings."

Steel: Will continue to make plant improvements

"We are still restricting order entry in an attempt to prevent excessive accumulation of unfilled orders. Backlogs of unfilled orders at the present are, to a large extent, a matter of control. With the cost trend of industrial products upward and the climate for another wage demand being developed, it appears that the upward trend in production costs will continue. We plan no major physical expansion of facilities during 1949. Our program will be largely one of rehabilitation rather than expansion, with increased capacity from improvement or replacement of present facilities."

"We believe that all material shortages, particularly in copper, lead, tin and zinc will continue through 1949, and as long as the Munitions Board furthers its program. We are unable to forecast our receipts of pig iron, for those receipts have been and may continue to be based upon the whim of our major suppliers. As to labor, we believe that strenuous efforts will be exercised by union leaders to advance the price of labor in 1949. This will in some degree be successful. Whatever value this may reflect in our cost of production, it must be incorporated in an upward price revision. We are unable to absorb any practical wage adjustment in our present price structure."

"We think the supply of materials will gradually increase from its present tight situation and that a measure of this tightness is caused by hoarding. If increases materialize in labor and freight rates in 1949, we would expect a reflection in increased steel prices. Because costs are presently so largely frozen, we would expect a drop in demand to result in curtailed production rather than in decreased prices."

"In 1949, we expect to finish a new plant and, as usual, to make other plant improvements and additions as well as replacements of erection equipment. These purchases will be financed from earnings or surplus."

"We do expect some expansion of our facilities during 1949. This will be financed through earnings and borrowing."

"We are making improvements and expansions in situations that are urgent or to protect our company position. They are being financed by company resources."

METAL MANUFACTURERS

Air-conditioning equipment: Shortages less acute

"Our budgets for 1949 are substantially a duplicate of our operations of 1948. In the preparation of these budgets we had to be guided more by the acquisition of material than by the business on our books and the incoming business. Were that not the case, we would have increased our budget perhaps 15 percent."

"We are planning a modest expansion in our Canadian plant, substantially financed by paying ourselves no dividends."

"The closer one gets to the ultimate consumer the more evident is the price resistance which is building up now that the pipe lines are full and the most urgent deferred demand has been satisfied. In other words, foundries, tool shops, and rolling mills may still have some chance of getting higher prices for their materials before the uptrend is stopped by further buyer resistance from consumers."

"We have been short of labor ever since the war. Our shortage is relatively less than it was 6 months or a year ago. Material has never been any great problem with us. We rather look for the material situation to be a little worse in the spring, in view of the proposed rearmament program. We believe that costs will be up on both labor and material, owing to the recent election."

"Steel is scarce. We are experiencing price increases in a number of basic materials. Labor is more plentiful. We expect that wages will increase, but we also expect that productivity will increase sufficiently to more than offset an increase in basic wages. We feel that if there is any change in price levels, it will be downward."

Auto equipment: Possible price increases

"Our union contract does not expire until June 30, 1949, and, consequently, we do not expect any increase in our direct labor costs for the first half of the new year. We expect that labor in general will make some further demands in 1949, depending somewhat on the cost-of-living index and general business conditions. We also expect that, because of such demands, the trend in our material costs may be moderately higher. Change in basing-point prices will also affect our raw-material costs. It is not our present intention to make any changes in the prices of our product for the first half of 1949 unless material costs increase more than is expected."

Electric machinery: Trend upward for new orders

"Current trend and outlook for new orders and unfilled orders appears to be up because of Government defense orders."

"We expect a slight labor and material cost increase in the next 6 months, although again that depends a lot upon administration policy and whether they strive for further inflation."

"We expect to make no significant changes in our buying policy, except to better control our inventory and to balance it with any rate of operation that would be set for the latter half of 1949."

"Our plant expansion has been studied every year from 1942 on, and this year we expect to operate on a limited budget of new development, but will spend more more than our depreciation allowance on equipment and improvement."

Industrial machinery, general: More conservative buying policy

"Our buying policy has been to purchase to satisfy an anticipated demand. In the past, because of long-term deliveries, this required purchasing months in advance of actual requirements. This policy is reflected in higher inventories, particularly of late with new sales on backlog dropping off. Our new policy will be to purchase only material as required and on a much shorter time basis."

"Our company is already committed to a heavy program of equipment replacement in 1949. Plant facilities will not be expanded. The equipment replacement will be financed out of the usual meager allowance for depreciation granted by the Federal Government, plus a sum of money twice the size of that allowed by the Government for depreciation, the same to come from the current earnings of the company."

Hardware: Prices may increase

"At the present time we do not contemplate any change in the prices of our products, which have increased only 25 percent since 1939, but if our forecast of additional costs for material proves true, then we shall be obliged to advance prices to cover these additional costs."

Industrial machinery, special: Not encouraging new orders

"We are not encouraging new orders at the present time. We still have a lot of orders on our books and we are trying our best to get these out. Difficulties relative to getting steel and other materials would prevent our making a tremendous increase in output over what we have been doing."

Machine tools: Deliveries improving, backlogs decreasing

"A substantial upward change could result from increased spending for defense or under ECA programs but to date there is little to indicate that the first 6 months of 1949 will witness such changes."

"Our backlog is approximately 50 percent of what it was 6 months and a year ago. This, however, is accounted for by improvement in deliveries which means, of course, that orders are taken and shipments completed in less time, which has a direct bearing on the backlog."

Summary of metal manufacturers' views on business outlook for first half of 1949

	Air-conditioning equipment	Aircraft, automobiles and equipment	Electrical appliances, machinery, and supplies	Engines and turbines	Hardware	Industrial machinery, general and special	Machine tools	Office equipment	Railroad equipment	Miscellaneous	Total
Level of operations for first half of 1949 compared with:											
Last half, 1948:											
Higher	------	3	1	1	------	4	------	3	2	7	21
Lower	------	------	2	2	1	7	9	2	1	5	29
Same	2	2	2	------	2	7	5	2	3	8	33
First half, 1948:											
Higher	1	4	1	1	------	3	3	2	4	11	30
Lower	1	------	1	1	1	7	7	3	1	6	28
Same	1	1	1	1	1	7	2	2	1	5	22
Current trend and outlook for new and unfilled orders:											
Upward	1	3	1	1	1	3	------	1	1	6	18
Downward	3	------	2	------	1	8	9	1	2	6	32
Same	------	2	------	------	1	3	2	1	1	4	14
Don't know	1	1	1	1	------	2	------	2	------	1	9
Inventories compared with 6 months and 1 year ago:											
Increase	1	2	3	1	1	7	4	8	1	10	33
Decrease	1	1	2	------	1	2	3	------	1	5	16
Same	2	1	------	2	1	3	2	1	2	4	18
Backlog of unfilled orders compared with 6 months and 1 year ago:											
Increase	------	------	1	------	1	4	3	------	1	6	16
Decrease	3	1	3	1	------	12	6	4	2	8	40
Same	1	1	------	1	1	2	2	------	1	4	13
Outlook for material:											
Easier supply	2	------	2	------	------	6	5	3	------	2	20
Satisfactory supply	------	------	------	------	1	1	------	1	1	1	5
Tight market	1	2	3	1	3	7	2	1	2	12	34
Outlook for labor:											
Easier supply	2	------	2	------	------	5	2	3	------	3	17
Satisfactory supply	------	1	1	------	1	1	------	1	2	9	16
Tight market	1	------	------	1	1	1	3	1	1	2	11
Trend in material costs:											
Up	3	4	2	3	3	10	9	1	2	12	49
Down	------	------	1	------	------	1	------	2	------	------	4
Same	------	1	1	------	------	5	5	2	2	8	24

Summary of metal manufacturers' views on business outlook for first half of 1949—Continued

	Air-conditioning equipment	Aircraft, automobiles and equipment	Electrical appliances, machinery, and supplies	Engines and turbines	Hardware	Industrial machinery, general and special	Machine tools	Office equipment	Railroad equipment	Miscellaneous	Total
Trend in labor costs:											
Up	3	3	3	3	3	13	9	2	2	16	57
Down											
Same		1	1			5	4	2		3	16
Product prices:											
Up	2	3	2	1	1	3	5		2	3	22
Down	1										1
Same	1	2	2	2		7	5	4	1	9	33
Change in future buying policy:											
No	4	6	5	2	1	12	12	6	4	21	73
Yes					1	2	2			1	6
Plant expansion in 1949:											
No	2	3	3	2	3	14	15	3	6	2	53
Yes	3	1	1	1	1	6		4		12	29

"We plan to pursue our plant modernization program vigorously this coming year in an effort to continue improving our efficiency. However, this will only concern machinery. We do not plan any building program, for we consider building costs too high. We shall defer any building we have in mind for a later period. Such facilities as we expect to purchase or manufacture will be for replacement rather than for expansion, and we shall finance them from depreciation charges and from surplus, if necessary."

Office equipment: No change expected in costs

"We do not anticipate any marked changes in the cost of material and labor during the next 6 months. It is our belief that only through economy and efficiency of operation can our costs be substantially reduced. While the possibility of a fourth round of wage increases is strong, we do not feel that it will be as substantial or as widespread as the preceding rounds."

Railroad equipment: Wage-price spiral diminishing

"We expect materials to go up in price and we expect labor rates to go up. We naturally expect the price of our products to go up correspondingly."

"In the manufacturing business, we expect a fourth round but do not look for any special difficulties in handling that situation. The fourth round will, of course, bring about in due course the resultant rise in prices which may bring sales resistance. This sales resistance, however, persists only in lines that are vulnerable but in the main the wage-price spiral will continue. Each circle of the wage-price spiral seems to be somewhat less than the previous ones."

Miscellaneous; Backlogs lower

"Our backlog of unfilled orders is approximately 20 percent less than it was 6 months ago and about the same percentage less than a year ago. This is due to two factors. The principal reason is we are unable to secure a sufficient amount of raw material to make required delivery schedules. The second reason is that we are not attempting to book business further ahead than 6 months."

"The price of our product will advance or decline with the change in material and labor."

"New orders have fallen off and cancellations have increased sharply. We believe this is due to tighter inventory control by customers and to nervousness about extensive future commitments."

"At the present time there seems to be a tremendous amount of work available along the lines of sheet metal fabrication. However, the cost of this work is rising rapidly due to increases in cost of material and the fact that wages keep going steadily up which may in time curtail the extent of the business to be had. As indicated before, we seem to be doing a greater volume of dollar business but at a declining net profit. We expect our prices to rise with increases of wages and material."

"We have made no prices increases of any significance since 1944 and we are not contemplating any changes during the next 6 months. All of our nationally advertised lines which consitute the bulk of our production are selling exactly at 1944 levels."

"We hope and believe that we can maintain our present price level and expect to absorb any slight increases in costs of labor and materials."

"We believe certain critical materials will continue to be difficult to obtain and may become subject to allocations and priorities. We look forward to a very tight labor market during the next 6 months. The costs of both materials and labor will probably continue to increase with another round of wage increases expected in the coming spring. For this reason, we believe it may be necessary to increase the prices of our products during the coming 6-month period."

"The supply of material will depend upon voluntary allocation and stock piling by the Government. I do not think that these policies will be pressed to the point that will unduly interfere with employment, but I do think that the labor supply will ease by midyear. If additional taxes are placed upon business, as seems probable, and if cost of living, mainly in foods, continues downward, which is likely, it would not surprise us to see the fourth round wage increase flatten out. We do not expect to be forced to increase the price of our products for the next six months."

"We have complete plans all drawn for plant expansion. Whether or not we will go ahead with this plant expansion will depend to a great extent on the cost of such a project under present-day conditions, and also the availability of materials. In view of our cash position, we could possibly make such expansion without borrowing from any other source."

"We look for improved labor conditions during the coming year. We have improved our manufacturing facilities and are continuing to do so, with the hope of reducing costs. We cannot hope for lower costs of raw materials, which, in our business, involve a tremendous freight burden; nor do we look for lower labor costs, as far as hourly wages are concerned. We do not now see any downward trend in the prices of our finished products, and the tendency toward higher prices will depend entirely upon the prices we must pay for raw materials."

OTHER MANUFACTURES

Chemicals: Good business expected

"New orders for our products have been holding up satisfactorily and are expected to increase somewhat during the first half of 1949. Company inventories have been built up in view of increasingly competitive conditions, which require a more comprehensive line of products and prompter delivery than heretofore."

"Because we are engaged in a mining industry, we do not have material costs in the usual sense of the word. However, we use considerable quantities of steel pipe in the extraction process. Some increase in the cost of this pipe will probably be caused by increased transportation charges. We do not expect any significant change in the price of our product during the next 6 months."

"I feel convinced that labor costs are going up. This means a direct increase in the cost of our business operations, and it also means an increase in the cost of our raw materials because of the increased labor costs of our suppliers."

"We are planning to expand plant facilities in 1949, although to a lesser extent than during the preceding 3 years. This expansion will be financed in part from current earnings and depreciation reserve and in part from some funds recently procured by the sale of convertible preferred stock."

"We intend to add to our pilot-plant facilities and to operate on a pilot-plant basis on several new products throughout the year. The outlook does not justify construction of full-scale plants in 1949, but we can learn a good deal about markets through the supply of material made in pilot-plant lots."

Floor coverings: May have to raise prices

"The outlook for securing raw materials is favorable except that the prices of of carpet wools have skyrocketed. This constitutes a very serious problem for us. Our labor relations are good, but we shall no doubt have to pay an increase of anywhere from 8 to 10 cents an hour. Because of higher labor costs and wool-price increases which even now represent approximately a 25-percent jump from last July, there could well result an increase in the prices of our products. However, we are reluctant to make any increases, and there is, of course, a fair question as to whether the market would absorb these."

Food products: Foresees lower prices

"In our business the material is raw milk. It looks like prices will be lower than they were in the corresponding season a year ago. We anticipate that there will be some further increases in the costs of labor. As to prices of products, they will, of course, reflect the farm price of milk and we would expect them to be considerably lower during the early part of 1949 than they were in the early part of 1948."

"We are big users of agricultural commodities which are protected by Government floors on prices. We look for decreases in the prices of some commodities, but no material change in the over-all picture. While commodities may show some slight decreases, we do not look for any material changes in costs of production. There will probably be some further increase in labor rates, although we think the amount of increase will be smaller than heretofore given."

"Our policy on the buying end will continue to be from hand to mouth with no forward commitments."

Leather and products: No decline in opening months

"The level of operation should hold about even for our spring season, which ends April 30. We do not expect any particular decline during the ensuing few months until we reach the latter part of 1949. Our production budgets have been set at approximately the same production level as prevailed for the 6 months ended October 31, or the first half of our fiscal year. The inflow of orders indicate that this point is reachable, but to do it we must pull out of the bag of selling tricks everything conducive to obtaining business. At this time with 5 or 6 weeks of our selling season past, it looks as though it is entirely possible to attain our production goal within 5 percent in either direction."

Business expectations for other manufactures, first half of 1949

	Chemicals	Floor coverings	Food products	Leather and products	Lumber and products	Paper and products	Rubber and products	Textiles	Miscellaneous	Total
Level of operations for first half of 1949 compared with:										
Last half, 1948:										
Higher	4	1	2	------	------	3	2	3	1	16
Lower	2	------	1	1	2	3	1	6	3	19
Same	4	2	4	2	1	4	1	3	2	23
First half, 1948:										
Higher	3	2	3	------	1	4	3	1	------	17
Lower	3	------	2	2	2	4	------	8	5	26
Same	4	1	2	1	------	3	------	1	3	15
Current trend and outlook for new and unfilled orders:										
Upward	3	------	2	1	1	1	2	------	2	12
Downward	------	------	2	1	2	6	1	8	4	24
Same	2	------	1	1	------	4	1	1	1	11
Don't know	1	1	------	2	------	1	------	------	------	5
Inventories compared with 6 months and 1 year ago:										
Increase	3	3	------	1	2	4	2	4	4	23
Decrease	3	------	1	2	------	------	------	1	3	10
Same	1	------	3	1	------	2	1	------	------	8
Backlog of unfilled orders compared with 6 months and 1 year ago:										
Increase	------	------	------	------	1	------	------	------	------	1
Decrease	2	------	1	3	2	6	1	3	2	20
Same	1	------	1	------	------	3	1	3	1	10
Outlook for material:										
Easier supply	1	------	4	2	1	2	2	4	4	20
Satisfactory supply	------	1	------	------	------	4	1	1	------	7
Tight market	------	------	------	------	1	1	1	------	------	3
Outlook for labor:										
Easier supply	1	------	4	2	1	1	1	1	------	11
Satisfactory supply	------	------	------	------	------	3	2	2	------	7
Tight market	------	------	1	------	1	2	------	------	1	5
Trend in material costs:										
Up	1	1	------	------	------	2	------	6	2	12
Down	4	------	2	2	1	4	2	2	3	20
Same	3	1	4	1	------	3	1	2	1	16
Trend in labor costs:										
Up	6	1	6	------	2	6	------	7	5	33
Down	------	------	------	------	------	------	2	------	------	2
Same	3	1	1	2	------	3	------	3	2	15

Business expectations for other manufactures, first half of 1949—Continued

	Chemicals	Floor coverings	Food products	Leather and products	Lumber and products	Paper and products	Rubber and products	Textiles	Miscellaneous	Total
Product prices:										
Up	1				2	1			1	5
Down	2		2			3	1	2		10
Same	5	1	2	2	1	7		4	6	28
Change in future buying policy:										
No	9	3	7	1	2	10	4	8	6	50
Yes			1	1		1		2	1	6
Plant expansion in 1949:										
No	3	2	6	3	2	7	3	9	6	41
Yes	5	1	2		1	6	1	2	3	21

"It is difficult to express any opinion of what will happen to labor. The recent trend toward a decrease in the cost of living should hold labor increases to a minimum. But the general labor program of obtaining increases has been receiving considerable publicity, and we believe that bargaining will become much more difficult as contracts expire in 1949. Industry in highly competitive markets, and more particularly in the shoe industry, is showing greatly decreased profits over a year ago. We do not believe that industry will willingly go along with the idea of paying additional wages if it causes a complete lack of profit, nor that highly competitive industries can afford to increase the prices of their products. Our last wage increase was accompanied by a strenuous campaign to reduce costs in order to hold selling prices."

"We plan no over-all expansion of plant facilities. We shall move from certain properties to other rental properties in which we have unused space and shall increase our production facilities on certain lines which are in heavy demand currently. This will not involve any considerable financial outlay other than the bare cost of moving and some small amount of new equipment. These expenditures will be below $50,000 and will be financed out of normal working capital."

Lumber and products: Cautious buying policy

"We are following a policy of cautious buying of all raw materials and supplies. Prompt deliveries being made between suppliers of material permit us to schedule our purchases for a much shorter period of time than formerly, and we expect that we will be able to operate with a smaller inventory of materials and goods needed for the manufacture of our commodities."

Paper and products: See relatively stable pulp prices

"We believe that prices of domestic and Canadian pulps of fair qualities will be unchanged, with a possibility of a slight softening in the second quarter for unbleached kraft pulp. Scandinavian pulp prices, we believe, will be affected on account of competitive domestic prices by June 30, 1949. During December we have had a few price increases on general raw materials. If a fourth round of wage increases comes, some materials will be advanced accordingly."

Textiles: Will hold prices down through improved processes

"We plan no major plant expansion in 1949. We do, however, expect to spend about three times the amount of our depreciation reserves. We retain earnings sufficient to finance our plant additions out of current assets."

"Price changes in our products, despite increased cost of raw materials and wages, are being held to moderate amounts because of the high volume of operations which we are realizing and our belief that new machinery, as it becomes fully effective in production, will substantially offset these increases."

"We are expanding plant facilities in 1949. These projects, however, represent the completion of our postwar program and do not include any new major undertakings. They are being financed out of money previously raised through sale of bonds and stock, in addition to the normal sources of banking, depreciation and profits."

"The apparent trend of the cost of raw materials and labor seems to be up in spite of the reduced demand for merchandise."

"As almost all our raw material is imported, the outlook for the prices of these fibers involves several factors. There appears to be a determination in the jutegrowing areas of the world to hold prices at a level that can only be described as artificially high, when comparison is made with periods prior to the war. As this fiber is produced from an annual crop, no alleviation can be expected for several months."

"Inasmuch as all our goods are individually designed and custom made for the user after the order is received, we have no backlog of unfilled orders. We have been building up more than a normal inventory against the possibility of war."

"Inasmuch as we have built up more than a normal inventory, our buying will probably taper off during the months immediately ahead."

The CHAIRMAN. Mr. Terborgh.

Mr. TERBORGH. Would it help if I stood up, Senator?

The CHAIRMAN. I think it would.

Mr. TERBORGH. My general outlook on the business situation I can express in a word. We are obviously in a rather severe testing period and so far as we can ascertain the current drift it is still slightly downward.

As to prediction, I check out. I wish I could have the assurance that Dr. Clark exhibited here yesterday in stating that by April we would be on our way again on an inflationary trend. I have no such confidence in the capacity of economists, including myself, to predict the future.

If I may draw a moral for public policy, it is this: That it would be folly at this juncture to predicate policy on a forecast such as Dr. Clark gave yesterday.

Mr. HART. May I interrupt? Did Dr. Clark state that categorically, or did he state that it would not be until April when we could determine what way we were heading?

Mr. TERBORGH. I read of his statement in the press. It may have been badly reported, sir, but that is the way I got it.

The CHAIRMAN. I think his actual statement was that we would know by April what the outlook would be.

Mr. TERBORGH. In that event he did not undertake the prodigy of prediction that appeared in the newspapers. I am glad to be corrected.

The current situation has a great many aspects and other economists here will dwell on their particular interests and specialties. I wish to speak on only two points on which I may presume to have some claim to judgment.

I find myself seriously at odds with a basic assumption in the economic report of the Council, as reiterated here, I believe, in testimony by Mr. Keyserling and Mr. Clark: That we are currently having an excessive and insupportable rate of business capital formation; that this capital formation is being financed out of profits and that therefore we should take measures to reduce profits in order to bring capital formation into line with a normal and supportable level.

I have given considerable study to the question of where we stand currently on business fixed-capital expenditures, and it is my judgment, so far as we can determine from historical trends, that we are somewhat above normal for this period in respect of equipment installation, but we are, on the other hand, under normal with respect to plant construction. When we put the two together we have a difficult time making a case for the proposition that we are up in the clouds on business capital formation.

We consider that our business plant is gravely deteriorated at the present time as a result of a decade of depression followed by several years of war (in which capital formation was drastically curtailed except in certain metalworking fields essential to munitions production.) I think we have nothing to be alarmed about in the fact that the current level of business capital formation may be at or even slightly above what would have been normal in the absence of this past history. In the interests of production and the increase in our standard of living, we ought, indeed, to expect and to welcome a period of overnormal business capital formation, extending for several years. We have had 3 years of fairly high capital formation thus far since the war. I submit that it should not be public policy to attempt, by taxation, or otherwise, to curtail this much delayed replenishment of our physical facilities of production.

I turn now for a moment, if I may, to my second point, which is the alleged excessiveness of corporate profits.

The CHAIRMAN. Before you develop that, Mr. Terborgh, may I ask you whether you care to place an estimate upon the extent of this depletion of plant of which you speak, leading to an estimate as to what expenditures industry might be expected to make to replenish it?

Mr. TERBORGH. I would like to indulge you in that, Senator, but I am highly skeptical of dollar estimates of the accumulated backlog of business capital expenditures. They are usually derived by a retrospective calculation which assumes that what we did not spend in some past period is going to be spent in the future, over and above our normally accruing requirements in the future. I think this calculation inevitably exaggerates the deferred demand that will in fact be made up in the future. Nevertheless, though lacking any specific estimate, we cannot gainsay the fact that this long history of underequipment is bound to produce a multiplicity and urgency of opportunities for reequipment and expansion that would not have obtained had we had, over the 15-year interval, a normal rate of input.

The CHAIRMAN. Do you have any direct information as to presently planned plant expansion by industry?

Mr. TERBORGH. I have, but on this I would like to defer to Mr. Keezer, who will speak further on that point.

You may like to look at a chart that I have here, Senator, which is for equipment only and not for plant.

(The chart referred to appears on following page.)

Mr. RICH. Under section 102 of the revenue act, requiring that 27½ percent of the profits, if they are not paid out, must be paid to the Federal Government; hasn't that caused all the industries who made profits in the last several years to go ahead and spend their money for new equipment in machinery, or new buildings?

Mr. TERBORGH. Section 102, Mr. Rich, is applicable particularly to small and closely held corporations where there may be a presumption of tax avoidance by the stockholders if there is an unusual retention of income. I doubt if the section has any tremendous effect on business policy in general. As I say, it does affect very seriously some closely held companies, which have to look out of their left eye at the Bureau of Internal Revenue when they consider dividend policy. Many of them are dragooned by the pressure of section 102 into making a greater distribution than their judgment would otherwise commend.

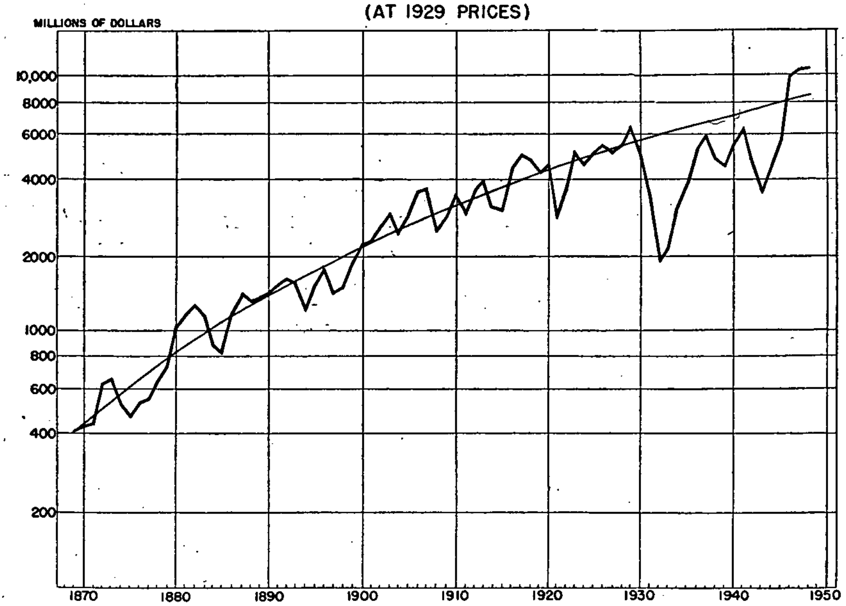
Mr. Rich. I think for the reason that compels them to take their capital and make investments at high prices when they ordinarily would keep themselves in a solvent position.

Mr. Paul. I want to follow along Congressman Rich's question and ask if the witness had any quantitative analysis of how much capital is put in the plant in order to save the tax that would be on the stockholders with distribution. As I understood the Congressman, he is asking from the point of view of how much retained profits are put into plant, rather than the point of view of how much is prevented from being put into plant by forced distribution.

Mr. Terborgh. Well, section 102 operates in both ways. It is an inducement not to retain and it is an inducement to spend money for

EXPENDITURES FOR PRODUCERS' EQUIPMENT

(AT 1929 PRICES)



plant equipment or for inventory, because the company is in a much more vulnerable position if it accumulates its retention in liquid form than if it has it in physical form.

Mr. Paul. Then is it true to say that a large amount of corporate capital is put into plant, because if it were not put into plant it would be forced into distribution to the stockholders?

Mr. Terborgh. Well, your judgment is better than mine on that. My impression is that the proportion of American corporate business that has to worry too seriously about section 102 is rather small volumetrically. In a number of companies it is, of course, a much larger proportion.

Mr. Paul. I think I would agree that it is minor, but it is substantial.

Mr. Rich. And it affects corporations that are closely held to the extent that it robs them of the stability in keeping themselves in good financial position.

Mr. TERBORGH. Yes. It prevents a small and closely held company in a feast-and-famine industry from putting fat on its bones during a period of prosperity with which it can cushion a possible future depression. That fat, if it is going to be of any use in a future depression, must be held in liquid form. If it is spent for plant and equipment it cannot be spent a second time.

The CHAIRMAN. During the month of December, a subcommittee of this committee, under the chairmanship of Senator Flanders, held a hearing on profits. We endeavored to get an adequate cross-section of corporate opinion with respect to that situation. My recollection is that in the report—and Senator Flanders will correct me if I am wrong—it was stated that whereas some years ago about 75 percent of profits were distributed to stockholders, the current rate of distribution is only about 42 percent.

Mr. TERBORGH. That is correct, if we look no further at the figures, Senator. The real retention ratio is much lower than it appears, for the reason to which I was about to advert, namely, that the profit figures as they are currently published are grossly excessive.

For instance, the estimate for 1948 is just under $21,000,000,000 of corporate profit after taxes. Something between $3,000,000,000 and $4,000,000,000 of that consists of nothing but the higher cost of replacing the opening inventory with which business entered the year. A couple of billions should be earmarked for depreciation to offset the underdepreciation we are getting now by writing off only original cost in a period when the current price level has been doubled. Further, the present profit figures make no deduction for depletion, for which we can allow three-quarters of a billion dollars. If we knock off four plus two plus one we are down from $21,000,000,000 to 14 or 15 billion dollars of legitimate operating profit.

I will say flatly and without fear of successful contradiction that properly computed the operating profits of American corporations were lower in 1948, in relation to sales, or in relation to national income, than they were in any prior period of full-employment prosperity before the war.

The following chart shows corporate profits, excluding changes in inventory valuation, as a percentage of national income. In the 1920's there was not one prosperous year when they were a lower proportion of the national income than in 1948. Indeed, last year they were under 8 percent. They ranged in the good years of the 1920's from 8 to 10 percent. Current profits are not excessive. Indeed, they are surprisingly low. By this I do not mean to imply that they have not been extraordinarily high in some lines. They have, and they have been very low in other lines. But when we add them up they do not come to an excessive figure.

(The chart referred to appears on following page.)

Mr. TERBORGH. I will close by reiterating that the basic premise on which the Council of Economic Advisers has been proceeding is profoundly mistaken. We are not far above the clouds on business capital formation, certainly by any measure of what the country needs, nor are profits so excessive that they need to be curtailed by public policy.

On the contrary, I can think of nothing more certainly calculated to reduce the volume of business investment than additional taxes on profits.

One thing frequently not appreciated enough is that while some of the big companies are able and willing to borrow on long term, particularly in stable fields like public utilities, 90 percent of American corporations are either unable to do so, or do not consider it prudent to do so. They live out of the till. They spend what money they have and let it go at that. For this reason nothing can so quickly reduce their capacity to form new capital as a reduction in their profits after taxes.

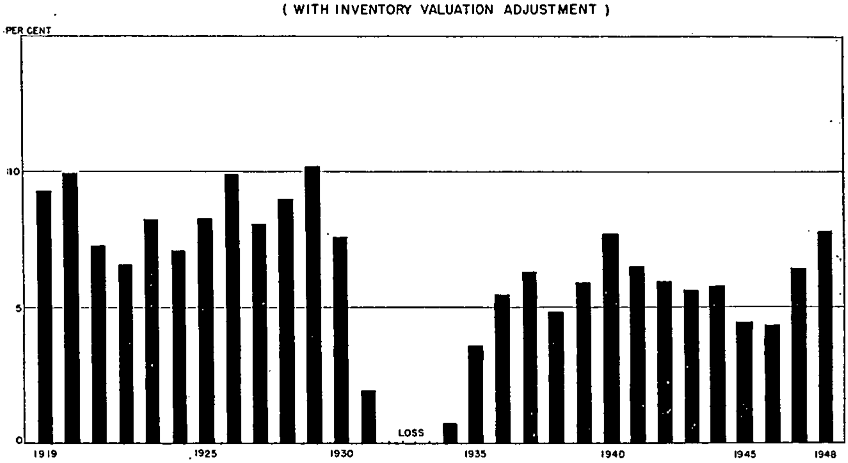
Mr. RICH. May I ask this question, Mr. Terborgh?

Mr. TERBORGH. Certainly.

Mr. RICH. In the profits, is it not a fact that industry has inventoried all their machinery and equipment at cost or market, and that

CORPORATE PROFIT AFTER TAX AS PER CENT OF NATIONAL INCOME

(WITH INVENTORY VALUATION ADJUSTMENT)



the high prices are added to their profits for their inventory, which, in the judgment of most everybody in business, is exceedingly high? Therefore, it reflects a form of profits which are really not considered profits by the manufacturers.

Mr. TERBORGH. Fixed capital, Mr. Rich, is not inventoried at cost or market; it is capitalized at cost and carried at cost throughout its entire life. Working capital inventory is conventionally carried at the close of the year at cost or market, whichever is lower—with many exceptions, of course.

But your point is well taken, that many businessmen are just as deluded as I think the Council of Economic Advisers is, as to what is a proper reckoning of profit. When industry puts five billion additional dollars merely into replacing its opening inventory, and calls that $5,000,000,000 a profit made during the year, I think it is simply kidding itself.

Mr. RICH. When you take a machine which wore out in 1947 and you replace it in 1948, you pay twice as much for it. Then you have to add that in as a profit to your organization.

Mr. TERBORGH. I agree wholly. I said we should allow a couple of billion dollars for corporations alone as a minimum measure of the inadequacy of their current depreciation accruals.

The CHAIRMAN. Mr. Terborgh, I am prompted to make a comment on what you said. You criticize the position of the Council of Economic Advisers because, as you understood it, they were recommending that business profits be curtailed. That was not my understanding of the recommendation. There is no opposition that I know of among any of the witnesses who have appeared before this committee, nor have I seen anything in the review of the Council which indicates a belief that profits should be curtailed for the sake of curtailment, but rather it is suggested that this high level of profits offers a source from which the Government might, through taxation, obtain the income which would enable it to do the job that it must do.

Mr. HERTER. Mr. Chairman, might I try to correct the record at that point?

Mr. Keyserling is here. If I recall his testimony he very definitely implied that the rate of capital formation was going too fast and that there ought to be a slowing down in the capital expenditures.

Mr. RICH. I got that impression, too.

The CHAIRMAN. We will come to that in a minute. I was thinking of what was said by Dr. Clark yesterday.

Mr. TERBORGH. May I read, Senator, from page 10 of the report?

The CHAIRMAN. Surely.

Mr. TERBORGH (reading):

> Although a portion of the large profits earned in 1947 merely compensated for changes in prices, profits on the whole were above the levels necessary to furnish incentives and funds for the expansion of business and promote the sustained health of the economy.

Mr. GAINSBRUGH. That is repeated from last year's report. It was said for the second time.

Mr. TERBORGH. Accordingly, the council proposes to take a substantial bite from corporate profits, some $4,000,000,000.

The CHAIRMAN. That is true. But my point, Mr. Terborgh, was that even the statement which has just been read does not support the conclusion that the recommendation was to curtail profit for the sake of curtailing profit.

Mr. TERBORGH. That is an inference I made from Mr. Keyserling's testimony, perhaps erroneously, but I made it honestly, Senator.

The CHAIRMAN. Well, I do not doubt that.

Mr. RICH. I got the same information.

Senator FLANDERS. Mr. Chairman.

The CHAIRMAN. Senator Flanders.

Senator FLANDERS. I would like to bring out the question whether any prediction was made by Mr. Clark as to whether we were still in an inflationary situation. I would like to read from his statement. [Reading:]

> The program now proposed by the President in his annual economic report, which you are studying, is based upon the judgment that the postwar inflationary forces are still strong and will probably become more active in the near future, requiring the provision of measures now to curb spiraling prices. This is the interpretation of the economic situation presented to the President by the Council of Economic Advisers, and it has been discussed at length during these hearings by members of the council.

That leaves out the April date, but it does definitely predict the continuance of inflation.

The CHAIRMAN. There is no doubt about that.

Mr. GAINSBRUGH. May I supplement what Mr. Terborgh said?

The CHAIRMAN. Surely.

Mr. GAINSBRUGH. In a slightly different fashion. Mr. Terborgh has been emphasizing capital expenditures; let me turn to the other side, consumption expenditures. This committee has heard, and the Council's report contains statements to the effect that consumption expenditures are now too low for purposes of stability; that consumption expenditures in the past have been about 75 percent of gross national expenditures; they are currently 70 percent. Hence there is something inimical or unstable about the present composition and size of consumption expenditures.

The figures are correct. What I would like to give this committee is some background underlying those figures. Let us take consumption expenditures and break them into their three major categories—durable goods, nondurable goods, and services—and see which of those three now lies below prewar position.

Consumer durable goods accounted for 9 percent of total G. N. E., or gross national expenditures, in 1948, as compared with 7.3 prewar, a very sharp increase in the expenditures of consumers for durable goods.

For nondurable goods we spent 40.9 percent in 1948 as compared with 39 percent prewar. If we put the expenditures for durable and nondurable goods together we get 50 percent spent for goods of all types in 1948 as against about 46 percent prewar. There has been a very substantial increase by consumers of America in the proportion spent for goods.

Where, then, does this lower value of consumption make itself manifest? Only in one area, and that is in services.

Prior to the war in 1939 we spent 28.2 percent of gross national product for services; today we are spending only 20.2 percent.

There is the weak spot in the consumption picture that the Council has painted for us. And why is that percentage so low now as compared with prewar? Primarily because of rent control and the impact of rent control upon the expenditures for services. We are also spending less relatively for domestic services and related hand trades.

There is nothing in the present picture of retail sales to suggest underspending on the part of American consumers. If anything, the ratio of retail sales to disposable income is well above any prewar ratio. It was usually about 55 or 60 percent prewar and is currently about 65 or 70 percent of disposable income.

I think these figures ought to be considered jointly with the figures that Mr. Terborgh gave you.

The CHAIRMAN. I think so, but they inspire two questions: Do you recommend going back to the rate and to the amount of prewar consumer expenditures?

Mr. GAINSBRUGH. What I have read into the record already indicates a very sharp rise in the rate of consumption.

The CHAIRMAN. But you do not recommend going back to that rate?

Mr. GAINSBRUGH. No, I do not.

The CHAIRMAN. Then is the current rate sufficient to support the economy and avoid that decline which Mr. Smith and Senator Taft were discussing earlier this morning?

Mr. GAINSBRUGH. I think we have, under the present levels of employment, created domestic markets sufficient to sustain full employment when we get the right price-profit-wage relationships. We have yet to develop those right price-profit-wage relationships.

We are beginning to get the necessary correction in the balance of prices. Farm prices are coming down. The whole price band is narrowing. Manufactureed goods, which were restrained, have moved up and we are beginning to get a better degree of exchange between the farmer's dollar for manufactured goods and the wage-earner's dollar for farm products.

The CHAIRMAN. Then your testimony is, or the conclusion is, that the situation in which we find ourselves is one that is relatively satisfactory?

Mr. GAINSBRUGH. Yes.

Senator TAFT. Basically sound?

Mr. GAINSBRUGH. So far as the over-all picture looks. Internally there are a great many soft spots, such as New England and other regional areas.

The CHAIRMAN. Yes; but over-all it is basically sound, as Senator Taft said. Is that your judgment?

Mr. GAINSBRUGH. If this process of readjustments is allowed to continue

Senator FLANDERS. Mr. Chairman.

The CHAIRMAN. Senator Flanders.

Senator FLANDERS. There is one point that has troubled me greatly, and I would like to throw it into the middle of the table here——

The CHAIRMAN. Throw it to the other side.

Senator FLANDERS. All right, we will throw it to the other side, then.

I would like to raise the question, first, as to whether there is a serious widening of the gaps between income of the various classes of income receivers. We know there is a bad discrepancy continuously increasing as inflation progresses, between the groups who are living on fixed income, particularly those living on the savings of a lifetime, and those living on various retirement allowances, those living on other types of income which do not go up with inflation.

I have also wondered whether there was not an element of increasing gap as between the wage-earners belonging to the active, aggressive, successful organized unions, and those which are weaker and less successful.

Now, first: Is there a growing gap between the top and the bottom level of consumer income receivers? And, secondly, if there is, is that a danger spot in this business of having sufficient market for the production of our agricultural and manufactured goods? Is it something that has to be looked at? Is it something that has to be watched? Is it something that has to be corrected?

As the extreme position, may it not be that if under continued inflation this spread continues to grow, may that not in itself bring about a recession and, contrariwise, if some means could be found for bringing up the lower incomes as against the upper ones, might it not be the reservoir of supply to step in when we pass this critical point that has been mentioned by Mr. Smith and others, as we approach the secondary postwar depression?

Mr. KEEZER. I know nothing about that that I have not read in the report of the Council. But I know of no reason to doubt what they say. I would gather that the answer to the question about the inadequacy of purchasing power as a whole is it has tended to get a little better in recent months and over the past year. The Council reported that the disparity between the top and the bottom had decreased, as I understood it, since before the war, but it had tended to increase somewhat over the last year.

I have no knowledge that would contradict that. I think however, one caution should be given. The Council's figures on savings show that individual savings were increased last year. I believe they are Government figures, but I believe there is some question as to the validity of those figures. As I understand it, they are simply a sort of residual figure after a lot of other things are added up. What is left is called savings.

But I believe the Council undertakes to answer both of those questions?

The CHAIRMAN. My recollection is, Mr. Keezer, from the figures of the Internal Revenue Department and the Federal Reserve Board, that full employment during the recent past has operated to raise incomes all the way along the line. There are more people receiving over $25,000 a year than ever before—that is, there were last year. There are more people receiving $10,000 up to $24,999 than ever before, and so on all the way down the line. So that there has been an over-all lifting of the standard of living. That, of course, poses one of the serious questions we have here, as indicated by Senator Flanders. It is one of the objectives of this law under which we are operating. What should Government do to maintain that purchasing power all along the line?

Now, the fact is that the purchasing power of those who receive less than $5,000 a year is far greater in dollars than the purchasing power of all of those who receive over $10,000 a year.

Mr. KEEZER. Might I say this: As I understand the broad policy set forth in this report, it is to take money away from expenditure for new plant and equipment and give it to consumers. That is the basic proposition.

The other is to do more to equalize the income of consumers. That is what I take to be the structure of this report.

Now, as I read the report, I gather from the figures submitted by the Council that consumers are doing quite well in purchasing power. It is my judgment that we are doing very badly relative to our needs for plant and equipment. But on the question of fact, I have some difficulty in following the argument which says, give more to immediate consumption of our total national product. As I study it, the consumption figures seem to indicate the purchasing power is doing pretty well.

The CHAIRMAN. Of course you are taking into consideration the over-all objective of this advice to Congress, which is not that action should be taken to prevent plant expansion by private capital, but that action should be taken to maintain purchasing power and production and employment, so that the Government may maintain a Treasury surplus, reduce the debt, and carry on the Government program which, by reason of world conditions, it must carry on.

Mr. KEEZER. That, Mr. Chairman, is not my understanding of the report. Since this is a round table I would appreciate it if members of the Council could correct me. I read in that report:

> More sustainable long-run patterns will require a drop in private capital expenditures from 15 percent of the Nation's economic budget to about 11 or 12 percent.

That is a drop of about $10,000,000,000 in private capital investment, which is advocated as a Government policy in this report, as I read the report and understand it.

Now, if I do not understand it correctly, I would like to know.

Senator FLANDERS. Mr. Chairman, I wanted to advert again to the point I raised, and I will leave it at that point. I took out of an article by Marriner Eccles in United States News for January 7 this sentence which expresses what I was trying to express very much more clearly than I have done. He says:

> What is happening is that the increasing spread between economic fortunes of large segments of the public is making it more and more difficult for these groups to do business with each other.

Senator TAFT. Mr. Chairman, I would think that was contradicted by appendix B of the President's economic report which shows the difference between the rich and the poor, so to speak, has been somewhat decreased since before the war.

Senator FLANDERS. In a way, I am talking about the difference between the very, very poor and the fairly well-to-do. The averages, I am satisfied, conceal a very great and growing disparity.

Senator TAFT. I do not question the disparity, but I do question its being a growing disparity, because this report shows it has distinctly decreased rather than increased.

Mr. YNTEMA. I think the point is also supported by what has happened to wages in the unorganized areas as compared to the organized areas. Percentagewise the wages have risen more in the unorganized areas than in organized areas.

Senator MYERS. Mr. Chairman.

The CHAIRMAN. Senator Myers.

Senator MYERS. Mr. Chairman, thus far I have enjoyed this splendid economic discussion, but it seems to me we came here to discuss the need, if any, of further governmental policies or a change in governmental policies, or the need for any legislation to maintain maximum employment, maximum production, and maximum purchasing power.

I have heard some discussion on taxes, an opposition to an increase in taxes, but I would like to hear some of these gentlemen discuss the need or the absence of a need for any legislation to maintain this high level of employment, or for a change of any present governmental policy that would effectuate maximum employment, maximum production in the future.

Thus far we have had a discussion as to whether we are in an inflationary or a deflationary period and what may be before us. I think that background may be necessary, but we have a program here submitted in the report, and a program submitted by those who have testified in the last 10 days. I really think it would be most helpful to the members of this committee and to the Members of Congress if these men would discuss specific recommendations, particularly specific legislative recommendations of the Council and of the President.

The CHAIRMAN. I would say to you, Senator Myers, that I think we are beginning to get warmed up to the discussion. We are just putting our toes in the water. Probably at the session this afternoon we will be splashing all around the place.

Mr. HART. May I make a statement there, Mr. Chairman?

The CHAIRMAN. Mr. Hart.

Mr. HART. Like Senator Myers, I found this discussion very delightful and very interesting, but unfortunately the House will be in session this afternoon on a very important bill, which will probably require that several votes be taken. I think I speak also for my colleague, Mr. Buchanan, when I express deep regret over our inability to be here this afternoon, and I would not like it if the experts across the table should interpret our absence as due to any lack of interest in the proceeding.

Mr. RICH. I join my colleague, Mr. Hart. I wish, Mr. Chairman, you would let these gentlemen know—when you talk about our economy and what it is necessary for us to do—what you expect to do in the Congress as to old-age pensions, more pay for the idle, higher minimum pay, medical bill, permanent pay for the sick, new taxes, homes less than cost, Federal aid for schools, and a lot of Government in business, such as the St. Lawrence waterway, so that they could give us the answers as to how we are going to finance this thing when we get through with it. [Laughter.]

We will leave that up to you gentlemen, the economists, and the Senators, since the Representatives must go to the floor of the House of Representatives.

Senator TAFT. Mr. Chairman, you have a list of things to be discussed here, but I would like to read and ask these gentlemen to comment on what we are now asked to enact, as a statement of policy, as I understand it. This is in the bill (H. R. 2756) being introduced today in the House [reading]:

In the Employment Act of 1946, the Congress declared the continuing policy and responsibility of the Federal Government to promote maximum employment, production and purchasing power.

(b) While high general levels of economic activity have thus far continued since the end of World War II hostilities, certain adverse conditions, resulting in part from that war, still exist and threaten to persist unless affirmatively remedied. These conditions have impeded maximum production, have reduced the purchasing power of the dollar, have jeopardized the continuation of useful employment opportunities, and in these and other respects threaten the flow of commerce among the several States and with foreign nations, the national security, the carrying out of the foreign policy of the United States, the general welfare, and the maintenance of economic stability. These adverse conditions are:

(1) Critical shortages and maldistributions of some essential materials and facilities and inadequacies of some productive capacities, which injure free competitive enterprise and particularly small business, contribute to price inflation and the high cost of living, impede the execution of programs essential to the national security and to the carrying out of the foreign policy of the United States, and handicap a rate of national economic growth commensurate with our resources and skills;

(2) Pronounced and continued increases in some price levels or in the prices of some vital commodities, which create unbalances throughout the economy, further aggravate the maldistribution of goods and employment opportunities and the adverse effects of such maldistribution, increase the risk of excessive price declines

with respect to other commodities and so affect Nation-wide purchasing power that many businesses and millions of families are injuriously affected.

That is what we are now actually asked to say in an act.

I think the comments on that statement of policy are what the committee, to a large extent, ought to comment on in this report. There are three or four copies of this here if anyone wants to look at it. I would like to know which ones of these statements of fact can be justified when we come to enact legislation.

The CHAIRMAN. I think Senator Taft has correctly stated the issue. This statement which he just read is a declaration of policy in a bill introduced in the House by Congressman Spence, the chairman of the House Committee on Banking and Currency. I assume that it may be regarded as a summation of the recommendations of the President's economic report, so that it is, in fact, the question before this committee.

In view of the fact that all the Members of the House have been compelled to leave the session and go to the House, and some of the Senators have been required to leave, it now being 12:30, perhaps this is the time to recess until this afternoon.

Would the guests of the committee be willing to come back at 2 o'clock? You may leave your papers just where they are, if you desire.

The committee will now be in recess until 2 o'clock this afternoon.

(Whereupon, at 12:30 p. m., a recess was taken until 2 p. m. of the same day.)

AFTERNOON SESSION

The CHAIRMAN. The committee will come to order.

Let me say at the beginning of the afternoon session that as the vice chairman of the committee, Congressman Hart, announced this morning, the House is in session. They are discussing first the appropriation bills and probably will have several votes this afternoon, so that the Members of the House are unable to be present.

The Senate is not in session. And while, of course, each member of this committee is a member of other committees, I think that the Senators generally intend to be here this afternoon.

We will begin, therefore, where we left off this morning, but the Chair will call upon Mr. Woodward to open the discussion under the 5-minute rule.

Mr. WOODWARD. Thank you, Senator.

The CHAIRMAN. You may arise, if you wish to.

Mr. WOODWARD. My statement of the present position can be very brief. I feel that we have caught up on a good many of our more urgent shortages and are rapidly catching up on most of the rest of them. That does not mean that there is not a long distance to go in seeing the American standard of living and welfare at a higher level. Of course, with that we will never be satisfied, probably. But we are caught up largely, and we are moving toward what I think will mark 1949 as the courtship of the consumer. For the first time since the war, since before the war, there will be an effort made to lure the consumer to come out and buy, an effort to make things attractive to him. That will be a new and different experience, and I think a healthy one.

As a part of that, too, we will have, I think, a general pay increase for the entire American population, by a slight, a moderate, decline in the cost of living, which started last fall.

I also think that will be a very healthy and desirable thing. The consumer will be in a better position than he has for a good many years.

You may call this a moderate fluctuation in conditions, and moderate fluctuations, I think, are necessary. The population undergoes changing needs. With their changes there must be changes in the distribution and allocation of manpower and resources. Rather than fearing small fluctuations, it seems to me they are the essence of getting an adjustment to ever-changing conditions.

Moderately lower prices are not inconsistent with prosperity, as I have said. Moderately lower prices are the way for everyone to have an increase in pay and I think prices should be responsive—within reasonable limits—to changing demand. It is highly desirable that they be so. If we want more metal, prices, within limits, should increase. This is a very healthy way to encourage increases in the productive capacity.

Now, the general pay increase by moderately declining prices is not the only factor that I think will increase demand. I do not think it has been mentioned this morning that the advance of science and the advance of technology is very great. We do not yet know how much the war stimulation of science may have done to offer us new methods of production, but we find increasing evidence that a considerable part—we do not know how much—of our productive capacity is more or less obsolete or at least is not the most modern capacity that could exist. So there is a stimulation to investment that I think will be a very long enduring one. That stimulation to investment also is furthered by competition among these new sources of technology and among these new methods of production.

Finally, I think we need not fear at all that practically everyone in the United States wants more things, more goods, more services, and that they will be buyers at moderately declining prices. The best way to stimulate demand is through that moderate decline in prices.

Now, the question is whether a return to a competitive situation will spiral on to a general depression. It has seemed to me that the Council of Economic Advisers, and much of the rest of the discussion, has understated the defenses which we have erected in the past several years against depression. On the part of Government we have unemployment insurance, old-age insurance, agricultural price supports—and I need not run down a very long list, including bank deposit insurance. Our defenses are vastly greater than they were when we last had any experience with declining business.

Likewise, the position of the public as a defense is vastly greater. The American public on the average, and substantially in every individual case, has far more in cash and liquid assets than it ever had before, meaning that with a slight decline in price there is the wherewithal to come on and stimulate buying.

In short, Mr. Chairman, it seems to me that there has been an indication this morning of much too much fear on both sides of the table about the ability of this economy to take care of itself.

87727—49——32

This economy, I think, does not have to be kept in a sanitarium and treated constantly, any more than each of us as individuals need continuous medical care. The doctors, you know, will chide you a great deal if you continually take your own pulse. They will say, "Well, now, you know that just makes you nervous." We have a certain tendency to do so.

I think this economy, in short, has a great deal more vigor and a great deal more capacity to take care of itself within the defenses that we have erected, than it has been given credit for.

I want to be very explicit. I am not talking about a hair shirt or castor-oil diagnosis. I do not think we are in that kind of a situation. I do not think our governmental machinery is in any respect that which prevailed in earlier years where we said, "Let it alone and it will take care of itself." I am not at all talking about that kind of a castor-oil hair shirt diagnosis.

Finally, sir, therefore I think we have a very good prospect of reasonably good times for a long period ahead, within an area of moderate fluctuations, like those perhaps which marked the 1920's. We had a readjustment in 1924. We had another one in 1927. It shows up on the business indexes, but those things were not catastrophic and I doubt, in fact, whether very many people were aware of them, except economists who look at wiggles in the line.

Barring war, or the equivalent of war, which would disrupt the economy, and barring the imposition of undue burdens on the productive system and upon the incentives to productive employment, I think we are not in bad shape. But I do think we should be careful not to impose undue burdens upon the economy at this time when it is changing over.

Thank you.

The CHAIRMAN. Do you believe that the economy is in balance, having in mind the suggestion which has been made by the Economic Advisory Council, that conditions are such that they are unwilling to alter the warning they gave the President a year ago, that inflationary forces are abroad in the land?

Mr. WOODWARD. I think the inflationary forces have substantially spent themselves. I am not fearful of further inflation, barring the inflation that might arise from a war or the necessity greatly to increase our armament expenditures and a deficit.

The CHAIRMAN. Of course the budget calls for armament expenditures. The budget does not recommend what the military experts ask for; in fact, it is considerably below what the military recommend. Nobody knows as yet what the public mind would be, for example, with respect to the Air Force. In the last session, the Congress rendered a judgment to expand the Air Force, which was at great variance with the recommendation of the President—the 72 group, instead of the 48. That issue still remains to be decided. Of course, if the Air Force is expanded, and there is a purchase of more planes, there will be to that extent a pressure for increase of prices on all the materials involved. I suppose that brings up the question of the aluminum shortage, concerning which Mr. Raver or Mr. Falck may have something to say later. Are you taking all those matters into consideration?

Mr. WOODWARD. I am taking them into account, Mr. Chairman, to the extent that we can see them today; that is, as the budget has now been formulated. Obviously, if conditions greatly change, then I would say the prescription and the diagnosis would have to change. But assuming that something like the budget does measure our military needs at the present time, then I would stand on my statement.

The CHAIRMAN. Any questions?

Senator MYERS. I was interested in your observation that we do have many more defenses against a pronounced deflation or a depression, than we had prior to 1929 and 1930. But are there any further defenses you think the administration or the Congress should erect at this time?

Mr. WOODWARD. I am not aware of any at this time, Senator.

Senator MYERS. You said you would not recommend a hair shirt or a castor-oil diet, but would we need a little aspirin or some woolens for the colder weather, or do you think nothing is needed at this time other than the defenses that we have?

Mr. WOODWARD. Let me put it this way, sir: We have erected such a variety of defenses, which of course are as yet untested, that I think there would be reason to see if they work. I believe that they will work; there is a very fair chance that they will work.

If evidence accumulates that they are not working or are not adequate, then I would be back urging that some new ones be put up.

Senator MYERS. But you have no recommendations at this moment?

Mr. WOODWARD. No recommendations other than the one not to impose additional burdens upon this productive system.

Senator MYERS. And the additional burdens would be what?

Mr. WOODWARD. Primarily the additional burden proposed is the four billion in taxes.

Senator MYERS. I note Mr. Clark said to this committee that [reading]:

> Since October 1947 the Council has made a report each quarter with many intermediate reports, and upon each occasion it has renewed its warning that the postwar inflation has not been liquidated and therefore it must be feared. The course of business in 1948 confirmed these judgments, although only once did business analysts generally agree with our view.

They believe now that the price trend, as is here set at 700 commodities other than food and farm products, indicates that the inflationary spiral has not been spent, and that prices are continuing upward.

Are you in accord with at least that latter view?

Mr. WOODWARD. No, sir. The index of 28 basic commodities has been going down for a year, irregularly, but downward, and the entire wholesale commodity price index has been going down since last fall.

Senator MYERS. Is this an over-all picture, or industrial?

Mr. WOODWARD. This is over-all, although industrials have been firm and agriculture has been declining as a generality. Of course, there are exceptions.

Senator MYERS. Of course, we all understand that farm products and agriculture have been on the down-grade, but do you have any index there as to the industrials, the wholesale index as to industrials?

Mr. WOODWARD. I do not have it before me, but I know it has been firm to moderately rising up to now, primarily because of the metals. It seems to me that metal prices with the metal shortage in which we are, would need to go up to stimulate production.

Senator MYERS. I hesitate to take you back, but when the Council indicated back in 1947 that inflation was still upon us and the general spiral was increasing, were you in accord with their view at that time?

Mr. WOODWARD. I felt that we had need for additional anti-inflationary action at that time, sir.

Senator MYERS. But now you do not believe there is any need for such action?

Mr. WOODWARD. That is right.

Senator MYERS. Thank you very much, sir.

Mr. HERTER. Mr. Chairman, could I ask just one question?

The CHAIRMAN. Congressman Herter.

Mr. HERTER. Mr. Woodward, I did not hear all of your testimony, and you may have covered this at the beginning.

Do you, in your economic thinking, take into account the loans that policyholders in the life-insurance companies make on the cash surrender value of their policies? Do you use that at all as an index in your thinking and, if so, what is the trend in that respect at the present time?

Mr. WOODWARD. The trend of policy loans on life insurance is upward, but very slowly upward, and as a relation to the total available funds, that is, the total amount policyholders could borrow, it is still quite low.

Mr. HERTER. Sales of new policies have advanced faster in the 6 or 7 years, we will say, since prewar years; have they advanced faster than the loans have?

Mr. WOODWARD. New sales have been about on a level for the past 3 years. Loans began to turn up moderately last year.

Mr. HERTER. At what particular point did they begin to turn up?

Mr. WOODWARD. I think, sir, it was in the autumn of 1947, but I would have to check the exact month on that. I will be glad to supply it.

Mr. HERTER. What is your interpretation of that, that their other savings were giving out, or that they wanted cash to replenish the things they felt they needed to have?

Mr. WOODWARD. More, Mr. Herter, that we are returning toward a more normal condition, that policy loans had been unusually low during the war, just as savings had been unusually high because there were not products available.

Mr. HERTER. But you do not think the loaning habits of the policyholders are in any sense a warning sign of depletion of their resources?

Mr. WOODWARD. I would not say so yet, the increase has been so very small.

Mr. HERTER. Thank you.

(The following tables were later submitted for the record:)

TABLE I.—*Life insurance policy loans*

[Thousands of dollars]

	36 companies		49 companies	
	Loans in force	Change from previous month	Loans in force	Change from previous month
1945—January	1, 645, 975	−16, 455		
February	1, 632, 034	−13, 941		
March	1, 617, 858	−14, 176		
April	1, 604, 479	−13, 379		
May	1, 592, 025	−12, 454		
June	1, 580, 702	−11, 323		
July	1, 569, 192	−11, 510		
August	1, 557, 832	−11, 360		
September	1, 548, 571	−9, 261		
October	1, 529, 215	−9, 356		
November	1, 530, 762	−8, 453		
December	1, 523, 306	−7, 456		
1946—January	1, 513, 961	−9, 345		
February	1, 506, 647	−7, 314		
March	1, 499, 699	−6, 948		
April	1, 493, 673	−6, 026		
May	1, 488, 067	−5, 606		
June	1, 484, 015	−4, 052		
July	1, 478, 686	−5, 329		
August	1, 474, 534	−4, 152		
September	1, 474, 614	+80		
October	1, 473, 661	−953		
November	1, 471, 698	−1, 963		
December	1, 470, 720	−978		
1947—January	1, 469, 675	−1, 045	1, 647, 376	
February	1, 469, 325	−350	1, 646, 815	−561
March	1, 470, 572	+1, 247	1, 649, 330	+2, 515
April	1, 472, 711	+2, 139	1, 650, 215	+885
May	1, 476, 933	+4, 222	1, 654, 717	+4, 502
June	1, 481, 326	+4, 393	1, 659, 605	+4, 888
July	1, 485, 320	+3, 994	1, 663, 794	+4, 189
August	1, 490, 366	+5, 046	1, 669, 609	+5, 815
September	1, 494, 515	+4, 149	1, 673, 291	+3, 682
October	1, 498, 095	+3, 580	1, 677, 474	+4, 183
November	1, 500, 377	+2, 282	1, 679, 924	+2, 450
December	1, 504, 052	+3, 675	1, 684, 193	+4, 269
1948—January			1, 688, 393	+4, 200
February			1, 693, 965	+5, 572
March			1, 704, 601	+10, 636
April			1, 714, 926	+10, 325
May			1, 724, 912	+9, 986
June	(1)	(1)	1, 734, 712	+9, 800
July			1, 741, 892	+7, 180
August			1, 751, 937	+10, 045
September			1, 761, 532	+9, 595
October			1, 769, 105	+7, 573
November			1, 778, 986	+9, 881

[1] Series discontinued.

TABLE II.—*Life insurance policy loans*

[Thousands of dollars]

End of year	Policy loans	Total admitted assets	Policy loans as percent of total admitted assets
36 companies:			
1922	884, 820	7, 006, 096	12. 63
1923	935, 684	7, 605, 556	12. 30
1924	1, 000, 665	8, 364, 684	11. 96
1925	1, 091, 958	9, 271, 601	11. 78
1926	1, 205, 846	10, 295, 895	11. 71
1927	1, 346, 751	11, 470, 656	11. 74
1928	1, 513, 765	12, 749, 499	11. 87
1929	1, 812, 887	13, 982, 310	12. 97
1930	2, 135, 341	15, 127, 800	14. 12

TABLE II.—*Life insurance policy loans*—Continued

[Thousands of dollars]

End of year	Policy loans	Total admitted assets	Policy loans as percent of total admitted assets
36 companies—Continued			
1931	2,553,422	16,189,574	15.77
1932	2,903,690	16,738,781	17.35
1933	2,904,561	17,035,367	17.05
1934	2,827,261	17,852,137	15.84
1935	2,738,566	18,998,048	14.41
1936	2,638,821	20,369,806	12.95
1937	2,632,910	21,503,264	12.24
1938	2,633,645	22,718,555	11.59
1939	2,517,518	23,905,685	10.53
1940	2,395,465	25,158,781	9.52
1941	2,254,864	26,661,908	8.46
1942	2,066,786	28,387,668	7.28
1943	1,850,894	30,847,049	6.00
1944	1,662,430	33,418,179	4.97
1945	1,523,306	36,257,000	4.20
1946	1,470,720	38,812,604	3.79
1947	1,504,052	41,399,767	3.63
New series—49 companies:			
1947	1,684,193	46,278,581	3.64
1948 (Nov. 30)	1,778,986	49,030,172	3.63

Mr. WOODWARD. Mr. Chairman, there is one specific matter in the record of yesterday that either now or later, as you choose, I would like to correct. You may perhaps want to defer that until later.

The CHAIRMAN. Yes; I wanted to ask you another question. You have just stated in response to Senator Myers that the burden to which you referred, when you said no additional burden should be cast upon the system, was that which would arise from the recommended 4 billion dollars of additional taxes. What have you to say about the desirability of maintaining a treasury surplus?

Mr. WOODWARD. I think it is highly desirable. I have devoted a good deal of time in the last 2 years as secretary of the committee on public debt policy, the publications of which I think all of you gentlemen have received. We have stressed repeatedly in those studies the desirability of maintaining a Treasury surplus in good times and of reducing the debt in good times.

The CHAIRMAN. Then if it be assumed that the expenditures of Government are greater than the receipts of Government, and if it be assumed that the Congress as well as the budget is making an effort to keep those expenditures down, what would you say with respect to the advisability of additional receipts?

Mr. WOODWARD. If the necessary expenditures in a period of prosperity and full employment, such as the present, exceed the receipts under the existing tax basis, I think we ought to increase taxes and balance the budget and reduce the debt.

Now, I am not an expert on this subject, because I have not had a chance to examine the report, but I have been very much impressed with the press accounts of Mr. Hoover's recommendation toward reducing expenditures.

The CHAIRMAN. That is a result which we devoutly hope will follow from the reorganization of the Government.

It should be pointed out, however, that the attempt to reorganize the executive branch of the Government began, in its latest movement, at least, during the term of Mr. Hoover. His successor made the same effort, and indeed, I think the bill which was passed by Congress back in 1937 was perhaps even a milder form of reorganization than that now being suggested by the Commission of which Mr. Hoover is the head.

The reorganization plans which were submitted by President Roosevelt and President Truman under the old laws did not meet with complete success. As a matter of fact, President Truman's reorganization plans were for the most part rejected.

The suggestions of the Hoover Commission have already met with considerable criticism and some exemptions have been granted by the House in the bill already passed. So it remains to be seen how great a saving can be effected in that manner. The latest estimate I have seen, made on behalf of the Commission, did not place the possible savings at an amount greater than $3,000,000,000. Of course, that is a pretty good saving.

Mr. WOODWARD. That would give us a nice surplus and debt reduction.

The CHAIRMAN. But I would think the estimate is on the favorable side, considering the difficulties that confront any reorganization plan.

Mr. WOODWARD. I expect that is right. I do not know, of course, how much of that can be realized. What I did mean to suggest was that it seemed to me desirable to exert every effort and put every emphasis in that direction before placing the additional burden upon the economy, if one establishes a system of priorities.

Mr. HERTER. While we are on that point, I am wondering whether it would not be worth while to ask Mr. Paul whether or not he agrees with the estimates used by the Council of Economic Advisers, with respect to revenue in relation to the very point of balancing the budget.

The CHAIRMAN. I think that is a very good question, Congressman Herter, but before calling on Mr. Paul, I was going to remark that the budget would indicate that the expenses of the civilian branch of the Government constitute a very small proportion of the total expenditures under the current budget, and any likely budget for several years to come.

Mr. WOODWARD. That is right.

The CHAIRMAN. Mr. Paul, do you care to answer the question of Congressman Herter?

Mr. PAUL. If the Congressman does not mind, I would like to have the question made just a little more specific. I am not sure that I followed it. Do I agree that it is a tight budget or a budget that can be corrected now?

Mr. HERTER. We have been talking so far about expenditures. The recommendations made by the President's economic advisers have been predicated on a very tight situation as between receipts and expenditures. Mr. Stamm's estimates on receipts are very different from those of the Treasury, which apparently have been used in the President's report. You have had a great deal of experience in that field, and I would just like to get your judgment with regard to those estimates.

Mr. PAUL. Well, my general view is that we have a very tight budget, but having been in the Treasury several years I am obliged to admit Treasury estimates are sometimes on the pessimistic side.

However, I do not think that discrepancy is enough so to get us away from a certain amount of necessity of resorting to additional taxes. I do not think we can count upon increasing receipts to meet our problem.

Mr. HERTER. You do not yourself have any judgment as to the actual figures for this year?

Mr. PAUL. I could not give you a judgment, of course, in actual figures, but it depends upon what kind of an economic development we have in the next year. Always the receipts depend on that. The answer to the question posed by the chairman at the very outset of this discussion will determine what kind of an economy we are going to have for the next year.

Mr. HERTER. The coming year we are talking about, the fiscal year for which additional taxes are asked, the corporate returns which represent a considerable portion of the total are based on last year's earnings and not on this year's earnings.

Mr. PAUL. Then I take it your question is whether this year's corporate earnings would equal last year's. That is the very question we have been discussing all morning. I happen to think that they probably will be at about the level of last year, but I must plead disqualification, because I am not an economist, I am only a lawyer.

The CHAIRMAN. Mr. Blough.

Mr. BLOUGH. Having had some contact with these estimates, although no responsibility for making them, I would like to supplement Mr. Paul's remarks. The estimates of the Treasury have shown a substantial variation from what actually happened, but that has been true whether business was going up or going down. When business was going down the Treasury estimates were too high, at least they were in the 1930's. When business was rising, the Treasury estimates have ordinarily been too low. The worst error made in estimating was made, I believe, for the year 1932, under Mr. Hoover, when I understand the estimate was 60 percent too high in the final result.

There is a substantial tendency on the part of any estimating body to hold pretty close to the existing level of business. If you estimate there is going to be further inflation you are admitting to the country that you are not able to hold on to the economy. On the other hand, if you estimate that revenues are going to go down, you admit that there is going to be a deflation. Very few administrations want to admit that either an inflation or a depression is actually coming. So I think the chief reason why the Treasury estimates have been too low recently is that there has been rising income or inflation.

The real question about the estimates is whether there is going to be further inflation in 1949. If there is not, I would expect these estimates to be fairly nearly right, although as Mr. Paul said they probably have some bias on the low side. But if there is no further inflation they will probably be not far from right, and if corporate profits should go down substantially, the estimates might turn out to be too high.

I am making no forecast, but I thought I might throw some light on the problem which faces the revenue estimators.

Senator MYERS. Mr. Blough, on the basis of the testimony you have heard here today, wouldn't you say these gentlemen have indicated that we have reached the end of the period of advancing prices and we are now entering a period of readjustment, with probably a readjustment of profits at least downward, from the testimony advanced here today?

Mr. BLOUGH. On the basis of the testimony thus far, I would say we certainly can in no sense rely on the expansion of receipts over estimates, such as has taken place in the last few years.

Senator MYERS. And that therefore the income to the Government during 1949, certainly on the basis of this testimony, will not increase over 1948, but might very well be smaller, at least during the calendar year 1948?

Mr. BLOUGH. If I understand the basis on which the estimates were made, yes, sir.

Senator MYERS. Then carrying that further, that would indicate there certainly would be no surplus to apply toward the reduction of the public debt?

Mr. BLOUGH. Now, of course, you are getting into both expenditures——

Senator MYERS. I mean basing it on the present budget as offered by the President, if that budget is accepted and those appropriations are made by the Congress, on that basis there would be little, if anything, received during the calendar year 1949 to apply toward the reduction of the public debt?

Mr. BLOUGH. I would say substantially, yes. About all I really feel I am in a position to say—and I do not know much about these particular estimates—is the fact that in previous years the receipts have greatly exceeded the estimates has no bearing on the situation this year, and that if prices and income do not continue to rise, there is no reason to expect a sort of hidden bonus in the receipts.

Senator MYERS. Then regardless of what you or I or the committee may think, or the Economic Advisers may think—I am basing that merely on the testimony advanced here this morning—we should not say much more in the way of advancing prices, but that we have practically reached the top of the inflationary period?

Mr. BLOUGH. Yes; my comments are based on that assumption.

The CHAIRMAN. Mr. Yntema.

Mr. YNTEMA. Mr. Chairman, before I respond directly to your question, may I call attention to certain questions of fact. I have written to this committee previously in regard to this matter, and also to the Council of Economic Advisers. I speak with reference to some of the material which appears in the Economic Indicators, and which also is utilized in Mr. Keyserling's testimony.

I refer particularly to the charts in the book of Economic Indicators having to do with real income.

These are various series which purport to represent income adjusted for changes in the price level. There are two points to be made. One is that price indexes, as they are ordinarily computed, do not accurately reflect ups and downs in the cycle and they are particularly deficient when we have a shift out of a period of shortages, such as occurred after the war. In other words, what I am saying is this: In the first part of 1946, consumers' prices were higher than they were represented to be by the Consumers' Price Index. And the real rise in consumers' prices in 1946 was less than was reflected by the Consumers' Price Index.

Consequently, the changes in deflated incomes from 1946 to 1947 are a statistical fiction and not a reality. They do not correspond with anything that we really know about the situation.

Senator MYERS. Is this on page 23?

Mr. YNTEMA. On page 23. The same thing occurs in the charts on the following two pages showing average hourly earnings and average weekly earnings: that is, the changes from 1946 to 1947 in deflated incomes, in my judgment, are matters of statistical fiction, and not of real fact.

Senator MYERS. Why do you say that?

Mr. YNTEMA. Because the index used to deflate those earnings does not correctly reflect the cost of living during that period. In the first part of 1946, it understated the cost of living. There were prices being paid above the ceilings for items that were being bought.

Senator MYERS. The black market, you mean.

Mr. YNTEMA. The black market. And there are various other ways in which changes in actual prices can differ from changes in the price indexes. That is not peculiar to the black-market situation. Without any change whatsoever in the published indexes of steel prices, it is possible for the price of steel to change, in fact as much as 10 percent. I have actually seen that happen.

So we must take these published indexes with a grain of salt, and particularly with respect to changes from a condition of tight supply to one of more ample supply.

Let me put it in these terms: In the ordinary business cycle going from depression to prosperity, the actual changes in prices are bigger than the price changes reflected in the index. The prices are lower at the bottom of the depression and they are higher at the boom than the indexes seem to show.

These figures in this booklet that was distributed I think are quite seriously misleading. I merely suggest that for the consideration of the committee.

The CHAIRMAN. That is strictly a question for the statistical experts rather than for the members of the committee.

Mr. YNTEMA. Yes, sir, but——

The CHAIRMAN. But I want to say, if you will turn to the note at the bottom of page 23, note No. C: "The consumers' price index has been roughly adjusted to take account of the understatement from December 1941 to February 1947. This adjustment is in line with the report of the Mitchell committee."

Mr. YNTEMA. I would say, even so, that the actual price increases in 1946 probably were less than the consumers' Price Index shows. Even with those adjustments included, I suspect quite strongly that the Consumers' Price Index overstates the rise in prices from 1946 to 1947.

Senator MYERS. Can you draw a more accurate line?

Mr. YNTEMA. I cannot do that. I know this is a general characteristic of price indexes. Let me bring this problem up to date, because it is important today. I do not think there is any doubt but that wholesale prices of nonfarm products are dropping more rapidly than the index shows.

Senator MYERS. The index shows they are increasing.

Mr. YNTEMA. Well, it depends on what period you are referring to.

Senator DOUGLAS. But this is a consumers' index.

Mr. YNTEMA. It is a consumers' index, but I say the same thing happens also in the case of wholesale prices. A good deal of attention has been given here to the wholesale price index.

Mr. SCHULTZ. Having sat through the Mitchell report and the other report that went into the assessment of the index during the war, I am wondering if they did not anticipate, as far as it is humanly possible, the very thing that you are calling attention to.

Mr. YNTEMA. There is one other point I would like to make.

This has to do with the interpretation of this index throughout the whole war period. If people obtain income which they cannot spend—and that was the situation during the war—there is certainly a question as to whether such income is real income. If they cannot spend the income, if they must keep it in dollar form—and then if part of the dollars are taken away by inflation later on—I think there is a very real question as to whether it is proper to show, during the war period, dollar income deflated by the cost of living, even if the cost of living be accurate. That would obtain even in 1946.

The CHAIRMAN. Referring to page 23 again, do I understand your criticism is directed against the line which marks the change of per capita income in current dollars?

Mr. YNTEMA. During the year 1946 and during the war years—in constant dollars.

The CHAIRMAN. Then you are not referring to the dotted line, you are referring to 1947?

Mr. YNTEMA. Yes, 1947 dollars are the deflated dollars. The current dollars are the dollars which are current in each particular year. The 1947 dollars are supposed to be real dollars.

I am raising a question with respect to the meaning of and with respect to the accuracy of the deflated incomes.

The CHAIRMAN. All the Chairman can say with respect to this is that the sources of these statistics were the Department of Commerce and the Department of Labor. The experts who prepared these statistics are currently working objectively and scientifically. This committee has a committee print on the consumers' price index, on pages 14 and 15 of which there is a discussion of this special wartime adjustment. This is a technical, scientific matter which is under study by all concerned and I would say it does not militate against the general acceptance of these statistics.

Mr. YNTEMA. May I refer now to another subject?

Senator DOUGLAS. Before you leave that, I would like to point out, as Senator O'Mahoney indicated, that the error which the Mitchell committee found had been taken into account and the published index has been revised to show a greater upward movement.

Mr. YNTEMA. Of course, this is a question of judgment. My judgment is that the real per capita income in fact did not go down in 1946–47. I am casting no reflection upon the indexes. If I were to construct the indexes myself, the best I could do would be subject to such criticisms as I am making. All I am suggesting is that when we use the indexes for purposes of policy, we keep these qualifications in mind.

The facts with reference to how well we lived and how much we consumed during that period throws grave doubt upon the validity of the index as representing the price change in the first half of 1946.

The CHAIRMAN. Realistically, what is the situation as you see it with respect to income and purchasing power?

Mr. YNTEMA. During that period?

The CHAIRMAN. Well, as it is now, the period with which we have to deal.

Mr. YNTEMA. May I come to that in just a minute?

The CHAIRMAN. Surely.

Mr. YNTEMA. There is one other important question of fact. Again, this is no reflection on the Department of Commerce and no reflection on the accountants, but it seems to me when we come to questions of policy we should deal with facts. I should like to submit to the committee that the corporate profit figures obtained by accountants do not reflect the economic facts of life.

The CHAIRMAN. That is one of the reasons why we have you here, Mr. Yntema, to get the facts of life as you see them.

Mr. YNTEMA. Let me simply make this point. Accounting processes are based upon the assumption for the most part that a dollar is a dollar, whether it is a big dollar of 1940 or a little dollar of today—a dollar is a dollar.

Now that results in some curious things. When prices are going up it results in showing profits as a result of increases in prices of inventory. There is a story to this effect: A man bought a carload of goods and sold them at 100-percent profit, then found that he could buy half a carload with the proceeds which he then sold at 100-percent profit, and so on and so on until he had nothing left.

Now, these corporate profits include appreciation in the price of inventory which is not a real profit at all. They also include charges for depreciation in terms of prewar dollars. Those were big dollars, prewar, which were put into plant and equipment. The income obtained currently, however, is in terms of little dollars, and the depreciation charges ought to be converted into dollars of the same size. There also is some question about depletion.

The point I want to make is that $21,000,000,000 of corporate profits in 1948 is not a fact of life; it is an accounting fiction.

The CHAIRMAN. Well, the fact of life with which the Chairman is principally concerned on the problem of taxation is that the corporations shall pay their taxes with the same dollar which the Government has to pay for the goods it buys.

Senator FLANDERS. Mr. Chairman, I think the points brought out by Mr. Yntema were pretty thoroughly threshed over at other hearings.

Mr. YNTEMA. I think they were used in testimony here by Mr. Keyserling without any recognition of these limitations.

Senator FLANDERS. The record is printed and should be referred to.

Senator DOUGLAS. May I ask a clarifying question: Are these accounting standards prescribed by the Government, or are they accounting standards which have been developed by the Institute of Accountants or by the private accounting bodies?

Mr. YNTEMA. They are developed by the accounting bodies, but they are nonetheless misleading when it comes to problems of policy.

And another point: In this bill there is a requirement, curiously enough, that—

no such regulation or order shall contain any provisions requiring the determination of costs otherwise than in accordance with established accounting methods—

which would seem to me to preclude the requirement of correct calculation of costs. These established accounting methods do not apply properly after a period of inflation.

Senator DOUGLAS. Are you saying, then, that the Institute of Accountants has been wrong?

Mr. YNTEMA. Yes.

Senator FLANDERS. Mr. Chairman, we had that out in the profits hearings as between two groups of accountants, both of whom recognize the facts of life. One group said that the normal accounting procedure should be followed and the facts of life put into a footnote. The other group said that the facts of life should be incorporated in the accounts, but both of them recognized the facts of life.

Mr. YNTEMA. I think it may be of some use to review very briefly the causes of this inflation that we have had in the past 8 years.

Senator MYERS. Might I interrupt you there? You refer to the wholesale price index.

Mr. YNTEMA. To both; the wholesale price index and the general cost of living.

Senator MYERS. Well, regardless of the accounting figures and regardless of the approach, as I mentioned earlier, these indices indicate that wholesale prices, excluding farm and agriculture, are constantly increasing. Do you disagree with that?

Mr. YNTEMA. Let me speak to that, if I may. They have not been constantly increasing. They did increase——

Senator MYERS. There have been hills and valleys, but generally.

Mr. YNTEMA. Since last August there has been no appreciable increase. The latest figure for the wholesale price index of commodities other than farm products and foods is slightly lower than it was last August.

The CHAIRMAN. In the chart on page 3 of Economic Indicators the index for 1947 was approximately 140; for January 1949, the index is approximately 159. That is slightly below an index of, let us say, 162, as of November 1948.

Mr. YNTEMA. Are you talking about all commodities?

The CHAIRMAN. All commodities.

Mr. YNTEMA. I was talking about other than farm products and foods. That index rose until last August, and it has substantially leveled off since last August.

The CHAIRMAN. Well, with respect to other than farm and foods, in January 1947 it was approximately 127 or 128. In January of 1949 it was approximately 158.

Mr. YNTEMA. That is right. I have no intent to minimize the rise in prices. But since last August the index of nonagricultural prices has leveled off; and if we could get at actual prices paid my guess would be that the true price level has declined slightly.

The causes of inflation that we have had in the last 8 years—and I think it is of some use to review them in order to check whether or not they are now operative—those causes include, first, the increase in the money supply. We financed a large part of the war by manufacturing money through borrowing from the banks. Having a lot more dollars, we wanted to buy goods. The increase in Government and civilian demands brought about full employment and higher incomes. Having much higher incomes, we discovered next that we did not have as many clothes, as many houses, as many automobiles or factories as we wanted. We discovered that we did not have the inventories of all kinds of things that we wanted under the full-employment income. As a matter of fact, there was in 1945 a deficit in stocks resulting from 15 years of undermaintenance. When we came to the end of the war with a high full-employment income, we were short of all kinds of things in relation to the quantities of goods that we wanted to own under full-employment income.

The inflation that we had after 1945 was built upon these two factors: (1) The money supply was very large in relation to the total amount of goods and services produced in the economy, and (2) there was an insistent demand for goods because our stocks of goods were so small in relation to what we wanted to own.

But what has happened now? The money supply is no longer redundant as compared to prewar standards. That is, the ratio of the total money supply to the gross national product is about the same as it was in 1940. That particular pressure is no longer as insistent as it was. We might sometime want to spend our money more rapidly, we might become afraid of the value of the dollar, but referring to the situation prewar as a standard, we are about back where we were then, as far as the ratio of money supply to national product is concerned.

Now, with respect to shortages. Many of the shortages have been made good. Most of us now have about as many clothes as we want in relation to income. Some of us still do not have as much housing accommodation as we want. There is still some shortage in the number of automobiles, but I think that will be made good by the end of the year in total number even though there will be a large number of dilapidated cars on the road.

In these 3½ years since 1945, we have made good many of the shortages. For the most part we have very nearly the inventories that we want in relation to high employment income. On the other hand, there are some areas, where shortages still remain. In the Northwest, for example, there is a power shortage, so that lights have to be turned off in the late afternoon. Likewise we can cite the steel shortage.

To sum up on this count: most of the inflationary pressures arising out of shortages, have disappeared—but some still remain.

It is rather interesting to note that unemployment has started to increase in the last few months. It jumped 700,000 from December to January. A large part of that was seasonal; we don't know just how much. The total number of continued claims for unemployment relief has been rising steadily. The new claims did drop off for 3 weeks, but then they jumped up again in the latest week reported.

Such a rise in unemployment would not have occurred a year ago. A year ago people who were laid off were quickly absorbed elsewhere, because there were ample opportunities for employment in shortage areas.

The economy is coming into balance. If we could avoid another round of wage increases this year, the wholesale price index of other than farm products and foods would certainly be lower by the end of the year than it is today. If there is a round of wage increases—a substantial round of wage increase in the durable goods industries—I think nonagricultural prices will go up a little, but probably not very much. This is the kind of forecast we have to make in business as well as in Government, and I make it with the realization that I may be proved badly wrong.

The changes in the price situation in the last year for the most part have been not maladjustments, but have been good adjustments. That is, prices have been coming into line with costs. Prices are approximating more closely what is required to get the work of the country done.

The areas of excessive profit margins are dwindling. In industry after industry, shortage is giving way to ample supply and profit margins are narrowing: textiles, paper, oil—you can put your finger on one after the other. There are not many areas of serious shortage left.

Senator MYERS. Are there declining prices in all of those areas?

Mr. YNTEMA. In some of them there are declining prices and in others there will be if wage costs do not rise. In textiles the prices are going down; in oil the prices are beginning to go down. In automobiles, the big inflation, of course, has been in the price of used cars, and certainly we have been getting a decline there. We are getting a decline also in the price consumers have to pay for their new cars.

Mr. GAINSBRUGH. May I break in at this point?

The CHAIRMAN. Yes, Mr. Gainsbrugh.

Mr. GAINSBRUGH. Thank you, Mr. Chairman. The price measures that have been so frequently cited here today, namely, the prices other than farm products and foods are being treated as an aggregate. There has not been a great deal of attention to the changes which lie beneath this single measurement.

The Council itself provides on page 120 of the economic report a break-down of the index of prices of other than farm products and foods by major groups. I would direct the attention of the committee to what has happened in the major areas of other than farm products and foods.

Note what has happened to hides and leather products, for example. They opened in the month of January with 200, but they were down to 184.4 by the end of the year. Textile products opened at 148.4, climbing up at midyear and closed at 145.4 by the year end.

Building materials were turning downward in the closing months of 1948 as were chemicals.

It is only in the major areas of shortage, as Mr. Yntema has enumerated, in the metals and metal products, and in fuel and lighting materials, that we find any substantial rise. The climb other witnesses have been referring to in good part has been concentrated in those limited sectors and not throughout industry in general. And even in the sectors where there are shortages, we are beginning to get cracks in the price structure. Steel scrap prices have come down very sharply in recent weeks.

In the field of house furnishing goods there is a great deal of clearance going on currently. The furniture industry does not look for a further rise in the prices of its products in 1949, but rather for intensified consumer resistance and a price decline.

I offer these observations as supplementary to Mr. Yntema's statement.

Mr. YNTEMA. May I make one other point——

The CHAIRMAN. Before you make that point, I want to hand across the table to you the book of charts presented to the committee by the Board of Governors of the Federal Reserve System, on page 65 of which appears the index showing food stuffs, industrial materials, and the total. This chart would indicate that the great decline in the price of foodstuffs has made the line representing the total of all prices show a decline. But on the other hand, the line representing prices of industrial materials has been showing, on the whole, a slight rise since early in 1948.

Mr. YNTEMA. That is correct. That index, of course, covers a very limited number of commodities. If you refer to the chart on the preceding page, 63, in the upper left-hand corner, you will find a weekly chart of the broad "other commodities" index. The difference in behavior is not very great, but there you see the picture of a leveling off in prices.

The CHAIRMAN. You see also on page 65 the chart representing major groups. This covers the period 1942 to 1948. On that line fuel and lighting materials are leveling off at its high point. Metals and metal products are still rising. Building materials have shown a slight decline, but whereas the index is still about 200, it compares with an index of 160 at the end of 1946.

So that I think on the basis of the best figures we have, we are discussing now only a very minor variation. The question is, what is likely to be the action in the months ahead?

Mr. YNTEMA. Let me repeat my views with reference to that question and perhaps amplify them. These are, of course, only judgments, but these are the kind of judgments I make not only for this committee, but for concerns that are actually in the market.

The CHAIRMAN. Surely.

Mr. YNTEMA. If there is another round of wage increases there will probably be a slight increase in the price of metals and metal products. I do not know just how much.

I have great confidence in this judgment: That if there were no further wage increases in 1949, wholesale prices other than farm prices and foods, the index of the BLS would tend to go down. Shortages are being made good and increases in productivity are being accomplished, which tend to reduce costs and to reduce prices. The pressures would be downward.

There are two possible pressures which might lead to an upward movement in prices. One would be wage increases in the metal-working industries, substantial wage increases. A small wage increase would not be very serious. The other would be a very heavy cash deficit. That obviously would be important. As a matter of fact, one of the most important influences in determining the level of employment and of prices this next year will be the fiscal policy of the Federal Government.

The CHAIRMAN. The other day we had a very interesting discussion by Mr. McCabe, Chairman of the Board of Governors of the Federal Reserve System. He was accompanied by most of the members of his advisory council, all bankers.

While they did not testify, Mr. Brown, their chairman, rather indicated that they would be against any increase of power to restrain bank credit. Mr. McCabe's testimony was in support of the extension of control of installment credit and the extension of the power to put brakes on bank credit.

Now, suppose those restraints on credit were removed? Suppose we put an end to export controls, which were extended by Congress the other day? In the present circumstances, as you see them, what would be the effect?

Mr. YNTEMA. The removal of restrictions on consumer credit would increase somewhat the demand for durable consumers' goods. I think there is no doubt about that.

In the case of export controls, I am not really qualified to judge. My hunch is that it would not make much difference. The reason is, of course, that so few countries have money to buy more from us.

There is a long-run question of the control of money and credit by the Federal Reserve System which arises out of the very heavy holding of Government bonds by commercial banks and others. I do not expect that will be an important question this next year. I think it is a long-run question. The Committee for Economic Development has recommended that there be a national commission to study this problem, because it is likely sometime to be very important.

If the people who hold Governments should elect to turn their Governments into cash we could have an enormous increase in the money supply. This increase in the money supply could be further aggravated by borrowing from banks. I do not believe such an expansion of money and credit will emerge as a serious problem in the time immediately ahead. It ought to be made a matter for very careful and thorough study, rather than one for immediate action.

The CHAIRMAN. Are there any other questions?

Mr. YNTEMA. May I comment on one other matter?

The CHAIRMAN. Yes, indeed.

Mr. YNTEMA. That is with respect to the shortages in basic industries and with reference to the rate of capital formation. I do not know how "requirements" were calculated, but I noticed in Mr. Keyserling's testimony he referred to a 10½-million-ton shortage in steel capacity.

I think we either have to fish or cut bait in this proposition. I do not understand how we reconcile a shortage of 10½-million tons in steel capacity, with the position that we are producing too many capital goods. I do not see how we can argue on the one hand that we ought to produce fewer capital goods, and then that we ought to have more steel capacity.

I do not know what the steel capacity ought to be. I know it ought to grow as the country grows, because we are going to have expanding needs. But this I do know: From the demand for steel in this immediate period, you cannot judge as to what the long-run steel capacity ought to be, because we are obviously trying to make good our durable goods shortages in a hurry. Thus, today we are making more automobiles than we are going to be making on the average over the next 10 years—we are making good a deficiency in automobiles. That is happening in area after area. I suggest therefore, that we look not at the requirements today, whatever they may be, but at the long-run prospects.

One final comment. It looks to me as if prices may soon begin to break in some of these other areas of shortage, such as nonferrous metals. We have been short a substantial amount of copper production because of the shut-down in one of the large mines. After it comes into production I would not be surprised to see a reduction in the copper price. That supply is getting easier. Even the aluminum supply is getting easier. In nonferrous metals the prospect seems to be for price declines rather than price advances.

The CHAIRMAN. Any questions?

(No response.)

The CHAIRMAN. Mr. Anderson, would you care to make a comment?

Mr. ANDERSON. Mr. Chairman, members of the committee and my fellow guests: I listened carefully all through this morning's discussion and got in capsule form a very rich education in the theory of economics. But I want to take the invitation Senator Taft gave us just before the morning session closed, and direct the committee's attention, and the attention of all of us, to the basic problem that Mr. Yntema just referred to when he talked about the shortages in basic industries.

With that thought in mind I have written out some remarks directed toward the formulation of national policy in basic industries. I have had enough copies run off so that you can follow the type of discussion I have in mind by referring to it. It is not my intention to labor the point by a long reading of the prepared statement, but I do want to read the opening remark or two because it gives the setting in which I think this thing should be discussed.

I have purposely drawn my example from the steel industry because the steel industry is of such basic importance to the entire economy. Just to refresh your memories as to the character of that steel industry and its importance, let me refer to a few items.

Steel is the basic raw material of our high production economy. Steel has made our great industrial expansion possible. Steel and the fabrication of steel products account for approximately 40 percent of all factory wages. Steel measures and paces our technological and economic progress—we are using approximately five times as much steel per capita today as we did in 1900.

The steel industry—and this is a matter of great importance and should be examined; and I again point to the fact that I am using steel only as an example—should be examined by any policy committee of the Congress..

The steel industry is a heavily concentrated industry, both structurally speaking and geographically. While it is true—and a commendable point can be made—that some 27 States now have steel ingot facilities, more than two-thirds of all basic steel production center now in the heavily populated and heavily industrialized States of Pennsylvania, Ohio, Indiana, and Illinois.

A matter of some concern is that vast areas of the Nation where needed raw materials are readily available have no steel making facilities and most States in the Union are net importers of steel.

When I speak of the heavy structural concentrations of the steel industry, I point out that in 1947 seven corporations controlled over three-fourths—77.1 percent—of all the ingot capacity in the United States: Bethlehem Steel, 14.3 percent; Republic Steel, 9.42 percent; Jones & Laughlin, 5.19 percent; Youngstown, 4.38 percent; National, 4.27 percent; Inland, 3.72 percent; and Armco Steel, 3.59 percent.

This is important for certain observations I want to make a moment or two later.

These giant steel makers are also using an increasing part of the steel they produce in their own fabricating businesses, while at the same time they are the principal source of materials supply to over 12,000 firms with some of whose products they compete directly as well.

It is a matter of some concern, from the policy standpoint, that steel is an old industry, heavily weighted with tradition and custom, growing out of long and, I should say, successful experience. Leadership in steel is shown in a variety of ways, not the least important of which in economic terms is price leadership. Decisions affecting the economic welfare of the whole Nation can be made by a handful of men in a handful of steel corporations.

For 3 years now we have suffered—and I use that word advisedly; if you had used that word before the hearings of the Senate Small Business Committee as I have over the years you would know the word is well chosen—major shortages of steel, the decision as to the rate of increased economic activity, the number of automobiles, barrels of oil, carloadings of freight, washing machines, oil wells, new farm equipment, apartment houses, and wire fencing we may get, has rested with the handful of men who determine the steel program of this Nation.

These men, I must point out, are private citizens engaged in private business, subject only to their own judgments and consciences, responsible only to their own stockholders who are likewise largely private citizens.

The question raised, in view of the economic importance of steel, is whether it is in the national interest to have a handful of men the sole determiners of so much of our economic destiny.

This joint committee of the Congress considering the economic report of the President has a responsibility under the Employment Act of 1946 to recommend those broad policies which will maintain a "full employment—full-use-of-resources economy in the United States." The years following the recent war have been characterized as years of maximum employment, but they have not been years of either maximum production or full consumption. To my way of thinking the job is only partly done.

The important part that our basic industries must play in achieving all three elements of a sound economy is an area of exploration in which this committee might well define the national interest and the restrictive roles of government and industry.

I point out, and want to refer to it later, that the expense bill, which is the result of long study on the part of various agencies of the Government, is an attempt to spell out in concrete fashion some of the recommendations that should be considered by this policy committee in framing its own point of view and suggestions for the Congress as to how to maintain full employment and secure the full use of resources in this country.

I suggest that it would be of doubtful value to achieve the highest possible levels of employment, of production and consumption, if in so doing such a concentration of economic power occurred as would threaten to undermine the free competitive enterprise system, upon which this democratic Government itself rests.

So that in terms of the structure and control of this particular basic industry—and my remarks go to several other industries which could be drawn into the picture—the problem of structure and control is a problem of policy that a committee determining and shaping policy for the Government should be concerned with.

Because of the continued distressing shortages of materials, there is need for a careful analysis of such important basic industries, along with steel, as light metals, power, fertilizers, petroleum and fuels, and newsprint. These industries are of broad public interest, their part in the entire economic scene is very great, and many of the important decisions required cannot and should not be taken entirely by private management.

The precise role of the Government is by no means clear. That role will vary in detail, according to the particular conditions in the given industry. But the business climate and the economic atmosphere would be greatly benefited by such a sound, inclusive statement of national policy toward our basic industries as will aid most in enabling them to contribute their rightful part to the stability and expansion of our economic establishment.

In these introductory remarks, I will address myself more directly to the steel industry, both as an example and because of its strategic importance in our whole economy.

The substance of a national policy in steel—the kind of a policy it seems to me we should be directing our attention to in this discussion—is one in which we achieve such goals, both in the public and private sectors of the economy, as will take the utmost advantage possible of an advancing technology and provide that level of steel production within the framework of a private-enterprise system as will meet in the fullest way the demand of the economy.

Now, I have sketched out here the points as to the size of that demand. It is a matter of much dispute. The statisticians have had a field day on it.

I note that the Committee of the Economic Council has indicated a demand considerably in excess of that which is either on the drawing boards or in actual production in the steel industry itself. So that the outlook for steel, while not precisely known, seems to be considerably beyond that which is in prospect of being built.

That raises a very substantial question in my mind as to whether this decision can be allowed to be made wholly by that sector of the economy.

I have sketched some six points which seem to me to be worthy of consideration as elements in a national steel policy.

I have not seen the expense bill, but these points follow it pretty carefully, pretty closely. They do so by chance because these points were arrived at after discussion over the last 8 or 9 months, following the hearings of the Senate Small Business Committee. I find the expense bill pretty well follows the same kind of reasoning.

These particular points have grown out of experience of that Small Business Committee trying to meet the shortage situation as it is faced by thousands of independent businesses in this country.

I will not take any more of my time to try to read those six points, but will just say that I hope they will be matters of consideration by the committee in its deliberations.

My own conviction is that with respect to basic industries this committee on the economic report is charged to carefully consider the element of sound economic policy that will properly adjust the shortages in those industries.

(The statement referred to above is as follows:)

The Substance of a National Policy in Steel—Some of the More Important Points To Be Covered

Our national economic policy calls for the maintenance of maximum production, employment, and income. To achieve these goals, public and private economic practices must meet the needs of a growing population, must devise and utilize more and more complex technology, must conserve and at the same time expand material and other resources to the greatest possible degree.

In statistical language, and for a single year ahead, 1949, full employment demands that the value of the gross national product (in 1948 prices) must expand by some 8 to 10 billion dollars, and in order to accomplish this our physical output must increase 3 to 4 percent. It this is done for the single year, then we will not only be able to keep our labor force employed, but we will absorb an estimated 1,000,000 workers who will be added to that labor force during 1949. Inherent in our highly industrialized economy year-to-year and long-term growth are necessary if employment and income levels are to be maintained.

So long as there are great unmet needs; so long as a substantial part of our population is ill-fed, ill-housed, ill-clothed; so long as much of our plant and equipment is or is becoming old and worn out; so long as new generations of virile young Americans are adding to our total population; so long as vast stretches of our country are under populated and underdeveloped—there will be a pressing need of a national policy respecting our basic industries which is premised on the most rapid expansion of capacity and increase in output that can be absorbed by the consuming elements in the country. Nothing short of such an expansionist concept will suffice to provide the working premise for the development of a sound and adequate policy respecting our basic industries.

But it is one thing to generalize in this fashion, and quite another to get down to specifics. Let's take a look at steel in specific fashion.

THE OUTLOOK FOR STEEL DEMAND

No one "knows" the answer to this question. But this much we do know, as do thousands of consumers and other thousands of small-business men scattered over this Nation—steel shortages have been so severe during all the years since the close of the war, and for civilian purposes during all the years of the war itself, that we now have a backlog of actual need totaling 7 years or more.

In money terms, the Senate Small Business Committee reported, and I quote, "During 1947, American industry and labor might have done an additional $15,000,000,000 of gross business, except for the steel shortage * * *. Such a volume of business would have shown itself in many more automobiles, more farm machinery, more freight cars, more household equipment."

I would like to add, as the report and hearings of the committee amply show, such a volume of steel would have resulted in a much more healthy business situation, wherein many thousands more independent businesses would have survived and made profits, much less integration of big steel corporation facilities would have occurred to add to an already top-heavy concentration of economic power in that important industry, and much lower prices would have been in prospect for all consumers.

This committee has already had testimony from other witnesses, notably the Secretary of Commerce and the Secretary of Interior, to the effect that the steel shortage is widespread and will continue for some time. Its impact on other essential economic activities was demonstrated, such as the production and trasnportation of gas, the generation and transmission of electric power, the development of new oil wells, the loading and transport of coal, the mining of needed minerals, the establishment of our synthetic fuel industry. In some important instances current orders are not to be filled until 5 years hence, while in other cases orders are not being accepted because they cannot be put into production

The $64 question in dispute concerning steel is whether the present level of demand is abnormally high or not. And an immediate corollary to that important question is whether the expansion programs already undertaken or contemplated by the steel industry are in keeping with prospective demand.

The steel industry appears to be convinced that the present demand will not be maintained; that present expansion programs expected to result in some 2,000,000 ingot tons additional capacity by 1950 will meet the then pervailing and anticipated needs for steel. Being prudent businessmen, mindful of the sad experience of the recent prolonged depression, and concerned for the welfare of their corporations and their stockholders, such a judgment is to be given very real consideration. But unless this judgment is carefully analyzed by the administration and the policy committee of the Congress, with resulting appropriate action being taken, it will be, as it is today, the guiding force determining the amount of steel the people and the businesses of this country have now and can have in the future.

It is not my purpose to question the right of the steel industry leadership to doubt the continuance of the current high levels of economic activity and consequent demands for steel. They have not seen any definitive proof from the Congress and the Government that such high levels can be maintained. They have only their vivid experiences of cycles of depression and prosperity to go on. But that is precisely where the need for a national policy respecting steel comes in. We need some practical way to overcome the reluctance of steel management to expand capacity to meet high levels of economic activity rather than to starve industry needing steel during such periods in order not to have too much high-cost capacity idle during periods of less economic activity.

But any review of the history of decisions made by the leaders in steel gives little comfort to those of us who know how important steel is as the foundation of our modern industrial society. As Harold Ruttenberg, vice president of the Portsmouth Steel Corp., points out in an illuminating article in Harpers for February 1948, "For the past 2 years the big names of the larger steel producers have semiannually predicted the end of the steel shortage in 6 months, only to find it persisting at the end of each 6 months since VJ-day * * *. These prognosticators * * * are the same men who out of 40 years of personal, practical experience in the steel industry predicted that there was enough steel in 1941 to fight the war, who contended during the war that the new steel capacity under construction would not be finished in time to help win the war; and who prognosticated that building steel capacity to over 90,000,000 tons a year would result in ever so many idle steel plants in the postwar era. I shudder to ponder where our economy and the world would be today if we did not have the 14,000,000 tons of steel capacity that we built during the war."

The same kind of thinking that motivated the steel masters in the war period seems still to motivate their decisions concerning steel expansion. But what evidence is there that they are not sound and correct in their present judgments? The President's Economic Advisers submitted estimates and testimony that full employment demands for steel would range between 103 and 107 million net ingot tons produced in 1954. This is several million tons more than the steel industry expects and is planning for. If the steel industry programing prevails, then we face the prospect that full employment will not exist 5 years hence.

Other well-qualified statisticians, such as Dr. Louis Bean of the Department of Agriculture, have made estimates of steel needs to underpin a full employment economy considerably higher than those of the Economic Council. They may well turn out to be right. Yet the intangibles and unknowns in such calculations, the things that develop in the workaday world itself, are by no means all foreseeable. The steel industry disputes such estimates, both as to methodology and results. Such dispute is important and ought to prove enlightening.

But what is really significant in formulating a national policy for steel is to carefully appraise all forecasts of demand, to make those detailed studies required to establish capacity goals in realistic terms, and to see general acceptance of these findings on the part of those who can implement them. For a statement of need for steel is one of the basic elements in establishing a national policy concerning steel. It is a sad commentary that the greatest industrial nation on earth does not have the technical facilities in any of its great departments of Government to provide the legislative branch of the Government with the needed detailed facts on present and prospective demands for steel, upon which the Congress can base the formulation of a sound national policy in this vital industry.

OTHER ELEMENTS IN A NATIONAL STEEL POLICY

The declared purpose of the Employment Act is to formulate such policies as will result in practices leading to maximum productive use of the country's resources. While no single approach will accomplish such a broad purpose, an appropriate policy concerning the basic industry of steel, and probably applicable to other basic industries, might include the following:

1. A study to determine the amount and nature of the shortage, its probable duration and effects;
2. A program of research and development of steel to obtain better uses, more economic applications, new techniques, and their widest practical application in the business community, especially with respect to those small concerns which cannot conduct such research and development themselves;
3. A procurement program on the part of the Government to effect economies, eliminate waste, conserve scarce materials, and aid where needed in securing essential materials for steel makers and fabricators;
4. Loans for capacity expansion: Such loans would be made by the Government only after a declaration of the need for steel expansion, and after a determination that they are not available from private sources on reasonable terms. They should require a reasonable investment of capital on the part of the borrower; be made with the safeguard that they will not further concentrate the industry; other things being equal, should take into account the need for wider distribution of the steel industry and for decentralization; should be for long terms at reasonable interest rates; and payments should take cognizance of any seriously unfavorable Nation-wide economic conditions, in which case deferment is possible;
5. After a reasonable waiting period, should applications and acceptances of loans for increasing capacity not reach the levels needed to overcome the shortage in steel, then the Government may, for purposes of carrying out the policies of the Employment Act, build and lease such facilities as may be needed to secure the required output; and
6. During periods of pronounced and continuing shortages of steel and the major steel products, the Government should have power to invoke either voluntary or compulsory programs of priorities and allocations. These should be carried out with the participation of advisory committees from the industries affected, including proper representation of small businesses and labor.

These suggested elements of a national steel policy are a wide departure from currently accepted practices. They do not deny to private industry any of the rights and powers it now has to formulate its own expansion programs. In fact, these elements seek to establish conditions that will insure the success of a sufficiently broad expansion program by private industry to enable it to go ahead without fear. Such aids as are suggested have been tried and found successful by experience. They should strengthen the essentials of a free competitive enterprise system operating in keeping with the mandates of the Employment Act of 1946. They are offered here, not as the final formulation of a national steel policy but as one formulation of the problem for the consideration of this Joint Committee on the Economic Report.

The CHAIRMAN. The Chair will undertake to say that as he sees the problem with respect to these basic industries, it is the same as was outlined by Senator Taft and Mr. Smith this morning, I think, in the discussion. There has been a tremendous expansion of production in the United States because of war. There has been a tremendous increase in consumption and in some areas, as for example with respect to petroleum, the civilian economy is now consuming as much oil as was produced and consumed during the war by even the military. So the query in my mind is: What shall we do and how shall we act to maintain a level of production and consumption which will prevent a really postwar decline, a decline to normal, as Mr. Smith phrased it, without affecting the debt structure of the United States, which is now at $253,000,000,000.

It seems to me that if that debt is to be carried we must continue to have Government receipts that will enable us to pay the interest upon that debt, if we do not reduce it. That interest, now over $5,000,000,000 annually, is considerably more than the entire cost of all the civilian departments and agencies of Government. So our problem here is one of levels of production in all of these basic industries.

Dr. Raver, do you care to make any comment on this phase of the situation?

Mr. RAVER. Mr. Chairman, I have listened with a great deal of interest and have received some education on the economics of this situation.

What I have to say about electric power, as one of the basic industries which is in short supply at the present time, of course must be put in the proper perspective. But I must say I do not concur with respect to the feeling Mr. Yntema probably inadvertently expressed in reference to a shortage in the Pacific Northwest, because the shortage is a national shortage and I think it is one of the most serious problems facing the Nation in connection with maintaning capacity production.

Mr. YNTEMA. When I cited the Northwest I did not mean to imply that there was only a shortage there.

Mr. RAVER. I thought that is what you meant to say.

Mr. YNTEMA. No; that was not my intent.

Mr. RAVER. There is a very serious shortage in the Northwest and I hope I may have some opportunity to give some details about that and about the effect of that shortage on the employment situation in the Northwest, which is becoming rather serious, due very largely, I think, to a power shortage there, taken in conjunction with a very rapidly growing population.

But basically, I think it is more or less trite to state to this group of prominent economists that productive capacity in this Nation and the prosperity of this Nation depend and have depended in the past upon a growing supply of mechanical energy and machine capacity, which have made possible the increase in the output per man-hour of the American worker. As a result it has maintained an increasing wage level for that worker. And out of the surplus products created by the machine it has contributed to the other elements of a high standard of living for the people of this Nation.

When you take a situation such as we are facing today—when the statements have implied that we are making a transition here now from a war production economy to a peace production economy—and realize that we were able to produce the goods and services to win this war on the electric power productive capacity of the Nation, and are not able to produce the goods and services to maintain a stabilized peacetime economy, then we certainly have a shortage which is of national significance for a peacetime future and the maintenance of full employment in this economy.

Now, the situation in the Northwest I can use as an illustration because I think the power situation has a great deal to do with the fact that in certain segments of our economy, particularly in the light metals, pulp and paper, phosphates, certain chemicals, ferro-silicon and other metallurgical products, we have some serious shortages which have been translated, I think artificially, into high prices for those particular commodities, at least some of them.

In the Northwest today we have just been through a situation of voluntary curtailment by all the people of that region, not only because of a shortage of generator capacity, but because of a shortage of water to go into the hydroelectric facilities in the area.

As a result the people of that area have cooperated fully on a voluntary basis in the curtailment of the uses of electricity.

The CHAIRMAN. When you use the phrase "voluntary curtailment" I am wondering if you want us to understand that consumers there have come to the conclusion that they have enough electricity, or do you mean there has been a "voluntary rationing"?

Mr. RAVER. There has been a voluntary rationing, Mr. Chairman, which was the only way the region could get through the serious power shortage of this past winter, and which still exists, without a complete break-up of the electric utility system serving that region.

The voluntary curtailment was brought about through appeals over the radio, newspaper advertisements, and direct appeals to customers by utility operators, both publicly and privately owned, in that area.

The CHAIRMAN. By what proportion has the demand decreased by reason of this voluntary rationing?

Mr. RAVER. The demand was decreased during this period by pretty close to 10 percent.

The CHAIRMAN. Does that mean that the demand for other basic commodities has been lessened likewise?

Mr. RAVER. That is certainly true. I can give you some illustrations of the effect of this upon the economy there. Certainly the same type of thing is having its effect upon the entire economy. During the past 90 days in the Northwest aluminum production was reduced with a loss of about 20,000,000 pounds of production, valued at 3½ million dollars. That is a small item in the economy, that is true, but it is indicative of the type of thing that happens in the whole production field when you are short of power.

We have had to refuse expansion requests on the part of a number industries in the Northwest, particularly in the pulp and paper fields, and in the timber field, where a real effort is being made to save the waste wood that has normally come in the cutting of the great timber resources of the Northwest. Formerly 57 percent of the tree was wasted in the lumber business.

Through the application of electricity in the Northwest and with new applications of waste wood in the making of wallboard, fiberboard, cellulose, and products of that kind, electric power has become more and more one of the dominant elements in the Northwest economy.

This shortage has made it necessary, for example, for some 500 mills in the Northwest to put in Diesel engines, to the extent of some 75,000 kilowatts. Those were oil-consuming Diesels requiring scarce steel and other materials that are used with oil.

It seems to me that in the Northwest it is almost criminal to burn oil or to take other scarce materials to make power when you have an inexhaustible supply continually running away to the sea. We ought to get out of that situation not only for the benefit of the Northwest, but for the benefit of the Nation, as quickly as we possibly can.

We provide with that power today almost half the aluminum supply for the entire Nation. The curtailment of aluminum is serious as a national product. It is serious to us and to the whole electrical industry because of the uses to which aluminum is put in the manufacture of cable, wire, and other materials of that kind. The long delivery time for wire and cable is holding up rural electrification programs as well as industrial expansion.

So that it seems to me there certainly is a place in this picture, in harmony with what my understanding is of the proposals by President Truman to insure maximum employment, maximum production, and maximum purchasing power throughout the Nation, to speed up the expansion of our electric generating supplies throughout the Nation, and particularly to expand as quickly as possible the hydroelectric supplies which, when they are once developed, provide an inexhaustible supply. Certainly no nation, and no region as a part of a nation, can make progress in this technological age, except in terms of an assured energy base and an expansible energy base and a cheap energy base to run the machines for an expanding economy.

In my judgment that is one of the outstanding things which has given America its leadership in the world and has made it the greatest nation from the point of view of producing goods and services. Power is at the base of that kind of an economy. If we do not expand it to the needs of the economy and, in fact, keep well ahead of the needs of the economy—we should never be behind in our power base in this Nation, we should always be ahead with ample reserves to take care of break-downs in expansion—if we do not do that we are putting a brake on all the aspects of the economy, certainly in the industrial field.

And when you combine that with an expansion in population you are simply lowering our standard of living if our power supply lags.

The CHAIRMAN. Can this increased production of power be obtained without Government action?

Mr. RAVER. I think it will take both Government action and private investment to do the job. I think both private capital and public capital are doing a great deal today to remedy this situation.

In the case of the Northwest, it is admitted by both the private utilities and the public agencies of that region, that so far as the harnessing of the water power of the Columbia Basin is concerned, it is primarily a Government job. In other words, it is a multiple-purpose job involving not only power but navigation, flood control, and irrigation, which are either nonreimbursable or partially reimbursable projects.

The CHAIRMAN. Has there been any expansion of private investment in utilities in the Northwest?

Mr. RAVER. Yes, there has been a certain amount of that. The private utility companies maintain, however, that this is a job they cannot do. The Columbia River is the basic energy resource for that area. We do not have coal, oil, or gas as our energy base in that region and with the tremendous expansion of population that is going on there, some three or four times the rate of growth in the United States as a whole, the Government program of harnessing water from that river must be speeded up.

It seems to me, Mr. Chairman, there is a place in this whole problem of allocation of materials, whether it is voluntary or whether the President is given mandatory authority to channel the basic materials required to speed up this production, not only in Government plants but in private utility company plants, into those areas which will speed up the development of our basic power supply.

All this discussion I have listened to leads me to this conclusion: that there is a problem of channeling these critical materials, materials that are in short supply, into those particular activities in our economy which will most quickly remedy the shortages that are apparent from the statistics that have been indicated here.

Power is one of those places. I think aluminum is another. I think aluminum should be channeled into the cable business for the power companies of this Nation. Why should we have to pay an inflated price for copper cable, which has tripled in the last 2 or 3 years, when aluminum will do the job at a much lower cost?

Not only that, but copper is in short supply, as well as aluminum. Both of those materials being in short supply, every effort should be made to expand the production of aluminum and to channel that aluminum which we do have away from the pots and pans and shingles and things of that kind, into the basic cable and other facilities that are needed to overcome one of the basic shortages of our Nation.

The CHAIRMAN. Any questions by members of the committee?

Mr. HERTER. May I ask one question?

The CHAIRMAN. Congressman Herter.

Mr. HERTER. You say that the public consumption of power has been very seriously curtailed by lack of materials. Has that been in steel? Has labor been available to you?

Mr. RAVER. It has been curtailed very largely so far by lack of appropriations as far as Government projects are concerned. Material shortages have also been a factor.

Mr. HERTER. I was going to say, when you were getting into lack of material, I was wondering whether that was the basic reason or whether it was money that was doing it.

Mr. RAVER. I think it has been basically a lack of money.

On that may I state, Congressman Herter, that I feel this matter of treating the Government's portion of further development where power is concerned as a public works at this time is an error. If, as I have indicated, my judgment about this is correct, that power is the basic element in the necessary production equipment of the Nation, and we should move ahead with harnessing hydroelectric facilities in order to save oil and coal and gas, then power should be treated not as a public works, but as a basic element to be built and constructed at the time the economy needs it, and that is right now.

Mr. HERTER. I have one other question here. When you speak of aluminum not going into cables, is that due to an arbitrary decision on the part of the aluminum companies or inability to compete pricewise with the aluminum kitchenware and roofing, and so on?

Mr. RAVER. It is the determination of the aluminum companies. I can tell you very frankly, gentlemen, that I am doing some arbitrary allocating of aluminum in the Northwest to the cable needed by the Bonneville Power Administration, to expand its transmission facilities and keep them in pace with the installation of generators at the Grand Coulee Dam. I am doing that by taking a certain amount of surplus power, which we have at certain times of the year, and insisting that if the aluminum companies want it—and they do—that they allocate enough pig out of that to send it in to the wire mills to give us the cable we need.

Now, you can talk about arbitrary allocations and I am perfectly willing to admit that that is one. I do not think that is the sound way to do it. I am wondering who else in the economy is going without aluminum in some basic needs, because I am making that kind of an arbitrary allocation and happen to be in a position to do it.

Senator FLANDERS. Do these lines cost you less when you use aluminum cable than they do when you use copper?

Mr. RAVER. Yes. There is a material differential in favor of aluminum. In the first place, aluminum has not risen in price materially. I think the price of aluminum has risen about 2 or 3 cents per pound on pig since the war. That price is the lowest price in the history of the aluminum business.

Senator FLANDERS. What is the business' reason for diverting aluminum from cable to kitchenware?

Mr. RAVER. I presume that is a competitive matter or a profit matter in which the aluminum people are trying to get the maximum return on whatever market they can get.

Mr. HERTER. Could you offer them a cent or two more per pound for the cable? Would they refuse to sell to you on that basis?

Mr. RAVER. I do not know what price would have to do be offered. That is, we do not offer to them, we put the matter out for bid and the price is the price that they bid on our cable. We do not dictate the prices.

Whereas normally we would get cable deliveries in 2 or 3 months or maybe 4 months from the time the contracts were let, now the time has increased to 3 and 4 years. If that is true and if cable is in that situation and transformers and other electrical equipment are in that kind of a situation, then it is going to be a long time, it seems to me, before we come out of this power-shortage situation.

Senator FLANDERS. So far as you know are the manufacturers of power equipment running at full capacity.

Mr. RAVER. I think they are. I think they are doing so, insofar as I have been able to determine. I think they are loaded right to the hilt.

Mr. Falck can give you authentic information on that, I think, as a result of his studies in connection with the National Security Resources Board. That is my impression.

The CHAIRMAN. Was this your own idea or were you following some example when you undertook to demand the delivery of aluminum for transmission lines as part of a transaction involving the sale of power to the aluminum-manufacturing companies?

Mr. RAVER. It is probably a type of gray-market operation, if you come right down to it. I do not know that it is a new idea but it certainly seemed an appropriate thing to do and it worked.

Senator MYERS. Did I understand you to say there had been a very slight increase in the price of aluminum between 1946 and 1948?

Mr. RAVER. The price of aluminum when we went into the war, as I recall, was 14 cents a pound, that is, for pig. I think it is now 16 or maybe 17 cents.

Senator MYERS. You say when we went into the war it was 14 cents?

Mr. RAVER. It was 20 cents when we went into the war, but it was dropped during the war to 14 cents.

Senator MYERS. And it is still in very short supply?

Mr. RAVER. Yes, sir.

Senator MYERS. What is the reason for that slight increase in price, if it is in such short supply?

Mr. RAVER. Well, I should think one of the reasons is competition in the industry.

Senator MYERS. The prewar price was exorbitantly high and tremendous profits were being earned?

Mr. RAVER. Well, strangely enough, from the information I get, the aluminum people are making more money and their profits are higher today under the low price than they were under the high price. Certainly the low price has expanded their markets. One of the pressures on this whole situation is because of the low price. In other words, if you adopt the philosophy that prices determine supply and demand, one way to handle these shortages is to price them out of the market, and I think some of them are being handled that way. In other words, if you put the price high enough, you do not have any shortages any more. People just quit buying. You "clear the market" with a high price. We could handle it that way with power.

I think over the Nation as a whole power companies under regulation have either not desired to handle their problem that way or have not been permitted to by regulatory bodies. As a result, you can argue, there has been a power shortage. But also as the result of a pricing policy, of continually lowering prices and increasing output, we have the greatest expansion in the demand for power as compared to almost any business you can name in the Nation, and today the demand far exceeds the supply.

But I certainly would not recommend that the way to solve the shortage of power is to increase the price of power.

Mr. KEEZER. Mr. Chairman, would this suggest that the ultimate answer to all these difficulties is to make everything scarce enough?

Mr. RAVER. That is certainly not my philosophy. It seems to me that may be the philosophy back of the copper price today and of the zinc price and of the lead price. There is probably no shortage in those commodities today because they have priced a large share of the market out of the market.

Mr. YNTEMA. Has it been the increase in cost of production behind those commodities which caused the higher price?

Mr. RAVER. I don't know. That has doubtless been an influence particularly of the high cost producers. Maybe the supply will come. I am not arguing with you on that, certainly. A higher price and a higher profit should result in greater supplies unless the supplies are controlled.

The CHAIRMAN. I assume you mean that if the automobile companies of the United States had charged for the new automobiles that were being manufactured in 1948 and 1947 the prices which were obtainable on the open market, the total production of automobiles would have been reduced because there would have been a smaller group capable of paying the high prices which would have resulted?

Mr. RAVER. I think that is right under the circumstances.

The CHAIRMAN. I think that your point was misunderstood.

Mr. YNTEMA. I do not think that is a correct statement, if I may say so with some knowledge of the automobile industry. That is, it depends on how high the price would have been pushed. If the price had been pushed just high enough to clear the market as many automobiles would have been produced as manufacturers could get the steel for.

On the other hand, if the price had been marked up to ridiculous heights it certainly would have cut off the buyers. But the price might have been much higher than it was without any curtailment of production whatever. Perhaps the automobile manufacturers would have scratched a little harder for additional steel and turned out a few more cars.

The CHAIRMAN. I may be wrong, but my understanding, Mr. Yntema, was that the automobile manufacturers undertook a policy of restraining their distributors from charging the prices which the distributors could get.

Mr. YNTEMA. That is correct.

The CHAIRMAN. And they did that because they were fearful if prices were allowed to rise on that trend, their market would be cut down.

Mr. YNTEMA. No, I do not think that was the reason for it. I think the reason for it was that they did not want to be put in the position of gouging the public.

There would not have been any smaller production of automobiles in 1947 and 1948, even the new automobiles would have cost consumers more. Of course, I do not advocate the higher price policy being referred to, but I do not think it would have cut down the production of automobiles.

The CHAIRMAN. What about the supply of steel for automobiles?

Mr. YNTEMA. Had automobile manufacturers been getting higher prices for cars, there might have been even more scratching for steel than actually occurred.

I do not want to take the time now, but I would like to talk to this question on the supply of steel in the economy and what it has done to this boom, because I think it is a very important consideration.

The CHAIRMAN. I think it is, and I hope the committee will give you the opportunity to do so.

Mr. YNTEMA. Thank you.

The CHAIRMAN. Mr. Keezer, did you have any other questions to ask Dr. Raver?

Mr. KEEZER. No; I think where I got thrown off a little was his designation of the present price of aluminum as a competitive price, when it seems to be in fact a highly controlled price. I think that is probably where I went off the track.

Mr. RAVER. It is a highly controlled price as far as pig is concerned, but there are three producers in the market today, all three of them pretty dynamic, and also there is an antitrust case in the offing which probably has some influence on the price level.

Senator FLANDERS. When you said there was a shortage, and that the price had not risen and was highly competitive, I could not quite fit those three things together. It would seem if it were highly competitive and if there were a shortage, then prices would rise instead of staying where they are, so there must be some other influence there.

Mr. RAVER. Well, it was a controlled price for pig; you are right about that, but the end products are in a competitive market.

Senator FLANDERS. In other words, controlled prices sometimes hold prices down as well as sometimes raising them up?

Mr. RAVER. That is correct, sir.

Senator FLANDERS. Thank you.

The CHAIRMAN. Mr. Falck.

Mr. FALCK. I would just like to say a word about that aluminum-ingot price. It is a wonderful thing to have the price at only 16 cents a pound, but nobody can get any aluminum pig. You cannot get aluminum in that form. The major producers of aluminum are using practically all of the pig for further fabrication, so that the nonintegrated fabricator is not able to get the 16-cent price.

If more of the aluminum pig were in the open market there might be a higher price, but the price is a rather fictitious price today because fabricators are not able to get delivery.

Mr. Chairman, the only comment I could make as a noneconomist—I being an engineer—on the discussion this morning, comes from a meeting that I attended last week in Chicago of the National Association of Purchasing Agents at the Edgewater Beach Hotel. After the formal papers were submitted in the daytime and the boys went out on the town that night, it was the manufacturing salesmen who picked up the checks and not the purchasing agents, which was very different from the year before. [Laughter.]

I think that in the fields of electric power, fuels, and natural gas, the prices of utility type equipment manufacturers will soften from now on. I think most utility purchasing agents have the same conclusion.

I think that is a very good thing for the economy and I go along with one or two of the speakers this morning that that kind of readjustment should not put the scare of depression in people's minds because it is my conviction that a great number of people, both individuals and businesses, have been getting a free ride the last 2 or 3 years and have been making more than normal income with less than normal exertion or effort. I do not say that everybody has been making money without working, but I know quite a number of individuals in business who have been making a good deal of money without the ordinary exertions that have built up this country.

I believe a great deal of inefficiency and a lot of diseconomies have been introduced into our system by (*a*) the material shortages, and (*b*) the abnormal prices. If we have some moderate adjustment—I don't know what percentage would be moderate, 5 or 10 percent—we will get a good deal more engineering design in our system, more efficiency in our purchasing, and more productivity out of our productive organizations. I think that will be very helpful.

In other words, if we go back to the 1946 or 1947 level of monetary income, it will not be the paradise that 1948 was for the lucky people, but we still may have the same physical volume, or an increased physical volume of production, even though the monetary symbol attached to that physical volume goes down.

In the general field of utilities materials, I would like to present to you and your committee members two reports, which I will not undertake to summarize here. Both of them were prepared for the National Security Resources Board, and I believe are considered definitive in their respective fields. One of them is on the electric power situation in the period 1947 through 1951. The other is on the gas situation in the country.[1]

Those reports were gotten together by a very unusual method. It is one that seems to be followed here and one that I would recom-

[1] The documents referred to are available in the committee files.

mend to the Government and to the Congress for general analyses of the capacity situation.

The method was not to rely exclusively on Government personnel for forecasting or for determination of capacity, but to call in a group of engineers, technicians, and executives from the segment of industry being analyzed and to pair them off with Government people. In the case of power, for example, we had technicians from the Bonneville Power Administration, from TVA, from REA, and also from American Gas & Electric, Detroit Edison, and Commonwealth & Southern.

As an example, we developed committees of experts on the productive capacity of the country who finally fought out their technical differences and arrived at an answer they could all agree on. That answer simply is that the utility industry does plan more than a few months ahead, it plans 3 or 4 years ahead. The utility industry is now engaged in the greatest expansion construction program in its history, that will raise capacity from 47 or 50 million kilowatts for the large central station systems as of 1947, to over 73 million kilowatts by 1951. That is an expansion of roughly 50 percent in the Nation's power capacity in 4 years.

Likewise the gas industry will by 1951 put out 50 percent more B. t. u.'s of heat than they were putting out in 1947. So that both of those industries have launched and financed with unconditional purchase orders, a degree of postwar expansion in excess of 50 percent. When I give the industry totals, I include both the public and the private.

At the same time the manufacturers of utility type equipment have also been expanding their manufacturing capacity, so that while we are short of power, we have already, in my judgment, surpassed the most critical period from a national standpoint, which was December 1948. December 1949 will be relatively better off; December 1950, much better off, and we should be out of the woods by December 1951, except in a couple of areas.

The CHAIRMAN. This is a planned expansion?

Mr. FALCK. Planned expansion.

The CHAIRMAN. For the production of power, and also for the expansion of facilities, is it?

Mr. FALCK. It is an expansion of facilities to make power, and also the expansion of facilities to make power producing equipment.

The CHAIRMAN. Did I understand you to say there was a 50 percent expansion?

Mr. FALCK. Yes, sir, from 1947 to 1951 our total ability to make power will have increased 50 percent.

The CHAIRMAN. During that 4-year period, or 3-year period, which?

Mr. FALCK. Well, from the end of 1947 to 1951, that would be 4 years.

The CHAIRMAN. Four years. That would involve some expenditure by these industries, would it not?

Mr. FALCK. That is correct. On capital expenditures the electric industry spent about $1,300,000,000 in 1947; around $2,000,000,000, my recollection is, for 1948; and the program for budgeted capital expenditures will be over $2,300,000,000 in 1949. The gas industry program involves over $3,000,000,000. Of course, those figures are small compared to $250,000,000,000 national income, but they are substantial. I do not have the figures for telephone and communications, but they are likewise very large.

The CHAIRMAN. Here are two industries, the planned expansion of which during the next 4 years, amounts roughly to the expenditure on the Marshall plan in a single year.

Mr. FALCK. I do not know what the Marshall plan totals.

The CHAIRMAN. It is a little over 4 billion.

Mr. FALCK. I would like to say also as to capacity, that our power expansion being installed runs about 6,000,000 kilowatts a year, which is in excess of 10 percent of our peak. It was around 55,000,000 in December.

The CHAIRMAN. When you say "our," you mean what?

Mr. FALCK. United States power expansion. The capacity of General Electric, Allis-Chalmers, Westinghouse, and manufacturers of the kind that make power apparatus, the manufacturers of turbines, boilers, switches, transformers, and so on, they have a potential ability to make power apparatus of somewhere between 8 and 10 million kilowatts a year, so that in my opinion our manufacturing industry here is way ahead of the requirements to be placed on it, even if we continue to expand at the rate of 10 percent a year.

I believe Secretary Krug said the other day that by 1965 we would need an additional 80,000,000 kilowatts, but with the capacity to build 10,000,000 kilowatts of power-producing equipment a year, we could do 80,000,000 kilowatts in 8 years, not 15, so there is no bottleneck there.

I do agree with Dr. Raver that we have had a few isolated bottlenecks, the two most important of which are aluminum for conductor and cable and, in the gas business, plate and pipe for long-distance natural-gas pipe lines. In both of those areas I cannot see any relief in sight unless there is either (*a*) further expansion by those industries, or (*b*) mandatory allocations that would give for military procurement and for utilities, regarded as essential for civilian welfare, a priority over other uses.

My understanding is that our primary production of aluminum is around 650,000 tons. I am sure the total take for wire and conductor would be less than 10 percent of that, so that it is a small percentage of the total aluminum output, but a very critically important percentage.

It is, in my opinion, very unfortunate that the Government seems to be encouraging the aluminum producers to go into fabrication when we already have a surplus of aluminum fabricating facilities, instead of having the Government assist, promote and encourage more aluminum reduction. In other words, we have an absolute shortage of aluminum reduction capacity in operation. We have no shortage of aluminum fabricating facilities. A lot of the wire and cable facilities today are idle because they cannot get raw material, so that in my opinion sound governmental policy would be to encourage a greater output of the raw material and not necessarily to encourage installation of additional fabricating facilities.

Likewise in the field of plate and pipe, it is not a question of the over-all steel capacity, it is a question of how much plate is being allocated.

Senator FLANDERS. Mr. Falck, how is the voluntary allocation working on that problem?

Mr. FALCK. Well, the steel companies, apart from allocation, have greatly increased their total pipe production, they have tremendously increased it. It was less than a million tons a year before the war, and now I think they are shooting at 2,000,000 tons. But the total of oil country goods and gas pipe lines that have been authorized would require 5 or 6 million tons.

Therefore, new quotations on large-diameter pipe, 26- or 30-inch pipe, are promised 3 or 4 years ahead. I am not saying that progress has not been made, but there are very long deliveries. And even though there may be some easing up in sheets or other forms of steel, there seems to be no great enthusiasm about accepting pipe orders.

Senator FLANDERS. The bottleneck there, I take it, is in manufacturing equipment?

Mr. FALCK. Well, there is this peculiar situation. There is one large nonintegrated mill. That integrated mill cannot get through normal channels enough steel to operate at capacity on three shifts, so that if a pipe line company comes to that mill and asks for pipe they will give them a 4- or 5-year delivery date. But if the same company goes out into nonregular channels to get pig iron from one place and plate from another, they could get almost immediate delivery. The cost of that is the difference between paying about $115 a ton and paying about $180 a ton or $190 a ton.

So that while we have achieved a high degree of utilization of our pipe mill facilities, delivery schedules through normal channels have not been changed substantially. Now, if we had had allocations you would presumably have gotten those pipe mills loaded up without having to pay these high conversion cost deals.

Senator FLANDERS. Has that matter been brought up in the voluntary allocation meetings as to keeping the pipe mill capacity going?

Mr. FALCK. Yes; it has. I believe the Oil and Gas Division last fall presented an oil requirement and a natural-gas-company requirement to the Department of Commerce. No definitive action was taken by Commerce on that, on the ground that their advices were that the pipe-mill facilities were being utilized 100 percent, or as near 100 percent as was practicable.

Senator FLANDERS. You doubt that, I take it?

Mr. FALCK. No. I do not say that I doubt the facilities have been utilized, but I say they have been utilized not because of normal deliveries of plate to those pipe mills, but because people have had to go around like scavengers and dig up the plate at very high cost. In other words, a great number of gas companies are putting pipe into the ground today at $150 and $200 a ton, that should have only cost them $115 or $118 a ton f. o. b. the pipe mill, if they had gotten it through regular channels.

So we would not have increased the amount of pipe delivery, but we certainly would have decreased what was paid for the pipe if there had been a regular flow.

The CHAIRMAN. Any other questions?

Senator MYERS. Mr. Falck, I understood you to say that you will have, and are engaged now in a great expansion in these various industries you have outlined.

Mr. FALCK. That is correct.

Senator MYERS. That would indicate too that you have great confidence, or these industries have great confidence, in the future of our economy over the period, at least, of the next 3 or 4 years?

Mr. FALCK. Well, I would say yes. I might also add that both the power and gas industries, being public utilities by nature, cannot lightly turn customers down. They have an obligation to serve anybody who applies for their services, and to meet that obligation expansion on their part is almost mandatory, it is not a question of whether it is just good business or not.

Senator MYERS. Do you believe that the present situation indicates we are reaching an end of the inflationary spiral?

Mr. FALCK. My point has been that we could get to somewhat lower levels for raw materials prices and wholesale prices without going into a depression.

Senator MYERS. In the fields in which you have engaged, and to which you have referred, do you expect increased prices in those fields to the consumer?

Mr. FALCK. Well, in the case of power their prices are regulated and their rates have been stationary or declined, except for a few fuel-adjustment clauses in the last year, because of the great increases in the price of coal and oil.

Senator MYERS. I quite understand they are regulated, but do you believe we are going to see higher rates for gas and electricity, and so on?

Mr. FALCK. I would say electricity would depend almost entirely on the cost of coal and oil; I would not expect the rates to increase very much except for fuel prices, and I do not think fuel prices are going higher.

Senator MYERS. Not that they would need higher rates, but I am just wondering whether your experience is sufficient to indicate whether or not you could prophesy or indicate at the moment whether higher rates may be anticipated in the near future.

Mr. FALCK. Senator, I don't think electric rates will go any higher, except in the fuel adjustments which are pretty automatic.

Senator MYERS. The reason I ask is, I know there is one metropolitan area in my State which has already applied to the public utility commission for higher rates. I wonder if that is general throughout the country. I do not indicate that probably they are not needed, that increased costs may not necessitate their applying to the Commission, but it is only an indication that even in those fields prices are increasing rather than leveling off.

Mr. FALCK. There is no question but that the equipment the utilities buyers install is costing them two or three hundred dollars a kilowatt, when it used to cost them $150.

Senator MYERS. There is no question about that, but we have heard generally here today that prices are leveling off and that we probably will reach the end, or we are rapidly approaching the end, of rising prices or increased prices. I will use that, rather than the inflationary spiral. I find in this one field, at least in one instance, that a company is asking for higher prices, higher rates. I do not question the necessity of whether they are warranted and whether they can prove them, but the mere fact is they are asking for higher rates, which indicates that in that field, or at least in that area, prices are still going forward.

Mr. FALCK. Let me answer that by saying I do not think there will be substantial changes. There is what is known in the utility industry as a regulatory lag.

Senator MYERS. I think that is true in this instance.

Mr. FALCK. So the utility may get an upward adjustment when prices are going down, and a downward adjustment when prices are going up.

Senator MYERS. What about natural-gas rates?

Mr. FALCK. Natural gas is a very peculiar product. I am glad you mentioned that. Natural gas is two things at the same time: it is a competitive fuel and it is a regulated utility service. That has led to an insurmountable paradox, in my opinion, which none of the regulatory agencies has been able to solve. In short, because natural gas is regulated, its price has become very cheap, whereas the prices of coal and oil have gone up 50 and 100 percent, so that today natural gas is anywhere from 40 to 50 percent cheaper than the competing fuels, and we have a run on the bank because every industrial user and every residential user will prefer the cheaper fuel. There is not enough natural gas in this country to take the place of 600,000,000 tons of coal and all of our oil reserves. We have a price situation there which I believe is paradoxical.

Senator MYERS. Do you believe there should be an increase in the natural-gas rates?

Mr. FALCK. I would rather not answer that question, because I think that is pretty general.

Senator MYERS. I thought you had indicated sometime ago that you did definitely believe—in fact, our national security demanded—that there should be an increase in natural-gas rates.

Mr. FALCK. I would say that I think producers of gas are entitled to a fair competitive price in the field, as distinguished from the regulated price.

Senator MYERS. Well, we could get into quite a discussion on that.

The CHAIRMAN. The Chair will undertake to declare a recess until 10 o'clock tomorrow morning, when we will reassemble in the same room and proceed to hear those who have not yet been heard.

Gentlemen, we are very grateful to you all. The committee is now in recess until 10 o'clock tomorrow morning.

(Whereupon, at 4:40 p. m., the committee adjourned until 10 a. m. of the following day, Thursday, February 17, 1949.)

JANUARY 1949 ECONOMIC REPORT OF THE PRESIDENT

THURSDAY, FEBRUARY 17, 1949

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

The committee met, pursuant to adjournment, at 10:15 a. m., in room 301, Senate Office Building, Senator Joseph C. O'Mahoney (chairman) presiding.

Present: Senators O'Mahoney (chairman), Myers, Douglas, Watkins, and Flanders; and Representatives Patman, Buchanan, and Herter.

The CHAIRMAN. The committee will come to order.

One of the members of the "round table", Mr. Murray Lincoln, has an appointment at the White House this morning. The request has been made by Congressman Patman that he be permitted to open the session.

Mr. Lincoln, we will be very glad to hear from you.

I may say we are still operating under the 5-minute rule, which does not, of course, include questions asked by members of the committee.

Mr. LINCOLN. Thank you, Mr. Chairman.

As president of the Cooperative League of the United States, and for 28 years the secretary of the Ohio Farm Bureau, my concern is in terms of the average American citizen, the farmer, and the wage earners in industry, and consumers in general.

Let me commend the committee for attacking this economic situation, but I do not envy you the task you have assumed. It is regrettable that our economists and representatives have such diverse views, such as were brought out here yesterday. But economics is not an exact science, so I suppose all we can do is to do the best we can in the light of our own views and interests.

I sometimes feel like suggesting that we take a bunch of these economists, lock them in a room, feed them on bread and water and tell them we have thrown away the keys and won't look for them until they have come to some basic agreements.

Anyhow, when the experts disagree, you can't blame us ordinary guys from putting in our 10 cents' worth.

At the outset, let me put myself on record as wholeheartedly agreeing with the chairman, as he was quoted in last night's paper.

You are quoted, Mr. Chairman, as follows [reading]:

> Congress is face to face with the question whether the Government shall act or drift.

To that, I say "Amen." And then you add:

> On the over-all, the bill represents the positive view toward conditions in which the country finds itself. Unless the purchasing power of the people is maintained, it will be impossible to avoid serious results when Government expenditures for defense and foreign aid taper off. Unless the Government acts, collapse is inevitable.

I don't know words that could better describe the situation, as I see it. And how in the world anybody can call such efforts to meet this situation "regimentation" is beyond me.

What is wrong with economic planning on a national scale? We plan our daily lives and finances. We, in business, plan our production, estimate our sales, our expenses, and forecast our savings. Any sane individual or company does this. Only when the Government attempts to plan in the interest of the whole country does it seem to be bad and wicked in the minds of some people.

Much of what I heard here yesterday is strangely reminiscent of what we farmers were told in 1921, and later in 1928 to 1932. The farm depression started in 1921. By various devices, the economy was kept going until the crash of 1929. Then farmers had a slump in their depression, as Andy was quoted as saying; and in 1932 and 1933 the rest of you came down in the cellar with agriculture.

And may I point out, Mr. Chairman, the economic groups didn't pull themselves out of that hole. It took Government action of the boldest type to keep our economy running. We exhausted the alphabet in setting up agencies.

And even more concerning to me is that we never did get back on the track voluntarily. It took a war to get our economy on its feet again.

And, make no mistake about it, farmers and laborers in industry are concerned with this situation even though some in their ivory towers of business think everything is all right.

Senator Taft—and he is not here—debated with Leon Henderson and myself in 1945, on the Town Meeting program, about the question of keeping controls over prices until supply caught up with demand. Senator Taft and Congressman Miller, as I recall the name, took the view that controls were not necessary or advisable. Senator Taft said then that if we took off controls things would level off. They did, but on a different plane than expected, and now we are experiencing the beginning of the hang-over.

Why should we accept here the statements now made that everything is under control; that it is just a leveling-off process? Who knows for certain that it is? Even the experts in this room do not agree. Then, what can we expect the average citizen back home to think about the future?

When I get home to Columbus, Ohio, I would like to send to you, Mr. Chairman, a copy of a book that I keep with me most of the time, entitled "Oh, Yeah?" It quotes all the top Government officials and big businessmen in 1928–32. On one line it quotes what the person said, and then in red ink it tells what happened. From President Hoover and Vice President Dawes and Secretary of the Treasury Andrew Mellon, and the Chairman of the Federal Reserve Board, and Mr. Aldrich, the New York banker, and Mr. Ford and Mr. Chrysler, and many others, their statements are quoted. I think you should read those statements and ponder. They were the original dopesters who missed it worse than did the Literary Digest in 1936 and the 1948 pollsters on President Truman's election.

Now, if the experts can't agree on what is going to happen to prices and whether we are threatened with inflation or deflation, in Heaven's name, why not set up whatever machinery is necessary and that we are wise enough to put together to meet the situation.

Is it regimentation to put a fire engine in a fire house and equip it with necessary chemicals and equipment to fight any kind of fire that may break out? If that is regimentation, then so are tariffs, so are price-fixing laws, which are erroneously called fair-trade laws, the farm-support program, and I don't know but what the Taft-Hartley labor law.

I think, Mr. Chairman, that the minimum which you would expect from a democratic Government is that we attempt to do something in this situation, and I don't think the people are going to be scared by such shibboleths as the words "planning" and "regimentation."

The Federal Reserve Board studies for the last year show a constant weakening of the consumer buying power. They show a tremendous increase in consumer credit and particularly in installment credit.

I begin, then, with the opinion that as consumer power is weakened, either from inflation or deflation, then the whole economy is weakened. And, to me, it is definitely important to begin to look into this situation now while we can survey it calmly and not wait until something has happened to make us do something peremptorily.

As I see what is going on in the world, the people of the world are on the march. Call it evolution or revolution. Use your own word. They may not know where they are going, but they know they have been places that they don't want to go back to. They know that there is potential abundance of material things that they are determined to have a share of, and they are sick and tired of the historical sequence of booms and busts and wars.

We now know that people will trade a measure of freedom for security. You can't eat freedom. But I decline to accept the defeatist philospohy that in a democracy we cannot plan our economic and social future to some degree, at least, and not lose our essential freedoms.

Apparently, what some people are afraid of is that they will lose what they think is their divine right to exploit other people and for their own profit, of course.

We in the consumer-cooperative movement start our thinking on the right of people to have things and to supply themselves, if others will not, or cannot do it at prices we think are fair and just. And we are putting up our own capital, the capital of the little fellows, the farmers and wage earners, to prove that we can do it.

We think in terms of an economy of abundance and will resist with all of our power any proposal to go back to the traditional theory of scarcity through which prices and profits can be made higher.

There has been much talk here about capital and capital reserves for the expansion of industry. There are billions of dollars of capital reserves, for example, in our insurance companies and banks. These funds are looking for a market. What is needed to draw them out is reasonable assurance that we will have a stable economy and will not go into a collapse.

Why don't we start with the planning of an economy of abundance? Let us find out what it is going to take to provide a program of full production and maximum employment and then start from there rather than to try to adjust ourselves to what we think people may consume based on what has happened in the past.

We have always underestimated the power of people to consume under an ever-expanding economy. The electric utilities in the early

1930's said it was impossible to electrify our farm homes. Well, when we started the REA program in 1935, only about 18 percent of our farm homes in Ohio were electrified. With Government loans on a business basis and through the help of the REA program, we now have around 90 percent of our farms in Ohio electrified, and the rate is just one-half of what the utilities used to charge to our farmers. The farmers, through organizing their cooperatives under the REA program, proved that the job could be done.

We found that the way to bust the fertilizer trust was by manufacturing our own fertilizer. We had to go into the manufacture of feed to get the proper kind of feed our farmers wanted. Our cooperatives, all over the land, have brought petroleum refineries and pipe lines and oil wells and have paid for them in 24 to 36 months, out of the savings that otherwise would have gone to the oil companies.

These and other experiences, Mr. Chairman, make us skeptical of any statements that prices cannot be reduced when farm prices start to slide.

Our cooperatives, with the aid of wage earners in organized labor, are getting ready to really tackle the problem of food distribution. I am sure that we can, eventually, get more food to the consumers at lower prices and at the same time assure our farmers of a decent price and incidentally pay our employees in these cooperatives a fair wage.

Now, speaking as an individual, our organization has not passed on it as yet. I am all for trying out the suggestion of President Truman that the Government try out a pilot plant to manufacture steel or any other material in short supply, and especially potash and phosphorous. How else are we little guys going to know whether the price of steel or other raw materials is fair or just?

I propose that the Government shall extend the REA principle by making loans, at the cost of money to the Government, to any properly organized group of people who desire to serve themselves with goods or services that are not adequately supplied by our present business enterprises.

Mr. PATMAN. Mr. Chairman, could I say a word right at this point in this testimony?

The CHAIRMAN. Certainly.

Mr. PATMAN. For your information, Mr. Lincoln, I am introducing today a bill that applies the REA principle to home building in a city and under farm ownership in the country. It carries out very much the suggestion you made there. The bill will be introduced today in the House and we think it will have strong support; we hope it will have.

Mr LINCOLN. Thank you. I say we ought to do it with steel, with housing, with hospitals, with medical care, with fertilizer, and with any other commodity that is reported to be in scarce supply.

We are for the extension of the reciprocal trade agreements. We are definitely for the raising of the necessary funds by taxation based on the principle of the ability to pay, to cover all the necessary expenses of Government, and to make payments on the national debt.

Mr. Chairman, if we are not willing to pay the necessary taxes now in times of high employment and high production and high incomes, what in the world is going to happen if we go into a tailspin?

Then I think, Mr. Chairman—and you have always been a leader on this—our Government should find out where monopoly exists and inform the people so that we can act ourselves or with the Government, to work out a true and bona fide free-enterprise system. We don't have it at the present. We have private enterprise, but we don't have free enterprise. The leadership of the world has come to the United States. Whether we are equipped to assume our responsibility or have the ability to assume our responsibility may be debated; but if we have another economic collapse or depression, the repercussions will be world-wide.

I, for one, refuse to accept the fact that, with our tremendous agricultural and industrial development, freed from the ravages of war, and with our scientific and managerial skills, and our tremendous natural resources, we cannot plan, democratically, and without loss of our essential freedoms, for more security and for the welfare for our people.

Thank you, Mr. Chairman.

The CHAIRMAN. Mr. Lincoln, I rather think you have kicked the ball right into the middle of the field. It ought to afford considerable basis for a discussion by your fellow participants in the "round table."

I am impressed by the fact that throughout the years we see every evidence of planning on the part of industry. We see a good deal of evidence of planning on the part of labor. But in agriculture, being primarily an individual industry in which more than 90 percent of agricultural products is produced by individuals, there is precious little planning for the producer.

Now, we are asked frequently to let agricultural prices slump; but if anybody suggests taxation for profits, that is immediately assailed as against the public interest. The farm income can drop, but if industrial income is taxed that spells disaster.

So I think the question which we ought to discuss a little bit this morning is: Should the Government stand back and do nothing while the organized groups plan for their own welfare to the detriment of the farmer who cannot plan for his? What is the limit of the responsibility of Government in planning?

Of course, it is customary to use this word "planning" as an epithet, to represent communism or socialism. Argument by epithet calling will get nowhere. We must face the facts. And, as I stated in the press interview yesterday, if the Government drifts and only isolated segments of the economy plan for themselves, how can we expect to avoid the collapse which has always followed such a process in the past? I ask that as a question.

Yes, Mr. Gainsbrugh.

Mr. GAINSBRUGH. May I ask for some facts on agriculture that I assume Mr. Lincoln will be prepared to give? First, relative to the agricultural price position. Is it not true that agricultural prices as a group are still above parity?

Second, relative to agricultural income: Is it not true that parity income of agriculture is substantially above parity at the present time?

Third, is it not true under the Agricultural Act of 1948 that farmers are now given an option of parity price, either the parity price of the base period of 1909–14 or the new parity price based on the 10 most prosperous years of agriculture?

Are not all of those elements in the picture at the present time?

Mr. LINCOLN. Those are a good many questions. If you want statistics, I would refer you to my colleague here, Ted Schultz. But I think it is important to point this thing out: Mr. Smith and I debated it a little bit in private here afterward. The question I asked him yesterday was not facetious. I do not understand why, and I do not accept that prices cannot be adjusted when farm prices go down. We haven't gotten into hardly any other commodity in the cooperatives where we haven't found ways and means to cut them down. But here are the facts as I see them, and look at the figures. The farm-index figure has been above what he pays only during those years just immediately before, during, and right after the war. If you look back at the index figures, and it is only in that period just before the war, that is the only time when the index figure for what the farmer receives is better than the index figure for what he pays. Then we always go down.

The question is whether we go up too far. Personally, I thought we should have kept controls on everything, and not go up so far that we would have to go down.

Now, the question is, where did we start steel and where did we start agriculture? I don't know.

The CHAIRMAN. Well, Mr. Lincoln, let us get back to the question that was asked. I am prompted to say to Mr. Gainsbrugh that parity is a wholly arbitrary concept. I know it is customary when one says that the farmer's income in recent years has been above parity, to consider that the farmers have reached an extraordinarily high level of prosperity. We forget that the farmers started from a very low level. Before the parity formula was invented, I should say the average annual income of the farmer in the United States was about 5 or 6 hundred dollars a year.

Now, the contention of those who worked for an increase of agricultural income was that it would be impossible to maintain a stable national economy upon so low a base. The purpose was to bring agricultural income up so as to create and sustain a market for the products of industry.

I think the statistics before us—and available to everybody—do show that during the war the farmer's income was greater than the amount he was obliged to spend for the things he needed.

Mr. LINCOLN. That is the only time.

The CHAIRMAN. As Mr. Lincoln says, it is the only time. Now, if we permit the economy to operate the other way and allow the farm income to decline so that it will be below the level for our general economy, we will be setting the stage, it seems to me, for a depression. That is precisely what happened after World War I.

Mr. LINCOLN. Mr. Chairman, let me answer that question. Farm prices have already gone below this price support. We have broken through the hole here in the last few days.

Mr. GAINSBRUGH. The figures I have before me reveal the parity price ratio at 108 in January of 1949. And, of course, the asset position of farmers is far greater and far stronger than at any time in their history.

Mr. KEEZER. I would like to address myself to a point made by Mr. Lincoln, with which I am in full accord. I do not know who would disagree with it.

Mr. Lincoln says—and I certainly subscribe to it fully—I am for planning for an economy of abundance. I want to address myself specifically to that report of the President's Council, which I think raises a very, very sharp question about planning for abundance. The policy I have in mind is the policy of cutting down the relative level of expenditure for productive facilities, in favor of production for immediate consumption by the general consuming public, and presumably by the Government.

This policy of cutting down capital investment is threaded all the way through the report of the President's Council. It becomes explicit on page 61, where the report says, and I quote [reading]:

> The foregoing analysis—

of investment requirements of different industries—

> suggests that the proportion of resources currently being devoted to productive facilities as a whole is somewhat higher than the level that will be required on a sustained basis over the next few years.

On the following page this report says, and I quote again:

> . . . more sustainable long-run patterns will require a relative decline [in private capital expenditure from 15 percent of the Nation's economic budget] to about 11 or 12 percent.

Again on page 71——

The CHAIRMAN. Now may I interrupt you there, Mr. Keezer. Why do you put the period in that sentence before the sentence concludes?

Mr. KEEZER. I would be glad to have it concluded.

The CHAIRMAN. Well, let me read it. [Reading:]

> The shift to more sustainable long-run patterns will require a relative decline to about 11 or 12 percent of the Nation's economic budget—

comma. You put a period there. The Economic Advisers proceed:

> though perhaps a moderate increase in absolute amounts.

Senator FLANDERS. That is inflation.

The CHAIRMAN. I am just talking about the objective method of presenting testimony.

Mr. KEEZER. I am saying—and I think I am correct in this; if not, I would be glad to be corrected—the purpose is clear to cut down the present proportion of investment in capital equipment. In further support, I would like to say that that is the position in this report of the testimony by Mr. Keyserling before this committee, referring to maladjustments. I have here a summary of legislative proposals to meet maladjustments. The second page of that summary, the fourth numeral:

> The fourth maladjustment in the current economic situation is that consumer expenditures or demand have dropped from 76 percent of the total output in 1929, and 75 percent in 1939, to only 70 percent in 1948. In contrast, gross private domestic investment has risen from 10 percent of total output in 1939 to 15.4 percent in 1948, the latter percentage being even higher than in 1929.

Now, I take it—and if I am wrong about this I would like to be corrected—that it is the policy advocated by the President's Council of Economic Advisers to cut down the present level of capital investment. I find it explicitly stated and testified to here.

Before being invited to this meeting I wrote to Chairman Nourse, hoping that we might discuss this with the Council before having public disagreement on this subject, [Reading:]

In my opinion your Council is wrong, dangerously wrong, in this conclusion: that as a Nation we are devoting too large a proportion of our resources to productive facilities.

Parenthetically, addressing myself specifically to Mr. Lincoln, how are we going to plan for abundance if we do not have the machinery and equipment to provide abundance? That is what has given us our abundance.

Returning to my letter to Chairman Nourse:

Many of my reasons for disagreeing with your conclusion about the level of expenditure for capital equipment are embedded in the results of a survey, business needs for new plant and equipment, which our Department of Economics recently completed. In brief, the results of this survey seem to me to indicate that relative to total investment in manufacturing, the rate of expenditure for new manufacturing facilities is low. Relative to need, the rate of investment in new industrial facilities is low. This appears to be the case, whether the need is measured by direct estimate of the financial requirements to put our industrial establishment in first-class condition, by estimates of prospective capacity requirements, or by the returns which our industrial corporations expect to get with the limited funds they have available for investment in plant and equipment.

Now, turning to some of the findings of that survey:

A few weeks ago American industry, as represented by manufacturing, mining, transportation, and utilities, planned to spend almost as much for new plant and equipment this year as it spent last year.

That is somewhere in the neighborhood of 14,000,000,000 dollars. That is not a forecast, that is a statement of planning.

If we continue to have prosperity American industry plans to spend very large sums. Our survey indicated about 55,000,000,000 dollars over a period of 5 years. There has been a general assumption that we were in an equipment boom, but once that was over we would have a collapse. There is no evidence that American industry does not plan to spend at a very high level, for some years, 5 years at least, for new plant and equipment.

We found industry shifting very rapidly from purchases of plant and equipment to expand capacity, to increasing industrial efficiency. Up to now it has been largely a matter of expansion. From now on, three-fourths of the expenditures would go for improvement.

We found there is a tremendous need for new industrial equipment. The survey supported the estimate that we might need 75 or 100 billion dollars to catch up for the lag and the years when there was no industrial equipment put into place.

We also found that most of the money is expected to come from profits. Three out of four of the manufacturing companies we surveyed will depend primarily on profits. A fifth of them reported that they would like to raise money by selling common stock, but only 9 percent thought they could.

Now, expanding further on the condition of our industrial plant, about two-thirds of the looms in the textile industry are more than 20 years old. Half of our coke ovens, which are basic to the iron and steel industry, are more than 20 years old. They are only about half as efficient as the modern coke oven.

Over half a million of our freight cars, which we understand is about a third of them, are more than 25 years old.

Senator MYERS. What was that last figure?

Mr. KEEZER. Half a million of the freight cars are over 25 years old. In 1945, when the last survey with which I am familiar was made, over half of the machine tools in place in this country were over 10 years old.

Mr. PATMAN. Mr. Chairman, could I interrupt just a moment?

The CHAIRMAN. Yes, indeed.

Mr. PATMAN. On this $55,000,000,000—I read your advertisement which contained all this information—it was astounding to me to think that three out of four would use profits for expansion. What chance has a small-business man, who borrows his money and pays interest on it, in competition with the concern that is using costless capital obtained from the consumers at no cost to him? Three out of four, I understand from your report, will obtain their capital in that way.

Mr. KEEZER. I don't understand, Congressman, the term "costless capital."

Mr. PATMAN. Well, it hasn't cost them anything. They just increased their prices to get their capital, and they get the capital from the consumer. That is costless capital, the way I view it, and I think Mr. Francis, before our committee one time, referred to it as costless capital.

Senator FLANDERS. I might remind you that he withdrew that term.

Mr. PATMAN. He did? Well, I am not withdrawing it.

Mr. KEEZER. I believe it is the history of industrial expansion in this country, Mr. Congressman, that right straight along from the beginning most of industrial expansion has taken place from profits, at all levels—big, little—it doesn't make any difference. My colleagues here who are more expert than I can correct me, but I believe that is the fact.

It certainly has been the fact within the last couple of years, I presume, combined with a good opportunity to sell things, combined with a desperately bad market in which to sell securities or common stock.

Mr. PATMAN. Well, doesn't that cause a bad market? The bad market is caused because the stockholders do not get the money they are entitled to. Last year, out of $20,700,000,000 in profits, after the payment of all taxes, instead of the stockholders getting 14,000,000,000 dollars plus as formerly, and as was customary before the war—instead of getting two-thirds, they are now getting one-third. So if these stockholders had gotten the customary two-thirds of the profits last year, they would have had money to invest in their own plants, in their own small businesses, or in securities of large concerns.

Mr. KEEZER. I personally do not believe that is true. But I know the only way to find it out would be for the corporations to pay out the profits, would it not? And having paid them out, if they were then gone and they had no market for securities, we would have a desperate situation in plant and equipment.

Mr. PATMAN. They would have a market, though. That $7,000,000,000 would be available for investment purposes.

Mr. KEEZER. Am I correct that that is an assumption rather than anything we can demonstrate?

Mr. PATMAN. Well, we had a market; when they used to pay out two-thirds there was a market for securities.

Senator FLANDERS. I would like to suggest, Mr. Patman, that if you pay it out to the stockholder and the stockholder reinvests—with a question mark on that—that the Government takes a second bite out of it and there is less to reinvest than there was if it was done directly. You get a double taxation on the investment funds instead of a single taxation.

Mr. PATMAN. Well, it will help the individuals because it is reducing the national debt by that much, we hope. It would help everybody concerned. Certainly the amount, after the payment of taxes, would be available for investment purposes.

Mr. KEEZER. Well, I state my judgment would be that there would not be a market for securities which would anywhere near compensate for the money which was gone, but we could never prove that unless we tried it.

Mr. Chairman, returning to this other point, and it is a comment essentially on what Mr. Lincoln said—how can we plan for abundance if we do not plan for greatly improved industrial facilities?

Now, the report of the Council of Economic Advisers, which I take it is the subject matter of this round table, very explicitly proposes and advocates a cutting down in the level of expenditures of private capital investment, at a time when it seems to me it is demonstrable that we have tremendous needs for capital investment. I would go so far as to say that the matter of national security could be involved by now saying that after 20 years of starvation of new plant and equipment, and with only a very short period in which to recoup some of that, we now turn to a policy of cutting down on capital investment.

This proposal, as I read it and translate it into figures, amounts to a cutting down of about $10,000,000,000 in private capital investment. I would submit that you cannot do that without endangering both our economy and endangering our national security. It is a fact, whether we like it or not, that capital investment and prosperity have gone hand in hand. Now, which is cause and which is effect is a matter that is arguable. This is the proposal to cut back capital investment, which I think is dangerous.

The CHAIRMAN. Thank you, Mr. Keezer. The temptation to the chairman to involve himself in the debate is very strong. But I shall restrain myself because Dr. Kaplan down at the end of the table has been striving for a long time to get the ear of the chairman.

Mr. SCHULTZ. Mr. Chairman——

The CHAIRMAN. Would you wait just a minute.

Mr. SCHULTZ. This is a question of order, really. I am sure a number of us are not going to have a chance for expression here if Mr. Keezer and others make long statements restating the position they stated yesterday. I think that matter of procedure has to be faced right now.

The CHAIRMAN. We will try to get back to the 5-minute rule.

Dr. Kaplan.

Mr. KAPLAN. Thank you, Mr. Chairman.

I would like to take advantage of this opportunity to speak to Mr. Lincoln's statement, at the same time incorporating with my own, which is not a formal statement, but a comment.

I think Mr. Lincoln has stated so well the state of mind upon which the presentation of the alternatives—"action or drift"—is based, that I do not know of anything which seems more important at this time than to ask ourselves whether we can do our best planning in an atmosphere of desperation, such as Mr. Lincoln's statement seems to imply.

I have no fear of the word "planning", and I do not see how we can operate either a business or a government without a plan. In view of what I am going to say later, I would like to make it clear that so far as my own background is concerned, I was in the ranks of those supporting the position that price controls should have a more orderly retreat; I felt that excess profits removal should have been more gradual; that we should have planned our surplus property disposal so as to fit more rapidly into the overcoming of postwar shortages in civilian supplies. So I am not afraid of the word "planning". But the idea of planning does not mean that we have to get public action on every letdown from a presumed standard of peak performance.

I am all for planning in the sense of having over-all policy, but I think that is quite different from the determination to lay on corrective machinery at each point of economic lapse. That new machinery may be crowding the other.

Just one illustration of that before my main statement. I was domiciled in Washington, the last time before this, in 1937; and I can recall how at that time the Government people were very much concerned over the fact that 1937 could not last. They were not used to a year of prosperity in the 1930's and the word got around that we were in for a bad drop very shortly. Hence, what we needed was to pile in all the machinery we could muster in order to stop that expected drop in 1937.

Now, on the basis of a good prediction they proceeded to make that prediction come true. They convinced the country that we were in for a fall; not only that, but they had available a list that outdid the list Congressman Rich read yesterday of the things that are coming up for action today. In order to make sure that we did not fall into the depression of 1938, there were brought into play the following measures, all within a short space of time. Some were already available and some were newly enacted. We had a large general relief program; we had a transient relief program; a rural rehabilitation program; a student-aid program; a new old-age assistance program; assistance for dependents and the blind; a Civilian Conservation Corps program; a Civil Works Administration program; a WPA program—in which I participated; a Bureau of Public Roads program; a Public Works Administration program; and the self-liquidating Reconstruction Finance Corporation projects.

The CHAIRMAN. May I interject there?

Mr. KAPLAN. Do you want to add to that list, Senator?

The CHAIRMAN. May I interject? I was here throughout that movement. I remember that it all began when the President sent to the Congress a budget in which he had reduced the expenditures of government, on the theory that the time had come to balance the budget. That was the recommendation.

But immediately after that recommendation had been made, and before Congress had passed the reduced appropriation bills, Members of the Senate and Members of the House belonging to both parties arose and said, "We cannot reduce the budget now; we have got to increase the spending," and it was done.

Mr. KAPLAN. I am very glad to have that go right alongside my own statement. In any event, if the public apparatus ever was piled on, it was piled on there, in 1937. But the thing that was missing was any increase in confidence resulting from that publicity given to the preparation for doom at a time when we probably did not have any inherent cause for proclaiming doom.

What happened, then, with these measures in full swing, was that our business activities nevertheless went down by one-third within a year thereafter; the Federal Reserve index of industrial production dropped from 121 in May 1937 to 81 in May 1938.

What I am pointing up is that while we are all agreed, I hope, that we need over-all planning or public policy, I cannot agree that piling on the public machinery at this time is going to achieve that confidence in business expectations which is the prerequisite for high employment prosperity in a private enterprise system.

Senator MYERS. Might I interject there, Mr. Kaplan?

Mr. KAPLAN. Yes, Senator.

Senator MYERS. Do you remember we were told that in 1946 and 1947, if we would just stop planning and remove some controls everything would take care of itself?

Mr. KAPLAN. I will come to that.

Senator MYERS. You remember that?

Mr. KAPLAN. I remember that very well.

Senator MYERS. Do you remember we were told by practically all of the witnesses who appeared before the committees of the Congress that it would guarantee more production, and prices would level off, and that within a month or two or three or four prices would fall below those levels of 1946 in many lines?

Mr. KAPLAN. I think in view of the monetary base and the nature of the budget that was a great deal to promise.

Senator MYERS. There were no strings attached to those predictions. We were told all we had to was to remove controls. There were no strings attached. We were not told that we had to do anything else.

Mr. KAPLAN. I agree with you. The question is not whether to abolish all planning or to abolish controls. We have a backlog of cushions and controls, from social security to installment sales. What I am going to lead up to is that what we need to plan for most right now is a continuation or a development of confidence in the future position—the confidence that we are standing on a solid base for consistent production. That may call, strangely enough, for more drifting than action at this stage. I would like to have an opportunity to develop that apparent paradox.

I cannot help but feel that our industries right now are in somewhat the position of babies in a nursery. They had been taking their bottles very fast, and suddenly some of them seem to have slowed up in their feeding, or stopped gaining weight, and the conscientious public nurses are worried about the fact. Should they try to force-feed more of the bottle as soon as there is a let-up? There is a time for letting the baby burp and get his digestion in order for the next intake.

I would like to do a little planning for new gains in weight by giving the baby a chance to burp.

Senator MYERS. Do you mean one burp, or constant burping?

Mr. KAPLAN. That is exactly the theme I was going to talk about. Paraphrasing the Senator's very pertinent question: Is it to be just one little burp, for better digestion, or a chronic hiccup which is going to emaciate the baby?

It is true that after the war we were subjected to a variety of group pressures, generally inflationary, which did not simplify the problem of an orderly postwar readjustment. But, strangely, the thing scaring us most is the fact that, on balance, we have fared so well in our domestic economic readjustment. We have not had that depression generally expected as the aftermath of war. We have not had the equivalent of the 1919 temporary let-up; we certainly have not had a 1921. Therefore an uneasiness persists that the set-back is long overdue.

Businessmen, as well as employees, feel that way especially where their own lines have softened. With the stock market at levels where some of the prime shares are selling for less than 10 times the earnings, there is obviously a general lack of confidence that the current business levels will be sustained.

But I do not think we are giving enough emphasis to the smoothness of our postwar reconversion, all things considered, regardless of what else we might have done and did not do.

The war concentrated our energies on military durable goods; the soft-goods lines were the ones that were most ready for civilian demand at the end of the war. We spent more than the normal share on nondurables, and pushed their dollar volume at a pace that could not be kept up once the durables became more available.

The softening in the nondurables is necessary in order to get them in balance with the durables. It was evident that by taking all the traffic would bear, a good many items would price themselves out of the market. And what is true of the markets for goods, also holds true, to a degree, in the market for labor. Some forms of labor did not get their share in the postwar advances; others got more than they are likely to keep when competitive costs and productivity must be closely figured.

The durable goods are keeping the economy firm at the present time, while overpriced foods, apparel, and other soft lines are settling. It is partly due to the fact that most durables were slower in getting into normal supply. It is due in part to the fact that the prices of basic durables were administered at levels well below what buyers were offering in the gray markets. The fact that the output in durables has required relatively more time to catch up with the heavy backlog of demand may prove in the light of history to have been a healthy thing, because we can still see a backlog of unfilled orders in those particular lines.

We are, then, in the process of making natural market adjustments of prices and production with wages and profits to sustain peacetime demand and employment. I therefore believe that if, right now, we go in heavily for piecemeal public intervention in that process of adjustment, to fit a particular blueprint for a standard business pattern, we would not be planning for sustained full employment. We would be planning for freezing an imbalance and that requires continuous deficit financing to keep it up; I doubt that the artificial props would hold up for long.

Though we are in a period of readjustment, we have not had a depression, because we have not had what the European economists call a conjuncture—their word for the converging of strains that create a business crisis. While over-stimulated lines have been taking their turn at meeting buyers' resistance to inflated costs and prices, others—notably in the area of durable goods—have moved in to increase their share of the total market—some with still rising costs and prices To illustrate the sequence:

Rubber goods were among the earliest to undergo postwar readjustment. The price peak there was reached in the fall of 1946. Now we have the phenomenon in tires and tubes that prices today are below the wartime ceilings, while production is almost double its prewar level.

Hides and leather goods reached their price peak before the end of 1947. Since the beginning of 1948, the raw material prices have tapered off by 10 percent, while shoes show the expected lag and have come down approximately 4 percent from their peak in February 1948.

Textiles had their sharpest rise in 1946, continued moderately upward in 1947, and hit their peak in April 1948; since then there has been a consistent gradual tapering off in both prices and production to find more stable demand levels. Paper and pulp went through 1948 with a slight increase over 1947 production, and with prices holding at a level roughly 8 percent above the 1947 average.

In steel the production index for the last quarter of 1948 was approximately 50 percent higher than the 1946 average, while prices have consistently gone up to a present level which is about 70 percent above the ceiling prices at the end of the war. Here supply has yet to catch up with the current backlog of demand.

We must expect that this adjustment to more tenable market patterns will be painful to those entrepreneurs and workers who cannot continue to sell their goods or services at the inflated prices they have enjoyed during the past few years, and who cannot bring down their costs to meet more normal conditions. Thus, among the 1,100,000 enterprisers who started new businesses since VE-day, we must expect, from past experience, that a large fraction will not make the grade and must give way to more efficient or more favorably situated competitors. In planning for competitive opportunity to small business we would not claim we were serving the economy if we embarked on a program of subsidizing the inefficient. The same principle applies to those workers who, under the stress of acute labor shortages, were upgraded to jobs which their skill or output has not justified. Social security recognizes the importance of cushioning their loss of earnings until they find their job level under less inflated conditions. Basically, however, mobility among workers, as in commodity areas, is essential for growing enterprise and maximum employment opportunity over the Nation as a whole.

No one knows better than the members of this committee that Congress must meet the fiscal issue of achieving a surplus, or at the very least a balanced budget, at the present high levels of production and employment. Right now a budgetary surplus could serve as a symbol of the strength of the American economy in its effort to facilitate economic rehabilitation abroad. That fiscal goal must needs be reconciled with our continuing interest in public welfare areas such as slum clearance, education, and optimum utilization in our natural resources. The two goals will be weighed one against the other as Congress seeks the best compromise.

But with respect to such selective, specific controls as are contemplated in H. R. 2756, the bill which has been submitted for consideration as a program for implementing the objective of high employment, I feel that it represents the kind of intervention in the competitive market which, on balance, would be a disservice rather than an aid to the healthy readjustment and growth of our postwar economy.

With all due respect to the high caliber of the professional work that has entered into the greater part of the Report of the Council of Economic Advisers, I am disturbed by some of the recommendations that have emanated from its analysis of our economic position. I cannot see that a convincing case has been made for the proposition that the inflationary dangers require the Government to move in on selected commodities in competitive markets to control prices; or that as a result of current high profits, the economy has been overstimulated on the side of capital formation, to be rectified by reducing the rate of capital formation to 11 or 12 percent of the national income. I would not go along with the proposed intervention of the Federal Government to expand capacity in commodity lines like steel because it happens that the industry and the investors therein do not see eye to eye with administration spokesmen on the size of the market that can be sustained for steel in the years ahead. The leading members of the steel or any other industry may prove wrong in their judgment as to whether they are increasing capacity at the highest feasible rate justifying the investment. If they prove wrong, competitors may move in on them from within or without the industry, as they did a generation ago; or in conceivable circumstances the Federal antitrust agencies may step in if restraint of competition becomes the cause of a lagging supply. But if the Government builds up additional capacity, and there is later no market demand for it, who will take the onus of the industry's losses in that case? Whose plants will be shut down—the private or the public? Whose stockholders and whose employees will take the ensuing loss of income and employment?

To legislate for selective price and production controls on individual commodities at this stage, with the enlarging problem of public wage adjustments which they imply, would seem to invite renewed drives by pressure groups to use the Government in furthering their own particular sectors of the general struggle for economic advantage. How it can be justified as planning for business confidence, continuing investment, and sustained high production in the private competitive enterprise areas of our economy, is difficult to understand.

The CHAIRMAN. Dr. Kaplan, do you agree with the statement made by Mr. Woodward yesterday that this social welfare legislation which was enacted during the past few years constitutes an insurance against a depression?

Mr. KAPLAN. I think it is an indispensable cushion and stabilizer.

The CHAIRMAN. Do you think the discussion currently going on in Congress and in the State Department about a North Atlantic Pact and the arming of the western nations of Europe, which can be done only at very considerable expense, should be taken into consideration by the government in determining its policy as to whether or not there should be a treasury surplus?

The recommendation before this committee, of course, is that we should have a treasury surplus. Can we, therefore, in planning, overlook this additional factor?

Mr. KAPLAN. Not only we cannot overlook it, but the thing I am very much afraid of is that unless we allow normal readjustments to continue now, we are going to have a slackening in some of the forward planning by private industry, which Mr. Keezer mentioned, and we may not collect enough funds out of productive earnings to carry some of our budgetary requirements.

The CHAIRMAN. Then do you recommend that the plans of the State of New York and of other States, for extensive public works or public housing; and the plans in the Congress of the United States for flood control, for reclamation, for public power, for public housing, should be abandoned?

Mr. KAPLAN. I think I went on record on that in the construction report prepared for the Special House Committee on Postwar Economic Policy. I feel that such a long-run program for growth should always be ready. We should always have a good pile of blueprints and plans far enough advanced for us to time those long-term programs in terms of our needs.

The CHAIRMAN. We have plans now, suggested from both sides of the Congress, both Democrats and Republicans, for public housing. We have plans for Federal aid to education.

Now, is it your recommendation to the committee that those plans should be put on the shelf at the present time?

Mr. KAPLAN. On the shelf in this sense: Not all projects are of equal urgency. The priorities of social urgency in housing must be considered along with our foreign and military commitments, and the whole lump weighed against the means for paying the bill.

The CHAIRMAN. Your recommendation to this committee is, therefore, that this committee should recommend to the Congress that we should presently abandon the program for public housing?

Mr. KAPLAN. No. That is not it. I was talking generally about the list of public works that you have suggested. I can be entirely consistent in saying that that should be a shelf for proper timing, and yet in the process of that timing I may well see that certain types of public housing are quite necessary here and now. That does not interfere either, with the general idea that we do not have to attempt to tie up the economy at this time, for fear our high-level economy is going to collapse.

The CHAIRMAN. I think that nobody around this table believes the economy is going to collapse.

Senator MYERS. If it is, we had better do something to prevent such a collapse.

Mr. KAPLAN. I am thinking in terms of the CEA report and some of the implications in it, plus the testimony that was given to the committee earlier this week. I am not sure whether they fear an inflation or a deflation; but there is a note of fear that if we do not move in and get prices at a certain level, get profits down from their excessive rates and get other features of the economy quickly straightened out, that we are going to have a collapse. That is the spirit of what I have been getting out of some of the recommendations that have been made to the committee. You want to know whether we ought to have action and quick action. · I would say of measures for stopping this terrible depression that is coming along, I do not see a Congress acting in that spirit, helping us very much at this time.

Senator MYERS. Dr. Kaplan, where in the Economic Report is it indicated that we are faced with a terrible depression?

Mr. KAPLAN. The Economic Report does not make that statement.

Senator MYERS. Well, you have. You indicate that the Administration or the Council of Economic Advisers has so announced to the American people.

Mr. KAPLAN. I am sorry we are not together on this thing. I plead guilty to having phrased my point carelessly, in this give-and-take across the table. The Council of Economic Advisors did not say we were faced with a terrible depression. So far as the report of the Council of Economic Advisers is concerned, I find it is like the Bible, you can quote it for almost any position.

Senator MYERS. I do not interpret it that way. I think it is a report which indicates that we may have a recession or we can have continued inflation; that there is some imbalance and what we have to do is to plan—if that is the word to use—plan wisely and plan slowly, if necessary, to maintain this high-level employment, this high level of production.

Mr. KAPLAN. I have been looking at Mr. Keyserling's statement and report of this committee; also, the declaration of policy and contents of H. R. 2756, to implement maximum employment. I get as the gist of it that the specter before us which we have to avoid is a depression, like the previous depression, and one of Mr. Keyserling's charts, has gone so far as to show us how great the depression may be.

Senator MYERS. No—he seeks to show how disastrous it could be. I think that is splendid. I think we should move, this committee, and the Congress, and business, should move to avoid a recession which might lead to such a disaster. That is our whole purpose. Not that it is imminent, but we should seek to avoid it.

Mr. KAPLAN. That term "move" is just too easy a term.

Senator MYERS. So is your term "to drift" too easy a term. You have indicated we should drift. They were the words you used. I marked them down. "We should have more drifting than acting."

Mr. KAPLAN. I put the word "drift" in quotes, as against the notion that we need at the present time to pile in special machinery such as adding to steel capacity by Government action, if necessary; or fixing, at this time, a percentage for capital formation in our gross product. The basis for that has not been proved to us, nor for getting prices fixed, some of them as floors and others as ceilings.

Senator MYERS. Where has that been recommended, that we have floors and ceilings?

Mr. KAPLAN. What about farm prices as to floors and maximum price standards proposed in H. R. 2756?

Senator MYERS. Are you opposed to the farm-support program?

Mr. KAPLAN. I am opposed to any program that assumes that one part of the economy must think only in terms of its minimum and another part of the economy must think only in terms of its maximum.

Senator MYERS. I think you are generalizing, Doctor. I would like a specific answer to a specific question. Are you opposed to the farm price-support program?

Mr. KAPLAN. I am not opposed to a support program against extreme declines. I am opposed to the support program that is going to fix farm prices at 90 percent of parity under the present levels.

Senator MYERS. Are you opposed to the present support program?

Mr. KAPLAN. Which one are you referring to?

Senator MYERS. The one now in effect.

Senator FLANDERS. The Aiken-Hope bill.

Mr. GAINSBRUGH. The Agricultural Act of 1948?

Senator MYERS. Yes.

Mr. KAPLAN. I am inclined to support that as a practical measure. I do not support it in logic or in theory, but as a practical measure I do support it. I think it is by far the most reasonable compromise you are going to get at this time.

Senator MYERS. Then why condemn a farm-support program generally if you support the program under which we are now operating? I think we generalize too much, Doctor. We should be much more specific.

Now what other machinery is there that you are opposed to, either existing machinery or new machinery?

Mr. KAPLAN. I am not opposed to existing machinery, I am opposed to the notion that we are doing so little at the present time that we ought to be piling in and inventing some additional things. That is what I am opposed to.

Senator MYERS. I think we are doing a great deal.

Mr. KAPLAN. Pardon?

Senator MYERS. I think we are doing a great deal right now.

Mr. KAPLAN. We are; and we have achieved a 50 percent increase in real income per capita since 1938. I don't think we need to force the pace on long-term programs, nor intervene with measures that may undermine business confidence in private investment, when we are carrying a heavy public debt and when we have this foreign program and the military program to take in stride.

I do not see the need for this urge to keep on doing more and more when the process of adjustment is taking a healthy, natural course.

Senator MYERS. I would prefer you to be specific on the "more and more." Maybe I would go along with some of those specifics.

Mr. KAPLAN. That seems to me to be the danger. The sponsor holds you to a specific item and asks, "Isn't this desirable"? But other specifics, also good in themselves, are likewise clamoring for consideration. How do they add up? Planning must deal with the total burden; and that is sobering when we give lip service to a competitive private enterprise system and contemplate one-fourth of the national income in the public budget.

You spoke about public works. Yes, I would say some public housing qualifies as necessary at once; but as for the others I would keep them on the shelf. You talk about a farm-support program; I would say farm supports should not be in terms of a rigid floor involving commitments for which there is no corresponding emergency.

Senator MYERS. A flexible program. I surmise you would support a flexible program?

Mr. KAPLAN. Exactly. That is all I am speaking to, that we ought to plan for flexibility here. I have heard very little among those who talk about planning as to flexibility.

Senator MYERS. It is my recollection that word was included in the present agricultural program, that the rigid support-price guaranties exist for about a year, and then the flexible long-term program becomes effective.

The CHAIRMAN. May I interrupt here to point up an issue which we should develop a little bit more. The discussion of Dr. Kaplan, and the discussion, I think, of everybody else around the table, brings a general agreement in principle that we ought to have a Treasury surplus. We can get a Treasury surplus in only two ways. We can get that surplus by increasing the receipts of the Government, or we can get it by abandoning programs which require expenditure of public funds. Several of the economists here object to getting the Treasury surplus by way of taxes. But when the suggestion is made as to which one of these spending programs—to use the current headline word—should be abandoned, then we find a little haziness of suggestion. Shall we abandon the farm-support price? Well, not any more than the 1948 Act, of course. Shall we abandon housing? Well, not any more than perhaps a minor suggestion.

So when it comes to an examination of social-welfare programs, public-works programs, armament programs, international programs, and the North Atlantic Pact, nobody says, "Let's abandon those programs and thereby create a Treasury surplus."

The difficulty that the Members of Congress must meet is that the demand for these programs which cost Government money comes from every quarter, regardless of political affiliation. So we are face to face with the question: How are we going to balance this budget?

Mr. Paul, let us have a word from you.

Mr. PAUL. Mr. Chairman, your remarks lead right into what I wanted to say.

You have suggested that we can only balance the budget or get a surplus by one of two means. One is to reduce expenditures and the other is to increase Government receipts. That brings us very logically to the question of how we may increase Government receipts. We can only do it, of course, by taxation.

When I talk about tax policy, I have two principles in mind. One of them was stated by the President in his budget message. He said that in a period of high prosperity it is not sound public policy for the Government to operate at a deficit.

The other principle can also be stated in the language of the President when he said in his economic report [reading]:

> The same dictates of prudent policy which call for higher taxes in a period of inflation, would call for tax adjustments designed to counteract any serious recessionary movement.

Now, if these two principles mean anything, they mean that our tax policy must depend upon developing economic conditions. We should have one tax policy for an inflationary period and a quite different tax policy for a deflationary period. A tax for use in high prosperity simply will not fit into a period of depression.

I listened with great interest to the testimony yesterday and this morning and the arguments submitted. They seem to come to a definite majority opinion, at least among the experts. One is that

1949 will not be much off the level of 1948. The second is that we should have a budget surplus. The third is that we should not impose additional corporate taxes because they might possibly affect the economy adversely.

Now, it seems to me it is time we had a dissenting opinion on that last one. It is perfectly clear to me that we must have additional taxes if we are going to achieve a budgetary surplus, in a time of high prosperity. We cannot have this surplus with no additional taxes, unless we are prepared to reduce expenditures very drastically.

I should add that I am not interested in curtailing corporate profits merely for the sake of curtailing corporate profits. I only want a budget surplus because we are in a period of high prosperity and because I believe it is sound public policy to have a surplus at that time.

Senator MYERS. If you cannot have it then, Mr. Paul, when can you ever have it?

Mr. PAUL. That is correct, Senator Myers. How, in addition, are we going to provide for a period when we probably will have to have a budgetary deficit, if we are going to provide, as we have provided in the past, for those who were suffering?

I want to call the attention of the committee to the fact that sources of additional taxation are not unlimited. Congress did a very good job during the war years in increasing taxes, and really almost exhausted the sources of taxation. If we are to have $4,000,000,000 of additional taxes now the principal source simply has to be corporate sources, which in 1948 went to a total of $34,000,000,000 before taxes, and $21,000,000,000 after taxes.

The only remaining question in my mind is the language of the economic report:

> Will additional corporate taxes of this magnitude unduly interfere with prospects for continued business expansion?

Another way of putting the question from the economic report is, "Whether we have a reasonable assurance that profits after taxes and dividends will be sufficient for investments and contingencies."

I think they will be. I base my conclusion on various statistics supplied by Mr. Keyserling in his statement before the committee on February 8.

I also base my conclusion on certain remarks made the day before yesterday by Dr. Clark, when he distinguished between what corporate executives say when they answer a poll and what they do. On the principle that actions speak louder than words, Dr. Clark said [reading]:

> Looking at what they [corporations] have done, we find that corporate profits of $21.8 billion before taxes, $12.8 billion after taxes in 1946, caused corporations to institute a tremendous campaign of investment in new plant equipment, and that corporate profits of $18 billion after taxes in 1947 was large enough to induce corporate managers to expend new investment in plant and equipment in 1948.

To Dr. Clark's statement should be added the thought that corporations have less working capital needs in 1949, because they have replenished inventories. If these figures are correct I see little remaining question about the propriety of additional corporate tax of about $3,000,000,000, assuming corporate profits remain at approximately the present level. This additional load, in my opinion, will not unduly interfere with the prospects for continued business expansion. It will leave plenty after taxes for investments and emergencies.

If we decide corporate taxes should be increased by the amount of $3,000,000,000, the next question is whether this tax should be put in the form of an increase in the corporate tax to a top rate of about 50 percent, or in the form of an excess-profits tax.

I would like to say for the record, I have not time under the 5-minute rule to go into my reasons for the recommendation, but I would like to say I would much prefer to see Congress enact an excess-profits tax.

There is only one argument that I would care to mention in that connection, and that is that there would be much more flexibility in an excess-profits tax, in that it would become automatically ineffective in a time of recession.

When I speak of an excess-profits tax I want to define my term. I do not mean a war excess-profits tax; I mean a tax which would exempt small corporations reasonably generously and a tax that would not reach a top rate of more than 65 percent.

In closing, I would like to join in the President's recommendation in favor of additional taxes on estates and gifts. The President called attention in this report to the fact that the already small yield of these taxes was reduced by one-third by the Revenue Act of 1948. I think the President's recommendation is firmly rooted in two persuasive premises.

The first is that we are very far short of tapping the estate and gift tax revenues which are available to us. The second is an estate and gift tax would have the virtue of raising revenue with a minimum effect upon incentive. I think the exemptions of the estate and gift taxes should be lowered and the rates increased. I think these two taxes should be integrated into a single transfer tax as proposed recently by the Treasury Department, and an outside advisory committee called in to discuss the problem with the Treasury Department. I think we have got to tackle some day one of the principal remaining loopholes of the estate tax which makes it possible to avoid the taxes through one or two generations by means of family trusts.

All this program I have suggested is based upon the premise that prosperity will continue at its present level. If we are forced to increase military expenditures and have inflation, I would recommend a supplementary program involving substantial social-security increases, and perhaps an increase in the lower income-tax brackets.

If we have deflation of any magnitude, obviously other methods are called for, including perhaps a slower increase in pay-roll taxes; perhaps a reduction in excises; a lower tax upon the middle and lower income-tax bracket; and perhaps also some incentive tax provisions designed to encourage investment.

All tax policy, may I say, must be based upon the best hypothesis available at the moment; the best hypothesis of the moment seems to me to be continued prosperity.

My recommendations for increased taxes are based upon that assumption with the hope that prosperity will continue, and the reservation that I would amend my recommendation, if necessary, to fit subsequent developments.

Mr. GINSBURG. Mr. Chairman.

The CHAIRMAN. Mr. Ginsburg.

Mr. GINSBURG. Mr. Chairman, Mr. Paul has just spoken to the matter of taxation. I have a word to add. I would like to do so at this point, if it is convenient.

The CHAIRMAN. Quite agreeable.

Mr. GINSBURG. First, Mr. Chairman, I would like to say that I share Mr. Paul's views and concur in the analysis he has made. From the tax viewpoint, the basic issue raised here in the discussion yesterday and today is an issue of flexibility: With the economic outlook as confused as it is, how can we increase the revenue to obtain a budget surplus and yet not increase the threat of excessive deflation? Mr. Paul has recommended one way, that is, the utilization of an excess-profits tax.

There is a second possibility which perhaps this committee will wish to consider.

I see no reason in the nature of things why it would not be completely possible to impose a conditional tax on corporate income, based on business experience, so that at any time within the first nine-month period, after the enactment of the tax, the tax would be automatically suspended in the event that some of the pessimism which has been expressed here yesterday and today, in fact, proves warranted.

For example: The tax might be suspended in the event that income payments drop, say, 1 percent a month for 3 months. It might be suspended in the event that unemployment increases to, say, a maximum of 4,000,000. It might be suspended in the event that production declines 1 percent a month over a limited period. Other economic criteria might be used so that the event could be forecast, and business plans could be made.

There is another possible source of income. I do not offer this as an alternative either to Mr. Paul's suggestion regarding an excess-profits tax or to the suggestion which I have just made. It has to do with the President's recommendation regarding estate taxes. Our death taxes today are based on a tax on estates. The basic notion behind it is the breaking up of large estates.

I suggest consideration of a tax not on estates, but on inheritance, so that the person who receives the inheritance pays the tax. He would be taxed not on the total estate received during any particular year, but would integrate it into his income tax and treat the inheritance as income over a period of years.

For example: An estate of $100,000 might be treated as a $10,000 addition to income by the beneficiary over a period of 10 years.

Studies were made, I understand, by the Treasury Department in 1945. On the figures utilized at that time, and accepting the 10-year period for the allocation of the estate as income, it was estimated, I believe, that the net addition to income would amount annually to as much, perhaps, as $20,000,000,000.

The net increase in revenue as of the time of that estimate was somewhere between three and a half and four billion dollars.

The CHAIRMAN. A consideration which cannot be overlooked with respect to inheritance taxes is the pressure it exerts on the owners of small businesses to sell out before the tax is likely to accrue, for fear that the members of the family would be unable to carry on the management. Small businesses which are managed and owned by the same individual have frequently been driven out of the economic scene and the large corporations in the same industry, which are managed by experts and owned by others, have expanded as a result.

Mr. GINSBURG. I agree, Mr. Chairman. I believe that the suggestion of treating estates as income over a period of years, would meet the objection which you have indicated.

I have other observations to make on different subjects, but I would prefer to keep the record clear on the tax problem at this point.

The CHAIRMAN. We will proceed.

Suppose we go to Mr. Theodore W. Schultz.

Mr. SCHULTZ. My comments will be in two parts: One, an appraisal of what the evidence that we have been over seems to mean, and the other specifically on agriculture.

On the first, let me start with Mr. Clark's statement and quote the following [reading]:

> that the postwar inflationary forces are still strong and probably will become more active in the near future, requiring the provision of measures now to curb spiraling prices.

Obviously by definition, inflation is bad. I would observe that the Council was correct a year ago, and earlier. The Council may also be correct at this time.

Mr. Clark goes on and makes this proviso:

> It will be April before we will know whether a real decline has set in.

At that time, says Mr. Clark, we will be able to observe the effect of the increase in agricultural employment that comes seasonally at that time; the inflationary effect of increased Government spending and the effect of there being no Treasury surplus.

And then he says we need four billion of extra taxes.

Now, yesterday what was said by and large around this table was as follows: That the postwar inflationary forces have spent themselves; prices are leveling off; a buyer's market is rapidly becoming general, and that there are some deflationary signs. If measures are taken now to curb inflation they would be exceedingly harmful, but the deflationary forces are not sufficient to justify measures of the opposite type.

This is really the dilemma presented to this committee by the two sets of beliefs and evidences.

Now, on the business analysts—and I will say this particularly for the spokesmen of business—they were certainly wrong on inflation in 1947 and in 1948. They may, however, be right this time. One does not want to rule out that possibility.

I would make two remarks on these two sets of evidence. First, it is clear to me that most business analysts believe that the Council has put the extra four billion of tax as first and foremost and has come to its inflationary thesis to justify the particular taxation objective. If we could get that in the open we might have gone much further, I think.

I would say on that, however, I see no evidence of this bias in the published Annual Economic Review that was put to the President. I read it carefully again this morning. It undoubtedly can be read into the testimony made by two members of the Council to this committee, but certainly I cannot find it in the written document of the Council.

Now it appears to me, at least as I sat here yesterday and today, that the opposite thesis, which was being presented to the effect that prices will level off and that there may be a substantial weakening of business, may be a coloration to head off the $4,000,000,000 taxes.

Here, too, I think it would be wise—to put it the other way, it would be unfortunate—if the insights given to us yesterday were put off because of this coloration. The insights that were given should nevertheless be taken into account.

What does this mean? For me it has this one basic policy implication; that is, that as of February this year we are confronted with sufficient uncertainty as to what lies ahead that you cannot safely decide whether you are dealing for the next 6, 7, 8, or 9 months with an inflationary set of forces, or something less than that in terms of the pressure on the economy. I think it simply means a general policy approach that is covered by the word "flexibility" and already touched upon in comments here this morning.

Measures of a kind that Mr. Ginsberg touched upon, related to unemployment, prices, and production, are the ones to which I would appeal. By April we should know. The Council says that, and I think most people around here would feel that we may again in this February be in somewhat the same situation we were in last February, when everybody had the jitters after the grain markets broke. We are in that kind of a position today, particularly on the part of people who are close to the trade decisions from day to day.

Now, with that, let me turn to agriculture. But I want to hasten to say that I do not speak for agriculture. I am not in that enviable position at all. From that point of view you have heard Mr. Lincoln this morning, and you plan to continue tomorrow and listen to representatives of agriculture, industry, and labor.

My comments can be put very briefly:

1. In prices, you had your first big drop last February, February 1948. It was largely in grains. Why it occurred, we do not know. This is the point I put to Mr. Bradford Smith yesterday. It ought to disturb us in the sense that it is that kind of an event which may upset a large proportion of the economy and we do not know quite what starts it.

Is it in the speculative mechanism? Can we get into the kind of expectations that set this off? It was a pretty serious and drastic matter, particularly when you look at the fact that virtually all of the price decline disappeared in the course of the next several months. By July, farm prices, on the average, were practically as high as they had been in January. They dropped 28 points and went up 22, to be exact.

The second drop in farm prices, which was important and constructive, and which really added to the strength of the economy, started in August. It started for the reason Mr. Smith indicated, that the crops began to appear large and became very abundant. This has added strength and balance to the economy as a whole, and in the main has had nothing but good effects on agriculture itself.

The third drop is in prospect this fall in meats. That may become quite important, and it may become serious, because it will be the first test, if it comes early, for the price-support program which "protects" agriculture, which will not be able to operate, because meats are perishables.

The whole agriculture program for perishables is vulnerable, despite the belief that the price supports are a general safeguard.

Now, beyond that, I do not want to say anything more about prices because I am merely really reporting history, except in the third, and it is really history in the main, particularly because of the large feed supply and its effects on pork and poultry, although beef is going down for several reasons, one of which being the losses this winter.

2. On production, the testimony of Secretary Brannan is accurate and adequate. It can be summarized by saying: In agriculture production is going to stay very large, even if we were to experience a drastic drop in farm prices. Acreage is at a record level, notably for cotton and wheat; fertilizer is quite abundant and available; machinery is becoming more easily available, and the feed supply is at record levels for livestock expansion.

This agricultural sector of the economy in terms of real goods is not going to let us down. It is not going to do what the industrial economy may do at some future date. This is one of the characteristics of agriculture, as I am sure everybody around this table knows.

Agricultural production is not subject to the cycle disease in the sense that production goes off quickly and rapidly 20 or 30 percent in a few months as business has had a tendency to do. That type of thing simply does not happen in farming unless nature imposes its hand in drought, or some other natural calamity.

3. In employment, you have this picture: In the broad farm people stay at work, unemployment does not occur. But there is another matter that I consider important. The stage is now set in American agriculture for another large migration of people out. You had it during the war when it ran into millions. It was a healthy development.

If in April it were to occur, as the Council predicts, that the economy becomes tight so that there is relatively little unemployment; and with farm prices having dropped as much as they have; and with new technology, new farm machinery becoming readily available as they now are; and very important, if housing improves in the cities; we will then begin to see a very considerable movement of people out of agriculture. In 3 years this migration may run all the way up to 3 or 4 million people.

Now, again, if it can take place under these advantageous conditions, it would be desirable for the American economy. This exodus would come this time very largely out of those parts of agriculture which have not been blessed with the size of farms, type of farm organization, and the kinds of farm machinery that have become so common in most of the Plains States and in the Corn Belt proper.

4. As to purchasing power, the gross farm income is in process of falling. The net income is falling more rapidly. The squeeze between cost and revenue is on and at some points it is going to become serious. You will hear a lot about the high cost of marketing in the months ahead. Some of it has to be taken seriously. I suspect this is an aspect of the matter on which Mr. Lincoln touched in his comments this morning.

The scissors are there and they will cut, especially if exports were to decline sharply, which would throw the imbalance into certain parts of agriculture. Yet, basically the agricultural economy was never stronger. Even if the farm income were to decline 15 percent or more this year, as now seems probable, farmers will be in a strong financial position. They have very considerable liquidity, they have improved their machinery and the size of their farms, and thus have increased their over-all efficiency. It has been a very remarkable development. I suspect never in American history, certainly not during the very good times from 1909 to 1910, has American agriculture been so strong an economic sector of the American economy as it is today.

The CHAIRMAN. Let me interrupt at that point. Before he left, Mr. Lincoln asked me to get into the record on his behalf these figures from the testimony of Mr. Keyserling, namely, that in the period of 1935–39, the per capita net income of persons on the farm was $243 for farm individuals, and $603 for nonfarm individuals; that in 1948 the estimated net per capita income of persons on the farm had risen to $909, whereas the per capita net income for persons not on the farm had risen to $1,569. So that the disproportion between the income of the farmer and the person not on the farm has continued, but the disparity apparently is not as great as it was.

Mr. SCHULTZ. The income of farm people per capita during 1948 was a little less than 60 percent that of nonfarm people—that is what these figures show—the difference will become greater during 1949, the disparity will be broadened again. Here we have one of the factors that will bring about pressure for migration out of agriculture.

I will close by putting to you what I consider the three main issues affecting agriculture that Congress will have to decide.

1. Will Congress decide to support farm prices in 1950 at a flat 90 percent of so-called parity, or at some flexible rate based on size of crops and on accumulated carry-overs? That will be a controversial issue affecting economic policy. It has a major bearing on all of the economy.

The Council, in its published report on pages 47 and 49, takes a firm position on this issue. In the main, I find myself concurring with what they have put down but I do not see that it is my duty here this morning to argue where you ought to come out on this issue. Certainly your time does not permit it. It may well be that within these three areas you ought to do some special work to get your bearings in addition to the work being done by the Agriculture Committees and by others.

2. How will Congress deal with those farm products for which foreign requirements have been so extraordinarily large, and for which the demand may drop drastically in the near future? Will Congress act to adjust supplies by crop restrictions, or by dumping such products abroad, or by other measures? What is done may have a very serious impact on our international trade policy, and on the way we use our resources.

Senator DOUGLAS. What crops are those?

Mr. SCHULTZ. Wheat, cotton, dried fruits, oils are going to be affected somewhat. Those are the main ones.

Senator DOUGLAS. Tobacco?

Mr. SCHULTZ. Tobacco less so.

3. And lastly, in the event—and this I hope will not occur—that the industrial sector of the economy cuts output sharply; if we really have a turn down in industrial production, and a large increase in unemployment, and that drop comes to mean 3, 4, 5 or more

million unemployed, and agriculture stays on the job at that point how will you deal with agriculture? I submit you cannot deal with it with your present policy, namely, by restricting output or by piling up food to hold up farm prices under those circumstances.

That is not the way to give some minimum-income insurance to farmers. The foodstuff has to go to consumers even if we have—and I should say particularly we have—a depression of any major sorts. All I am saying is that we have not thought our way through such a situation because our present agriculture policy at that point would break down. We would either pile up food or we would start restricting production. Neither of those two approaches can be defended in a really deep depression. I am sure that is true.

The CHAIRMAN. Thank you very much, Mr. Schultz.

Now, since we have postponed questioning, as agreed, we will proceed with Mr. Blough.

Mr. BLOUGH. Mr. Chairman, it seems to me the major problem of the Council of Economic Advisers and this committee is the long-run stability of American industry after the postwar prosperity is over. Major adjustment undoubtedly will be postponed for several years, but when it comes, as was suggested yesterday, it may be of very large proportions. It seems to me a large part of the work of the Council should be devoted to studying what ought to be done at that time. I do not think there is any point in my going now into the fiscal policies that would be appropriate for such a contingency.

I would say this, however: I would like to see as much fiscal ammunition as possible preserved and not dissipated on minor reductions in business levels. Now, to turn to the current situation, uncertainty seems to be the keynote of what we have heard here yesterday and today. Uncertainty with a general agreement that the probabilities are for a settling down and leveling out, but with some prospects of of inflation and some prospects of depression.

In this situation perhaps the principal political problem likely to arise is whether there will be a tax increase in 1949. I would like to devote a few minutes to the question of whether there ought to be a tax increase in 1949.

We have had a curious reversal of position on deficit spending. Both the business community and the administration are in favor of balanced budgets and they were in favor of balanced budgets in the 1930's. But in the 1930's, the administration was more interested in some other things than it was in balanced budgets, and we did not get balanced budgets. The business community was very critical about it.

At the present time, both the business community and the administration want a balanced budget, but the business community wants something else more than it wants a balanced budget, namely, tax reduction, to keep what they have received, and get more when they can.

I conclude from some remarks made here yesterday, and particularly from comments appearing in the press, that the business community would rather risk a deficit than have any tax increases, especially any tax increases on them.

In a situation of uncertainty it is very important that we be in a strong fiscal position. Our Federal finances have an inflationary bias. The general view has been: Do everything to stop deflation or any possibility of deflation; do nothing to stop inflation, because that might interfere with prosperity.

We have a large budget, an extremely large budget. I believe it has been demonstrated that a large budget has an inflationary effect, even though every dollar is paid for through taxes; that it will require a surplus just to offset the inflationary effects of a very large budget.

We have guaranteed loans under Federal legislation which are inflationary in character. We have had and have now an easy-money policy, which is inflationary in character, or at least is protection against deflation; certainly there is nothing in our money policy which sets a limit to the inflationary movement if it should take place.

As a matter of fact, taxation is about the only available anti-inflationary measure that we have in our kit of implements at the present time. Our debt is of such size that debt-management considerations limit us in using banking and credit instruments for anti-inflation purposes.

Now, taxes are a one-way street. We saw that last year and we see it this year. It is easy to lower them and it is hard to raise them. You are in little danger of getting taxes too high on the business community, or anybody else, because you can always take them off and take them off fast if there is an agreement that the situation requires it.

Quite aside from the question "Do we need taxation for inflation control or as an anti-inflationary measure?" to which I have just spoken, there is not the slighest justification for a deficit in revenues when business levels are high, as they are today.

I agree with those people who have said that the business economy is not like a house of cards that is going to collapse at any puff of wind. It has substantial foundations. The forces which I think may lead to collapse are some years in the future and not likely to come into effect now.

So my conclusion is that it would be desirable to set in motion the machinery for getting a tax increase. Of course, if we do run into this unexpected depression we do not want to increase taxes in the face of drastically declining economic levels. That is not what we face now. We are at a very high level of employment, a very high level of income, a very high level of corporate profits. We are afraid of what may happen, but it has not happened yet.

I recall that in the fall of 1945 it was said everything was going to collapse. I recall that in the spring of 1946 one of our New York financial journals put on almost a one-man campaign—this was while price controls were up for consideration, I might say—put on almost a one-man campaign to show that the depression was here then. We know what happened afterward, and we know what happened in 1947 and 1948.

It has been suggested that perhaps the depression will come now. I doubt it. I lean to the view that there will be a leveling off; I think that is the most likely prospect. And it seems to me if the leveling off does happen it is still a time when we ought to have tax increases.

Now, I have talked for 5 minutes and will stop. It seemed to me more important to consider the general question of tax increases than to go into the question of the forms which they should take.

Today the opposition is to an increase in corporate taxes. No doubt that is because corporate taxes have been suggested as the method. Last year the whole story was of the effect that the individual income tax has on investment. Then it was the individual who was putting his money into business; he was the one who had to be protected, and he was the one who had to have the tax reduction.

Well, the strategy, of course, has to be adjusted to the situation.

The CHAIRMAN. We did hear objections to reduction of taxes.

Senator MYERS. I was very much interested in your reference to the one-man campaign. Do you remember the 1- or 5- or 10-man campaigns put on during the last 15 years that America was going down the road to socialism and communism?

Mr. BLOUGH. Yes, sir; I do.

Senator MYERS. Did you see the campaign being put on now, "Now is the time to fight socialism in Washington?"

Mr. BLOUGH. I did not see that.

Senator MYERS. Didn't you see that?

Mr. BLOUGH. Not yet.

Senator MYERS. That appeared in this morning's paper sponsored by McGraw-Hill today.

It seems to me, Mr. Chairman, if the Communists, or if Henry Wallace, had won in November, there would have been some justification for this type of alarm-spreading and bunkum, but today it is outright propaganda. It is warfare against any reasonable effort to keep our system of free enterprise working.

I do not know whether this advertisement was designed to influence these hearings, whether it was written in view of these hearings, but I think it is about time we have less of this kind of bunkum and propaganda and get down to work, all of us, and try to safeguard this economy of ours.

Last evening I listened to a speech for 20 minutes. The speaker devoted his first 15 minutes to the thesis that we are being led down the road to socialism. The last 5 minutes were devoted to an analysis of our greatness—our prosperity and our bright future.

But for the first 15 minutes of that speech you would think we were really in the depths of a depression, that everybody was losing money, and most of our people were out of work.

Really, Mr. Chairman, I cannot see the reason for this kind of an advertisement; it is not based on the President's recommendations or on the Economic Report of the President, or on the testimony that was presented to us by the Council of Economic Advisers.

Mr. GAINSBRUGH. Mr. Chairman.

The CHAIRMAN. Mr. Gainsbrugh.

Mr. GAINSBRUGH. May I have just a minute.

Mr. Blough spoke about this one-way street on taxation, saying taxes are easy to lower and hard to raise. I think he and I would collide on this one-way street in terms of the direction.

I would like to offer for the record the history of total tax revenues as a percentage of national income.

In 1914 taxes took 7.1 percent of our national income. In 1929, 11.2 percent. In 1939, 17.2 percent. Currently, about 25 percent of our national income, and in prospect, as much as 30 percent of our national income.

The direction on this one-way street is ever upward not downward.

The CHAIRMAN. Mr. Calhoun. You are one who has not as yet made his original presentation.

Mr. CALHOUN. Mr. Chairman, the information so far made available as to the administration's social-security program is so limited as to preclude any informed description of the proposal. We have been advised that the program includes a liberalization of benefits under the existing contributory systems, the addition of contributory systems of permanent and temporary disability insurance, and of prepaid medical care, a program of subsidizing medical school costs, hospital construction, and so forth, and an expansion of the Federal grant-in-aid programs for the needy aged, dependent children and blind, so as to include all needy, regardless of age or disability. Mr. Ewing has also advised that both under the present programs and under the proposed expansions much more will be collected in pay-roll taxes than will be expended in 1950, and that the excess of taxes over expenditures will be much larger under the expanded program.

However, we lack information as to the limitations which are proposed to be placed on these several programs, the benefit formulae which would be applied, the effective dates when benefits would be disbursed initially, the magnitude of these benefits at various stages, the extent they would be supported by pay-roll taxes, the effective dates of the taxes, and the rate schedules. Accordingly it would be difficult to make any present appraisal as to either the short range or long range economic aspects of the proposed health and welfare programs.

Under the circumstances, and in view of the shortness of the available time, my comments will be limited to certain fiscal aspects of part of the program—old-age and survivors insurance.

From the discussion of the economic report it seems important to have a cash surplus in the Treasury at the present time. One way to get money into the Treasury is general taxes, and an increase in some general taxes is proposed.

Another way of getting it in is through the sale of bonds. Then the money that is put in today must be later repaid pursuant to promises made the lenders. A third method is the so-called contributory social insurance where benefits are promised in return for tax payments. The benefit promises already made, and the liberalized promises that will be made, if there is a liberalization in benefits, would justify a great increase in pay-roll taxes. If these taxes were increased to equal what the insurance people call a level premium, this would bring in additional billions in pay-roll taxes.

A tremendously important question is: How much more benefits are we going to promise as a justification for additional pay-roll taxes? What are going to be our pay-roll tax receipts and what will be our benefit disbursements?

We do not know at this time exactly what is proposed. We can describe the general nature of the old age and survivors' insurance benefit promises and the general nature of the supporting taxes. There have been cost estimates but these can reasonably vary broadly as to what the benefits will cost. There is one thing which everybody agrees on today, that is, that the level premium for paying for the promises that have already been made will be at least two or three times the present pay-roll rate; and if these promises are greatly liberalized we can expect that sooner or later the required pay-roll tax will be so large that it will substantially reduce the money which the wage earner might otherwise spend or invest. I shall not discuss what we need by way of benefits. Perhaps this issue will be settled despite purely fiscal considerations. I am merely making the point that the benefit promises already made and in prospect for old-age and survivors insurance alone would justify as large a pay-roll tax as I believe it is likely the people or the Government would want or expect.

Such an increased tax, if presently put into effect, would, incidentally, result in a tremendous cash surplus in the Treasury, for today's expenditures are only a fraction of the amounts which will be spent annually later on, and the increased tax would bring in revenues anticipatory to these expenditures. There is, of course, a basic question as to how much of the national debt should, in effect, be paid off through pay-roll taxes as a hedge, so to speak, against tomorrow's obligation to sell bonds or raise other taxes in order to keep the social-security benefit commitments.

Mr. HERTER. Might I ask one question?

The CHAIRMAN. Certainly.

Mr. HERTER. Assuming that we carry on the way we are without taking the premium payments, so to speak, on an actuarial basis, what do your estimates show by 1980 the current cost of carrying on old age and survivors' benefits would be?

Mr. CALHOUN. The actuaries are in rather general agreement, I think, that the range of cost depends very considerably on the level of prosperity and certain other factors. So they always make what they call high-cost estimates and low-cost estimates.

Now, the estimates we had in 1946, when we were making a study for the Ways and Means Committee, indicated that under the benefit provisions in effect at that time, and still in effect, assuming no change in coverage, costs in terms of annual pay roll might be as much as 10 percent in 1980.

If we liberalize our old age and survivors' insurance benefits, the timing of the increased spending depends on the formula. A formula can pay more today and no more in the distant future than the present formula. But if you assume that we adopt a formula liberal enough to make certain that every man is going to receive benefits that have a commercial value of all he had paid in, then you are going to pay very high benefits later on to those who have contributed over a period of 30 or 40 years.

With our present rates, no employee has contributed enough to buy even the minimum $10 annuity. If we pay millions of people large benefits, and it takes, say, 5 percent of pay roll on a level premium basis, then you will have to collect that 5 percent now, or collect much higher rates later on.

The system is so framed to favor the low-wage earner. For example, if a person's average wage in covered employment is $50 per month he gets a benefit of half as much as a man who had an average wage of $250 and contributed five times as much. Because of shifts between covered and uncovered jobs many high wage earners have a low average wage for social security purposes and thus receive favored treatment of low wage earners. From the viewpoint of the steady contributor at a fairly substantial wage, this results in his largely supporting the system but getting less in proportion to his contributions than the in-and-out contributor.

Senator DOUGLAS. Might I ask Mr. Calhoun a question?

The CHAIRMAN. Senator Douglas.

Senator DOUGLAS. On these computations with the present rates of benefits and with the present contributions, one percent by each side, when would the reserve, or old-age annuities which now amount, I believe, to about 7½ or 8 billions be exhausted?

Mr. CALHOUN. As I remember—and this is subject to correction in the record because it has been a little while since then—my offhand reaction is that annual costs will probably exceed annual taxes in 6 or 8 years if the present benefit formula and the present 2 percent overall rate of contributions is retained. The deficit between income and outgo would then increase rather rapidly because the rolls of beneficiaries would continue to expand and the average benefit payments would also increase in amount.

I think if we stood by the present rates, the present eligibility and the present benefit formula, it probably would be something like 20 years from now before the reserve would be entirely exhausted. But to keep the system going after that the immediate rate would probably have to be about 5 percent and then the rate would have to go on up rather rapidly, because the annual disbursements would continue to mount rapidly.

Mr. HERTER. May I add a word? I think Mr. Ewing's testimony before this committee was that the 11 billion dollar surplus would be exhausted in a 7-year period.

Mr. CALHOUN. I think, sir, he was talking about the proposed liberalized benefits.

Mr. HERTER. The liberalized benefits possibly, but he was providing for additional taxes at the same time, running about 1,700,000,000 a year.

Mr. CALHOUN. Well, you have to evaluate Mr. Ewing's testimony, I think, in the light of the very broad proposed liberalizations and the extension of coverage. Now, the short-run effect, and when I say short-run, I mean within the next 5 or 10 years, the short-run effect of that broad coverage expansion with liberalized eligibility for benefits and larger benefits is that the amounts paid out during that period may be tremendous, compared to the amounts paid out over this period if no changes are made in the system.

Of course, the long-run effect also is that you pay out a lot more. But in terms of pay-roll tax, the over-all cost in the long-run will be less if all gainful employment is covered, than it would be if the present two out of five jobs are not covered. The reason is fairly simple.

A large number of persons are in covered employment at one period and in uncovered employment at another period. An individual in a covered job only part of the time may end up as the $50 man that I referred to a while ago. In fact he may be a $200 or $250 per month man who has had a covered job only a fourth or a fifth of the time. He may get half as much benefit as he would have received if he had been in covered work all of the time and contributing all of the time. If all jobs were covered this type of situation would disappear.

Senator DOUGLAS. Isn't that an argument for broadening the coverage?

Mr. CALHOUN. I think, sir, that is one of the several arguments for broadening. I think there are important reasons for broadening it, in addition to the fiscal effect.

For example, under the existing system, depending on how fortunate they are in their length of coverage, the program is a lottery for a great many people. They will get benefits all out of line with contributions if the just meet the minimum requirements; they get no benefits at all if they fail to meet those minimum coverage requirements. In a tremendous number of cases no benefits at all will be payable though fairly substantial contributions have been made.

The CHAIRMAN. The last person who has not been heard on the subject matter which occasioned his invitation is Mr. Ginsburg. We will now hear from him.

Mr. GINSBURG. Mr.. Chairman, I am presumably to address myself to the matter of direct controls, and particularly those direct controls which are contained in titles 3 and 4 of the bill which has been introduced in the House, that is, H. R. 2756. These titles deal particularly with matters pertaining to allocations, price control, and wage control. Time is running short, and I should appreciate an opportunity to supplement my remarks by a statement to be included in the record.

At the outset, however, I want to indicate clearly that I strongly endorse the principles and objectives of stand-by controls embodied in these two titles.

The CHAIRMAN. Let me say at this point; the chair will invite all participants to supplement their remarks with brief written statements which, of course, will have to be presented before Wednesday of next week, if the committee is to consider them within the time limit contained in the law which requires us to make our report on March 1.[1]

Mr. GINSBURG. Mr. Chairman, there may be real debate on the recommendations regarding increased taxes, in the sense that that represents a positive act. But what we are talking about in these two titles, in titles 3 and 4, is not a positive legislative act but insurance. So far as the possible need is concerned that need has been dramatically shown in testimony already before this committee. The increase in iron and steel since December of last year, using 1946 as a base of 100 is from 100 to about 150; zinc, 209; lead, 262; farm machinery, 139. These are peculiarly prices which are also costs and make themselves felt throughout the economy.

To deny the Government the right to protect itself and the people of the country by denying stand-by controls and insurance of this kind would be to jeopardize the economy without reason for the default. I urge great caution in the exercise of these controls, but I also urge action.

Mr. Chairman, I have certain suggestions which may go to matters of principle and others which bear on draftsmanship. Basically, I am inclined to feel that the specific proposals are perhaps too encouraging, but this I presume is a matter which should be considered with the particular committees which will consider the actual legislation.

The CHAIRMAN. That is correct.

Mr. GINSBURG. With respect to one matter of principle, however, I should have thought it possible, Mr. Chairman, to have tied selective price control and allocations together. If we learned one lesson during the period of controls during the war, it was that control over price and

[1] The supplementary statements submitted appear at the end of the round-table discussions, pp. 637 to 673.

control over supply should be coupled. The economic conditions which give rise to the need for one also call for the other.

I therefore hope that when the Banking and Currency Committee comes to consider this matter, it will be possible to find some way to tie these two things together. Beyond that, as I have stated, the legislation in its present form looks broad. That problem can easily be met when the legislation is in fact being drawn. The basic principle however, the principle of selective stand-by control, of insurance against particularly dangerous price rises seems to me to be completely sound.

Thank you.

The CHAIRMAN. I did not mean to stop you.

Mr. GINSBURG. Mr. Chairman, I see the time is 12:30, and we have approached the time when you indicated——

The CHAIRMAN. Not quite. We will go on for a few more minutes Did you want to add another sentence or two?

Mr. GINSBURG. I should like to add one point which goes beyond the scope of this bill.

Mr. Chairman, we have spoken in terms of fiscal policy and the need for increased taxation. We have also talked in terms of certain direct controls. I do not believe, Mr. Chairman, that these questions alone go to the root of the matter.

I had hoped that the Council itself would make recommendations to this committee and to the Congress regarding the problem of economic concentration which underlies much of what we have been talking about. We shall never be able to describe an act as an "Economic Stability Act" and describe it truthfully, unless in fact we deal with this larger issue.

The CHAIRMAN. Some day we will have to answer the question whether we want to see industry continue to concentrate, so that eventually government will have to take over, or whether we are courageous enough to stop the concentration of industry and maintain what we call a free enterprise system.

Mr. Woodward.

Mr. WOODWARD. Mr. Chairman, I had only one short statement regarding taxation. The day before yesterday Mr. Clark, in his testimony, indicated that the problem of equity capital constituted no reason for not raising taxes. He said, and I will just read a few sentences [reading]:

> Nor is there any reason to be concerned about the dangers of debt capital. The dogma which arose more than a century ago when interest rates were high, renewal or substitution of loans at maturity if times were hard was seldom accomplished, and bankruptcy was rigorously imposed upon default, has little validity in these days when interest rates are very low, many credit openings are arranged for cases of hardship, and defaults seldom lead to dissolution but only to reorganization of going enterprises. The business world itself no longer believes this dogma about the virtue of equity capital and the vice of debt capital. The most distinguished names in American finance are found in the lists of directors of the great insurance companies, whose funds must be administered with the caution and prudence imposed upon the guardian of trust accounts and must be placed in investments which are not expected to default. These funds have been and are now the sources of the most spectacular debt financing in multi-million dollar terms. No one will believe that the insurance directors who make the loans believe that they are assisting the borrowing corporation to place itself in jeopardy or that on account of the loan it may be forced into trouble or be threatened with liquidation in a period of business depression.

That is the end of the quotation.

That statement represents a very considerable misapprehension of the position of some of us in the insurance business. Equity is very important, and we are very concerned, some of us, with the lack of equity and very concerned because inadequate equity prevents us from doing financing that we would otherwise like to do. I did want to correct the statement in that regard, since it purports to state the position for the insurance business.

The CHAIRMAN. Is it not a fact, Mr. Woodward, that there has been considerable agitation in the center of insurance regulation, namely, New York State, regarding private placement of loans by the insurance companies?

Mr. WOODWARD. There has been a great deal of discussion on it; yes, sir.

The CHAIRMAN. The New York State legislative committee on insurance held a hearing which was largely based upon that very issue, is that correct?

Mr. WOODWARD. Yes; the hearing covered that, but it covered a good many other things.

The CHAIRMAN. May I say, in passing, that I was very much impressed on reading the statement that was made to that hearing by the president of the Metropolitan Life Insurance Co., that, as I recall it, of the $37,000,000,000 worth of insurance carried by that company—the largest of all insurance companies—some 14 billion was supported by premium payments of weekly or monthly collections amounting to less than $10 a month. This, to me, indicated that the flow of savings from the very lowest income groups in the country, directed through the life insurance system into these large reservoirs of capital in the insurance companies, are then passed on by way of loans, not to small business, but to the largest aggregations of industrial operations which we have in this country.

Mr. WOODWARD. Well, Senator, it is passed on to large and small businesses alike. For example, in the company with which I am associated, we have a number of urban mortgage loans. In fact, we have a large number—15 percent of the company's assets are so invested. The average size is $9,020. The major part of the loans that we have are outside New York City, and of these, excluding construction loans, approximately two-thirds are in amounts below $10,000. We make all kinds of loans.

The CHAIRMAN. Do I understand, Mr. Yntema and Mr. Smith, that you have withdrawn the suggestion that came to me earlier that you wanted to make a statement about steel?

Mr. YNTEMA. My statement, I think, would take too long. It is not about steel. I would like to prepare a written statement with reference to this bill and submit it for the record.

(Included in supplementary statements at the end of the round-table discussions.)

The CHAIRMAN. Very good.

Mr. YNTEMA. I have exactly the opposite view to Mr. Ginsburg with respect to this bill. I have apprehensions that it may be a serious drawback to the attainment of the higher standards of living and may actually perpetuate the maladjustments it seeks to cure.

The CHAIRMAN. The committee will be very glad to receive your statement and the statement of all others who have participated here. I would suggest, having once been a city editor, that perhaps the statements should be limited to, let us say, 2,400 words.

The CHAIRMAN. Dr. Raver.

Mr. RAVER. Mr. Chairman, I should like to subscribe to the point of view expressed by Mr. Ginsburg with respect to this legislation, but I desire to address my remarks to an extension of those made yesterday with respect to the power situation, particularly the seriousness of the power situation in the Northwest, which I do not think I emphasized. I would not like to have the impression left that the Northwest situation is one we are going to come out on in the next 2 or 3 years. It will be at least 5 and perhaps 6 or 7 years before we begin to come out of the very serious deficiency in power supply that we have in that region.

This means that those basic industries that are waiting to expand with Northwest hydropower will be held back unless they can find an alternative source of energy. Frankly, I do not see where that alternative source of energy is to come from on the basis of the shortages all over the Nation. So that some of them, like aluminum, phosphate, zinc, lead, and perhaps copper are unlikely to expand significantly until this power supply situation is remedied, particularly in the Northwest, where cheap hydro appeals to the metallurgical and chemical industries.

Therefore, the whole country, as well as the Northwest, will feel the effects of the Northwest shortage for a number of years.

I must therefore stress the importance of congressional policy in trying to accelerate the construction of the Federal Government's portion of this power development program through appropriations and legislation permitting the allocation of steel, aluminum cable, and other materials for whatever period of time that allocation proves necessary to speed up the productive capacity of this basic production resource.

I want to express my disagreement with Mr. Kaplan that this is a time to drift on a matter so important as this, at least in this particular segment of our economy.

I also disagree with his idea that this particular portion of the Federal Government's responsibility in our economy should be put on the shelf.

I do not conceive of the Federal power development in the Northwest, at least, as a public works type of development, to be held for such time as the economy is dragging. This particular part of the economy, this part of the production requirements of the economy, must be taken care of basically if the economy is to expand, if we are to consider this economy as a dynamic and growing economy and provide for the new job opportunities for an increasing population properly.

It does not make any difference, it seems to me, basically, whether that requirement is taken care of by private capital or public capital, so far as the pressure of expanding those facilities increases the pressure on the supply of steel, aluminum, labor and other equipment.

Therefore, it should not be considered in a public works category any more than the investment of private capital by private utility companies in this particular field should be so considered.

I have one or two other observations to make on Mr. Falck's testimony of yesterday. He gave all of us a copy of the report on the National Security Resources Board, which I have had an opportunity to examine. Mr. Falck's testimony directed our attention to the large expansion plans of the utilities, both private and public utilities, for the next 3 years. He did not stress, however, the power deficiencies which are likely to inhibit the growth of the economy. I want to point these out in a little detail, because they will show clearly to the committee the tremendous importance of the President's recommendation that Congress authorize studies to be made of future requirements of critical goods and facilities, and of future capacities, and that these studies should be adequate and complete.

The study of power requirements and capacity that Mr. Falck submitted to the committee yesterday was made by an advisory committee for the National Security Resources Board. I submit that it is a very helpful guide but it must be used with a full understanding of its limitations.

The report shows on its face for the reporting utility systems, that the power situation throughout the country will be tight until 1951. This is apparent from a small margin of reserve generator capacity which is expected to rise by 2 percent in 1948 and 10 percent by 1951.

I submit, gentlemen, that that kind of an improvement can in no way bring us, as a nation, out of the critical power shortage that we are facing today.

The normal reserve capacities of our generating facilities should be at least 15 to 20 percent to take care of break-downs and replacements and the normal growth and demand for power. The fact that we will, through the program that is now under way by both private and public agencies, according to this report, improve the reserve capacities or generating facilities of the nation so that we have 2 percent of reserve and 1 percent of reserve by 1951, does not indicate that we are out of the serious power shortage in that period at all.

As a matter of fact, another point that needs to be made in connection with that is that all of the utility companies are operating a great amount of obsolete generating equipment, operating it under pressure and much of it will undoubtedly break down during this same period.

I do feel that we have the manufacturing capacity today to take care of the repairing of obsolete equipment, as well as to take care of the new generating equipment required. I want to make that point clear. I think Mr. Falck will agree with me, but in the remarks of yesterday it did not seem to me that those points were made.

The CHAIRMAN. Mr. Falck desires to add a word.

Mr. FALCK. Thank you, Mr. Chairman.

I would like to make clear for the record that while I am the Chief Consultant on utilities to the Chairman of the National Security Resources Board, I am not here speaking for that Board nor for the chairman, who, I believe, is now awaiting confirmation by the Senate. My remarks should be construed as individual and personal and by no means official.

I agree with Dr. Raver that the 10 percent margin of national power surplus indicated by 1951 is not as high as it should be, and it is not as high as it will be. The report that was distributed yesterday was made up in the fall of 1948. It showed that the order boards of manufacturers were preempted practically entirely for turbines, large and small, and water turbines as well, for the years 1949 and 1950; but it did show open capacity for the year 1951. Much of that open capacity has since been taken up by additional orders placed with the manufacturers since the date of our survey, so that I suspect the total capacity, if we reviewed the same conditions today, indicated for the end of 1951, would show a larger surplus.

There is one thing I would like to say about stand-by controls. I had 4 years of experience in the War Production Board as the Director of the Office of War Utilities during the war, where I reviewed three or four thousand applications a week—applications varying from subscribers to telephone service, to applicants for hydro dams. It was very difficult even in wartime to set any criterion or standard, even assuming the greatest courage and honesty on the part of the reviewing priorities clerks and higher executives to distinguish between Peter and Paul—to okay one priority and to deny another.

We did have the single purpose of winning the war so that applications relating to military procurement, war production and essential civilian activities were granted, and applications relating to less essential civilian activities were denied.

In peacetime I think it would be very difficult (*a*) to secure the personnel with the honesty and the dedication to high purpose, and (*b*) to find the criterion——

The CHAIRMAN. Have we reached peacetime?

Mr. FALCK. Well in this present period, without characterization.

The CHAIRMAN. If I may interrupt you, I think there is one essential point which is being overlooked by all who talk about the present time as being peacetime. The amount of money we are spending this year, or will spend in the next year for national defense—about $15,000,000,000—is almost four times greater than the entire cost of Government annually during the twenties. We are not in peacetime.

Mr. FALCK. Mr. Chairman, I mis-spoke. I recognize the present situation.

The CHAIRMAN. That, of course, is the essential fact which confronts every Member of Congress. We are now trying to win the peace, just as we tried with the War Production Board to win the war. My own conclusion is that it is much more difficult to win the peace than it was to win the war, because it is easy to be patriotic and to make a full contribution when the shooting is going on. But it is very easy to overlook the great demand upon government, and the great importance of patriotic cooperation to maintain the economy which will be necessary to win the peace of the world.

Mr. FALCK. Senator, I agree with you entirely. Perhaps if I restate my point you will agree with me.

During a period of full mobilization for all-out hostilities, it is far easier, as a practical matter, to distinguish between priorities that should be granted and priorities that should not. I think we have that problem today. The only point I am making is that it will be more difficult, a great deal more difficult in a period of partial mobilization or "cold war," to do the job with honesty and fairness and without discrimination.

The CHAIRMAN. It is not an easy job.

Mr. FALCK. In industry advisory committee meetings I have asked the utilities and the manufacturers of utility equipment whether they felt, for the prosecution and completion of these vast construction programs, they needed priorities assistance. The majority of those industry advisory committees have said no, that they will take their chances in the open market.

However, I would like to say insofar as my personal conclusion is concerned, that for the completion, during this period of "cold war" or partial mobilization, of the utility construction programs, including the electric power programs and the natural gas programs, we should do everything possible to accelerate the programs and, negatively, to prevent their retardation or frustration, for any reason, whether it is weather, work stoppages, impossibility of securing materials on time, or otherwise. Because during the war it was clear that the manufacture of utility-type equipment conflicted with the manufacture of marine propulsion equipment for the Navy and the Maritime Commission; the use of copper and aluminum for transmission lines conflicted with the programs of the ordnance and the aircraft building program.

So that the time to do these big basic jobs is in peacetime or, if you please, the partial mobilization time, and not try to undertake to make up for deferred construction during all-out mobilization.

For that reason it is my conviction that voluntary or perhaps mandatory allocations should be available to safeguard the completion on schedule of the utility construction programs, and a few others with which I am less familiar but which are a basic part of our supporting economy.

By that I do not suggest that the controls should be invoked lightly or without necessity or in a discriminatory manner. I would a great deal rather see some of the basic raw materials industries use their own good judgment and flow the materials, say, into the utility construction program without the necessity of a Government directive.

As an example, I cannot see myself why the three major aluminum producers are diverting as much aluminum as they are to roller skates, cocktail shakers, and pots and pans, instead of making a sufficient allocation to the wire and cable business. Because it should be clear to any American citizen that the end use for wire and cable is more essential than for furniture and playthings.

I prefer—and I think many people in this room prefer—to see some of these policy decisions affecting the flow of material, made voluntarily by business in terms of obvious, simple judgments. I think it will work out that way. But against the chance that it will not—and it certainly has not in the last year or so—it seems to me that Government policy, at least in the area of national security and these general or essential services, must take over.

Again, maybe by April we will see whether the pipe lines are getting the pipe and the utilities are getting the wire that they need. If they are, fine, because I certainly would not recommend the superimposition of mandatory priorities today in the face of my own belief that it would be extremely difficult to administer them fairly, without corruption and without pressure, and in terms of the ultimate welfare of the people.

The CHAIRMAN. The question then arises: Can we, by voluntary allocations, distinguish properly between Peter and Paul?

Mr. FALCK. Well, I think you have to give a pragmatic test to that and see what the results have been. You have to look at it after it has happened.

The CHAIRMAN. Well, on a rather humorous level, I saw a letter the other day which came to one of the officials in the Department of Commerce from a small brewer. He was complaining that the voluntary allocation of tin for beer cans was going to the big brewers and the little fellows were putting their beer into bottles.

Mr. Anderson, do you care to make any comment? Your name is on the list that was presented.

Mr. ANDERSON. Mr. Chairman, I notice the clock says almost 1. I know how my own stomach feels, and I know others are in the same position. I am going to take advantage of the offer of the chairman to submit a 2,400-word statement. But when I do so, Mr. Chairman, I want to say I do it with the exact opposite intention from that of Mr. Yntema, because as I see it H. R. 2756 is a partial implementation of the document called The Economic Report of the President. It will be with that kind of motivation that I would like to make my 2,400-word statement.

The CHAIRMAN. Mr. Smith, I cannot close without giving you your opportunity.

Mr. SMITH. Well, Mr. Chairman, your invitation to submit a 2,400-word statement would mean the equivalent of about a 25-minute statement here. The time has moved along pretty well. I do not imagine anyone really wants to stay here for 25 minutes so it seems to me my choice is obvious.

The CHAIRMAN. Mr. Yntema, you were going to make a remark?

Mr. YNTEMA. No, thank you, Mr. Chairman.

The CHAIRMAN. Are there any questions from this side of the table to be directed to any of these gentlemen?

(No response.)

The CHAIRMAN. If not, the Chair will express again the deep appreciation of the committee for the presence of all of these gentlemen. I know personally I have greatly benefited by what has been said. I know that members of the committee, without exception, have spoken in the most laudatory terms of the advantages of this session. I hope what has been said here will receive widespread circulation throughout the United States. It will be printed in due course. It will be made available to all the Members of the Congress, and I have no doubt it will exercise a good deal of influence upon the thinking of the Congress.

I trust that some of the things which have been said here will also have some influence upon the thinking of all of the economists.

Again, I express my great personal gratitude and that of the committee.

Tomorrow morning at 10 o'clock we shall proceed to the second round table. At this round table there will be present, representing Agriculture, Mr. Allan B. Kline, of the American Farm Bureau Federation; Mr. Albert Goss, master of the National Grange; Mr. James G. Patton, president of the National Farmers Union; Mr. A. F. Whitney, of the Brotherhood of Railroad Trainmen; Mr. James B. Carey, representing Mr. Murray of the CIO; Mr. Louis G. Hines, representing William Green of the AFL; Mr. Emerson Schmidt, economist for the United States Chamber of Commerce will be here; Mr. Ralph W. Robey, of New York, will appear for the National Association of Manufacturers; Mr. S. Abbott Smith, president of the Smaller Business Association of New England, Inc., will also be one of those present, as will Mr. Philip Reed.

Invitations have been extended to Mr. William L. Batt and to Mr. Meyer Kestnbaum, but the Chair has not yet heard whether it will be convenient for those two gentlemen to be present.

The committee will hold its session tomorrow in the Senate caucus room on the third floor. The meeting will be at 10 o'clock.

Senator Flanders was compelled to leave the session before its conclusion. He requested the Chair to insert in the record an exchange of letters between himself and Mr. Keyserling with respect to the question of how the Council of Economic Advisers made up their long-range estimates.

(The letters referred to are as follows:)

FEBRUARY 8, 1949.

Dr. LEON H. KEYSERLING,
Vice Chairman, Council of Economic Advisers,
Executive Office of the President, Washington, D. C.

DEAR DR. KEYSERLING: I regret that I shall be unable to listen to your testimony tomorrow, but previous commitments make it necessary for me to be out of town for the balance of this week.

I was particularly struck by your chart No. 3, Growth in National Output, 1919–48, and Output Target for 1958. I am glad that the Council is giving some attention to long-range targets. The implications for economic policy, both public and private, can be brought into better focus. I suppose that assumptions as to developments in the labor force, productivity, and hours are basic to a determination of the national output target estimate for 1958.

It would be very helpful to have a technical memorandum explaining how the 1958 target was estimated and the assumptions with respect to each of these factors. Could the memorandum indicate what historical productivity data were used as a basis for the projection? Has your staff made any corollation of productivity trends and business investment, labor force, employment, and the like?

Sincerely yours,

RALPH FLANDERS.

EXECUTIVE OFFICE OF THE PRESIDENT,
COUNCIL OF ECONOMIC ADVISERS,
Washington 25, D. C., February 11, 1949.

DEAR SENATOR FLANDERS: In response to your letter of February 8, I am sending you a memorandum sketching the basic assumptions from which were derived the output target for 1958 shown in chart 3 of my testimony before the Joint Committee on the Economic Report on February 8. I am very glad that you are particularly interested in this matter because it seems to me one of the most basic enterprises under that act. This memorandum has been worked up by a segment of our staff which is developing a wider range of target studies under my immediate supervision.

Let me say that, assuming success in maintaining maximum employment and production, this target estimate seems to me very conservative. Nobody knows what the progress of technology and invention, or the application of current discoveries to industrial use may be, but I feel that a real program of stimulating maximum production over the years should yield a higher average rate of annual improvement over a decade than the one indicated in our study. Certainly, however, it is better in matters of this kind to err on the conservative side.

As to your question whether we have been making any correlation of productivity trends with business investment, labor force, employment and the like, my letter to you, dated January 21, 1949, set forth the bare outlines of what we are trying to do in this field. We must push this work a great deal further before it will reach optimum utility, but some of the tentative conclusions are embodied in the Council's Annual Economic Review for 1949, transmitted with the President's economic report of January 7 of this year.

I am attaching also a table summarizing available information on past trends in productivity. The table shows that productivity gains in manufacturing industries were very great for the prosperous twenties and less so for the thirties, while mining productivity rose steadily for both periods.

With kindest regards.

Very sincerely yours,

LEON H. KEYSERLING.

FEBRUARY 11, 1949.

THE OUTPUT TARGET FOR 1958

CHART NO. 3 OF MR. KEYSERLING'S TESTIMONY OF FEBRUARY 8, 1949

TECHNICAL EXPLANATION

The projection of the gross national product for 1958 is based on the estimate included in the annual economic review of the Council of Economic Advisers, which stated, page 52 of the Economic Report of the President, January 1949:

"A reasonable development for the next few years would be an annual increase in output of about 3 percent."

This projection is intended to represent an economic "target" indicating a line of desirable development which, it is believed, can be achieved if the objectives of the Employment Act are effectuated through full cooperation among government, business, labor, and agriculture.

Labor force

In line with this "target" character of the projection, the assumptions with respect to the labor force take account not only of the natural increase, but allow also for the effect of an expanded social-insurance system on retirement age, and the assumption of a somewhat longer period in school. In estimating the size of the labor force, and particularly of part-time employment and the employment of women, the likely effect of ample job opportunities has been taken into consideration. Allowance has also been made for a net immigration of about 1½ million over the next 10 years.

Under these assumptions, the employed labor force would rise from 60.6 million in 1948 to 66.2 million in 1958, an increase of 9.2 percent.

Unemployment is assumed to remain at the same ratio to the labor force as in 1948.

Hours of work

The Council stated in the Annual Economic Review:

"Although average hours worked per week are now at a level consistent with health and reasonable leisure, some reduction in annual working time would result from continuation of the present trend toward additional holidays and paid vacations. Such reductions would partially offset the increase in the labor force."

Accordingly, it was not assumed that scheduled working hours will fall much below 40 in the near future. On the other hand, a drop in actual hours worked (not scheduled hours) of about 5 percent over a 10-year period could result from a continuation of the present trend toward additional holidays and paid vacations and the elimination of overtime.

Productivity

The Council's report stated the belief that "a productivity increase for the whole economy averaging somewhat more than 2½ percent a year should be possible." This is not just an extrapolation of past trends, but takes into consideration the desirability of policies which would be favorable to promoting research, and other policies of government, labor, and management aiming at maximum productive efficiency including, as the Council's Review says, "lessening of restrictive practices on the part of both labor and management."

Productivity in past decades increased, according to most estimates, around 2 percent per year. However, there is great variation from period to period and year to year. It is believed that during the next few years, as it was after the First World War, productivity should increase substantially as the result of the heavy investment for replacement and modernization of industrial equipment, and of utilization of new methods of production which have been developed over the last 10 years.

Recent reports indicate that rapid strides in productivity in many industries are in fact taking place, although statistics are not up-to-date and are very deficient in many respects. It might be pointed out parenthetically that if the deflated gross national product for 1946 and 1948 is divided by the number of man-hours only about ½ to 1 percent rise in productivity is indicated. However, we believe that the statistics of the increase in the gross national product, in constant dollars, understate the increase in production which actually took place between these 2 years. Although the increase in productivity in the postwar period is probably greater than these statistics show, it has not yet been as great as could be expected from the high rate of investment. It is believed that the full impact of these investments will show their results in the near future.

The assumptions with respect to the labor force, hours of work, and productivity lead to the conclusion that an increase in total output of about 3 percent per year, or about one-third over the next 10 years should be regarded as an attainable objective. This is a somewhat lower rate of growth than we had historically (not counting the depression of the thirties), and in the period from 1870 to 1920 our population growth was at the rate of 2 percent a year as compared to less than 1 percent estimated for the next 10 years.

Thus it is felt that the increase in gross national output of one-third in a 10-year period appears as a reasonable target in the light of past experience, and considering the impact of policies that would implement the objectives of the Employment Act.

(The table referred to is as follows:)

Indexes of output per man-hour (output per worker in agriculture) and unit labor cost for selected industries

[Index 1939=100]

Period	All manufacturing		Mining		Agriculture, output per worker	Steam railroad transportation		Electric light and power		Telephones		Telegraph	
	Output per man-hour	Unit labor cost	Output per man-hour	Unit labor cost		Revenue traffic per man-hour	Unit labor cost (revenue traffic)	Output per man-hour	Unit labor cost	Output per man-hour	Unit labor cost	Output per employee	Unit labor cost
1909	39.4	83.6			66.3								
1910					70.0								
1911					73.1								
1912					77.3								
1913					72.4								
1914	45.5	83.7			79.3								
1915			48.6		76.9								
1916			48.1		73.3	51.6							
1917			48.5		78.1	54.2		43.1	100.5				
1918			49.4		81.2	53.5							
1919	45.3	178.8	49.6		81.1	56.7							
1920	48.0	196.3	51.8		86.4	57.6							
1921	55.2	158.0	54.2		73.6	58.5							
1922	60.5	133.9	57.5		79.6	60.9		46.0	148.0				
1923	59.5	149.1	59.0		81.8	62.9		51.0					
1924	63.4	147.0	60.7		83.7	64.6		49.1					
1925	67.6	137.8	62.6		88.5	68.2		50.4					
1926	69.5	134.0	63.4		91.2	70.4		53.1					
1927	71.3	131.1	65.3		88.3	70.2		52.7	143.2				
1928	75.1	127.0	68.0		91.7	73.7							
1929	78.1	123.1	69.9		91.5	75.1		54.1	138.5				
1930	80.0	117.3	72.9		89.7	75.1		50.1	150.4				
1931	83.5	105.0	77.2		98.9	75.6		51.9	144.9				
1932	77.8	96.4	77.6		93.3	73.7		58.3	133.2				
1933	81.9	89.3	78.8		89.1	83.0		68.1	113.9				
1934	85.9	103.5	81.4		76.5	83.7		77.4	111.9				
1935	90.8	100.0	84.9		87.4	87.6	103.7	82.5	108.2	88.2	95.4	86.4	99.8
1936	91.0	99.1	86.6		81.5	93.5	98.0	87.8	102.3	91.2	94.5	87.7	99.5
1938	90.0	100.8	88.0		105.1	95.2	98.9	89.6	105.9	88.8	101.8	93.0	101.7
1938	91.6	108.0	80.1		97.7	94.7	105.3	89.0	110.1	92.3	103.5	96.5	99.8
1939	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0
1940	[1]	[1]	102.1	97.6	103.5	105.2	95.4	108.6	93.7	103.0	97.9	92.5	105.8
1941	[1]	[1]	103.9	107.6	107.5	115.5	90.8	123.2	85.9	99.5	99.5	92.9	109.0
1942	[1]	[1]	104.0	120.7	118.9	139.6	82.8	145.8	78.1	98.2	103.6	101.4	113.4
1943	[1]	[1]	101.7	137.8	116.7	150.9	83.1	182.7	65.9	97.9	109.9	107.9	128.8
1944	[1]	[1]	105.0	147.1	123.6	148.1	88.6	191.1	66.1	99.6	114.2	111.3	130.7
1945	[1]	[1]	106.9	149.8	120.7	139.5	95.2	182.5	71.1	98.8	123.0	116.4	139.6
1946	[1]	[1]	110.1	160.1	122.0	129.1	122.3	160.7	88.3	94.8	146.4	109.6	164.5
1947	[1]	[1]	114.3	180.4	116.9	135.0	122.8	166.6	92.3	101.1	149.3	119.5	164.1
1948	[1]	[1]											

[1] Not available because of the tremendous shift in types of manufacturing industry over the war period.

Source: Bureau of Labor Statistics.

The CHAIRMAN. The committee now stands in recess until 10 o'clock tomorrow morning.

(Whereupon, at 1 p. m., the hearing adjourned until 10 a. m. of the following day, Friday, February 18, 1949.)

JANUARY 1949 ECONOMIC REPORT OF THE PRESIDENT

FRIDAY, FEBRUARY 18, 1949

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

The committee met, pursuant to adjournment, at 10:15 a. m., in the caucus room, Senate Office Building, Senator Joseph C. O'Mahoney (chairman), presiding.

Present: Senators O'Mahoney (chairman) and Sparkman; and Representatives Herter and Buchanan.

Also present: Congressman Richard Bolling of Missouri.

The CHAIRMAN. The committee will come to order.

It is the hope of the committee that the session today will conclude the public sessions on the Economic Report of the President. To date, we have had statements on behalf of all the executive departments involved in this study, including statements by Dr. Keyserling and Dr. Clark of the Council of Economic Advisers.

Yesterday and the day before we had round-table discussions by a large number of eminent economists and others. The sessions, I think, were very productive of good results, certainly by way of information, at least, to the members of the committee.

Today's "round table," as you all know, includes representatives of organized business, of organized labor, and of organized agriculture. In inviting the representatives of these groups to come here for this discussion, the committee was moved by the thought that every inclusion or omission in the economic program which the Government will undertake will have inevitable effects upon all factors of the economy.

Now, whether we are willing to live together or not, whether we are seeking to have special advantage for our own particular interests or not, the inevitable result, of course, is that we must live together in the situation that develops.

So, we had better make the most of the situation as it is, and see if we can develop an area of agreement.

Sometimes I am inclined to think, from my experience as a Member of the Senate, that disagreements over minor matters get undue emphasis and that we tend to divert public attention from the preponderant agreement in principle.

The Committee on the Economic Report must file its recommendations with the Congress by the first of March. Thereafter, the standing committees of the Congress will undertake to study the bills that may be presented.

We are hopeful that this session will give us the opportunity of obtaining a well-rounded understanding of the views of the principal organized groups in our economy.

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I shall ask, first, that the roll be called and that you identify yourselves so that the official reporter of the hearing and representatives of the press may be able to identify each person participating.

When you are called, I would like to have you rise, give your name, and the organization that you represent.

We have been very successful in applying the 5-minute rule to each of the opening statements. That does not prohibit any member of the committee or the committee staff from asking questions, which will not be included within the 5-minutes, nor does it prevent the members of the "round table" from questioning one another. I think we can more accurately develop the understanding of one another by this participation.

There have been predictions, when the committee first announced the round-table discussion, that it might terminate in a rather hectic session. That has not turned out to be the case. I felt certain that would not be the case because I know that agriculture, business, and labor have been able to meet through their representatives in various university forums throughout the country to great advantage to one another.

Let us begin at this end of the table, and we will ask the participants to arise and identify themselves.

Mr. REED. I am Philip D. Reed, chairman of the board of the General Electric Co.

Mr. SMITH. S. Abbot Smith, president of the Smaller Business Association of New England, Inc.

Mr. ROBEY. Ralph W. Robey, chief economist, National Association of Manufacturers.

Mr. CAREY. James B. Carey, secretary-treasurer of the Congress of Industrial Organizations.

Mr. GOSS. Albert S. Goss, master of the National Grange.

Mr. HINES. Lewis G. Hines, national legislative representative of the American Federation of Labor.

Mr. PATTON. James G. Patton, president of the National Farmers Union.

Mr. FLEMING. Roger Fleming, director of the Washington office of the American Farm Bureau Federation.

Mr. SCHMIDT. Emerson P. Schmidt, director of economic research department, United States Chamber of Commerce.

Mr. KESTNBAUM. Meyer Kestnbaum, president of Hart, Schaffner & Marx.

The CHAIRMAN. Mr. William L. Batt, who was invited, apparently has been unable to come. The committee received a telegram this morning from Mr. Whitney of the Brotherhood of Railway Trainmen that he also is unavoidably detained.

I think we might just as well begin at the opposite end of the table. Mr. Kestnbaum, would you care to open this?

First, let me say, the committee welcomes the presence of Congressman Bolling of Missouri, who is seated at the table.

Mr. KESTNBAUM. Mr. Chairman, I did not come with a prepared statement. Therefore, my remarks will be extemporaneous. I did not realize that I would have the honor of opening this session.

Since I am not familiar with the issues immediately preceding the discussion, what I have to say must of necessity be rather general.

I speak for no specific business organization, but for a particular business which, as you know, has had a long and very satisfactory relationship with labor, so that those aspects of this discussion which deal with controversial relationships between labor and capital are not pertinent to what I have to say.

I represent an industry which has had many years of good relationships with labor and which has developed certain principles in the course of that experience. These principles have proved to be rather successful in this business. One of them is the principle of the division of work in a period of low production. In other words, we did not have large-scale unemployment in our industry during the depression; we had partial unemployment. Our industry is one that developed the first-on-the-market basis and then later, on the basis of several markets, unemployment compensation. We found that to be a satisfactory principle, and I believe some of our experience was used later in the development of the national act.

We found also in our business that it was possible to discuss management problems with labor on a constructive basis and arrive at intelligent conclusions. We found that when business conditions became extremely severe it was possible to sit down with representatives of labor and talk over some practical and useful approaches to these problems. I believe this committee is struggling with problems on a very much larger scale so that the experience of one business or one industry cannot be taken as conclusive.

The CHAIRMAN. I might interrupt, Mr. Kestnbaum, to say that, since you mention the principle of the division of work and unemployment compensation, both of those policies were devised to meet unemployment.

Mr. KESTNBAUM. That is right.

The CHAIRMAN. They arose out of the fact that there was not enough work to go around. The bill under which we are operating was based upon the concept that the Government which acts for all of us can adopt policies which will provide maximum employment, so we are shooting at a different objective.

Mr. KESTNBAUM. Thank you, Senator. I understand that. I assume, however, that in the exercise of any program of that kind, or in the development of such a program, it is not intended that the Government would make absolute guaranties on either employment, prices, or profits.

If I may step over now to a more general observation, it would seem to me that might be one of the most dangerous things that any government could undertake.

I am of the opinion that the proper role of government in these matters is to stand by as the guardian of the basic interests of the larger groups in the body politic; that there is legislation on the books now providing for unemployment compensation in most States, since inevitably, unless we have a permanently controlled state, there will be some minor unemployment.

I believe there will be fluctuations in prices which will affect the farmer in one way or another, and I cannot imagine that it is intended that the farmer will be protected against every adverse movement in the matter of prices. The proper role of government is to protect him from calamity, from being seriously affected by those adverse moves.

Similarly, in the case of business, I cannot imagine that the Government would undertake to guarantee profits.

From reading some of the previous testimony, I judge there is some criticism of the profits that have been made.

The CHAIRMAN. Let me say that there is nothing in this law under which we are operating that undertakes to guarantee anything to anybody.

Mr. KESTNBAUM. I agree, Senator. Nevertheless, I have read some of the testimony given here and have read some of the other publications, and I judge it is intended that the Government will do as you suggested a moment ago: try to develop means for the maintenance of large-scale employment, full employment, that will develop means to protect the interests of the farmer, and it is expressly indicated here that all of this is to be done through what we usually refer to, a system of free enterprise. That is, within the final analysis, that these problems will be solved through the people, and the Government will stand by in the role of an agency or group seeking to keep this thing moving on an even scale without allowing this economy to get seriously unbalanced.

All I would like to point out here is that it requires a degree of wisdom, skill, and technical devices which are going to be extremely difficult to develop. I am sure everyone realizes that no matter what kind of controls are set up, the various ingenuities of the people are then directed to somehow working around controls for their specific benefit.

The wisest administration of this policy, in my judgment, would be one which tried to deal with the fundamentals, which tried to prevent serious dislocations, but which in the main left the responsibility for the development of our economy, for the development and protection of the various interests, to the groups which are pretty well organized, and which are, on the whole, taking pretty good care of themselves under favorable circumstances.

I certainly agree with the opening statement that you made; namely, that we must live together, that we must find ways to accommodate ourselves to these problems. The most encouraging thing that has happened in the last 20 years is that we have made substantial changes in our national policy and our philosophy of government and our whole social outlook, and we have made them through democratic processes; we have made these adjustments through the close relationships with the various groups represented here. I think it is a compliment that we could do so.

The contribution that I would like to make at this time is to suggest that there are no simple devices which can be introduced that would solve these problems; that we certainly must ask each of these groups to do the best they know how to do. Industry must produce, and certainly farmers must produce, and certainly labor must produce, and work constructively. All of the efforts to favor one group over another would certainly injure the whole system.

The CHAIRMAN. You state to the committee as your general conclusion that it is the proper function of government, at least, to take such action as may be designed to prevent serious dislocations?

Mr. KESTNBAUM. Yes. I am very much in accord with that view. The only question I would throw out is that it ought to be done in the large, rather than in detail, because, when you come to detailed programs, it does not have a way of working out properly.

The CHAIRMAN. Should it be done before the dislocation takes place, or after it has occurred?

Mr. KESTNBAUM. Very definitely before these dislocations take place. Certainly it is the proper role of a government like ours to try to look ahead, to try to prevent the serious dislocations long before they begin to occur. It certainly is the role of government to see that no one will suffer very badly under any of these circumstances.

The CHAIRMAN. Are there any questions?

Mr. BUCHANAN. Would you say that the present time is one in which the Government should intervene, or is the situation normal?

Mr. KESTNBAUM. I don't think anyone would argue that the present situation is normal. We have been in an inflationary spiral in which prices and wages have been chasing one another. In that process, no one could possibly win. The labor organizations will certainly testify to the fact that the increases have not always kept pace with the cost of living.

In the long run, no group can win by keeping an inflationary spiral moving. It is not permanent.

I should say the present situation is a highly dangerous one; that the best thing we could do now would be to level it off. I doubt that we could roll prices back and turn the clock back and roll wages back. The only thing that we can possibly do now would be to try to find some balance, preferably at the present point—since it is not practical to go backward—and try to get a proper relationship between wages, prices, farm products, industry. I think that can best be done if someone can arrest the cycle at that point. I don't know who could do that at the present time. Even though there have been some distortions in prices, a further round of wage increases at this time, in my opinion, would be a catastrophe.

The thing to do now would be to allow the present trend of prices, which are beginning to soften, to develop without any great effort to introduce an inflationary movement.

But in the normal process of competition, the price trend, from now on, I believe, will be moderately downward. If nothing serious happens to disturb the economy, if no further inflation arrives, the cost of living will slowly move downward.

Mr. BUCHANAN. Are there indications that the price trends are moving downward in the durable-goods line?

Mr. KESTNBAUM. I am not a real authority in the durable-goods lines. This economy is so complicated that you can have diverse movements in various parts of it. There is certainly a great softening in the prices of the consumer-goods line.

If the price of steel were to be stabilized and the whole wage picture were to be stabilized, I cannot help but feel that for all durable goods, except those in which there is an extreme scarcity, competitive forces would again begin to operate in those classes, and they would begin to go down.

The CHAIRMAN. Congressman Herter.

Mr. HERTER. I was merely going to inquire whether you have had a chance to see the piece of legislation that has been recommended as a part of the President's program on the control of prices, allocation powers, and so on.

Mr. KESTNBAUM. I have seen only the general outline of that bill, Congressman Herter.

Mr. HERTER. There is only one question I had in connection with that, and probably you do not want to go into the underlying philosophy of it. But I noticed that the right of the President to control prices in any commodity, whatever it may be, which has risen or threatened to rise at any time after December 1948 to such an extent as to affect significantly the cost of living, the cost of industrial or agricultural production, or the cost of construction, or the cost of national defense, or foreign aid, he can then fix prices on any such commodity.

The commodity that you are most familiar with is one which very definitely affects the cost of living. I am wondering how you feel about the December 1948 date as a stop point, so to speak?

Mr. KESTNBAUM. Well, sir, I believe recent developments have indicated that is an industry which would straighten itself out, without any attempt to control prices.

Is it not true, Mr. Herter, that in those areas where competition is effective, these problems solve themselves rather readily?

In the apparel industry, generally, normal conditions are highly competitive. Under normal circumstances, you do not have the problem which permits any group to take advantage of extreme shortages.

During the war we did have, and we did find in some sections of these industries, that prices did rise abnormally, sometimes excessively.

But there you had the impact of a public which had money and income and which was seeking to get goods.

However, our economy as a whole will not work well under the shortage principle. The worst thing that could happen to the American economy would be a situation in which all goods were in short supply. Our system assumes there will be healthy competition, and that therefore the process by which prices are adjusted will operate.

Now, as to the powers of the President to fix prices, it would seem to me that would be useful or desirable only with respect to a very few commodities, and they would have to be of a basic character, rather than those near the ends of the manufacturing scale. In other words, I think they deal very largely with some of the basic raw materials; because, if you try to control the price of clothing, shirts, or shoes—at a time when they have had a great many manufacturing processes to go through—you would simply be giving the power to someone or to one group to say, "Without controlling the price of the commodity that you buy, we will proceed to control the price at which you sell."

There is nothing in price regulations during the war which indicated that that can be done wisely or equitably, without a tremendous amount of study and investigation.

These price rises occur through a kind of pyramiding of rapid changes in the cost of certain basic raw materials, raw wool, cotton, leather, steel, various metals, and so on. A small rise in the price of wool soon reflects itself into a larger price in textiles and that, in turn, again is reflected into a somewhat larger advance in the price of clothing, and by the time it gets down to a retail store, the small increase in the price of wool has been magnified at least several times.

That would suggest that if there is any room for control of prices, it would be at the point where the raw materials are going to come on the market because the competitor has to increase his price to take care of the processing functions.

Mr. HERTER. May I ask you this question:

If presumably excessive prices exist in the field where there is a shortage and excessive demand, with the controlled price you presumably have to get allocations?

Mr. KESTNBAUM. You certainly do.

Mr. HERTER. Can you control the basic prices without carrying the cycle right on through to the finished product?

Mr. KESTNBAUM. I believe the only place where it is possible to control basic prices is at the source of raw material. There is some possibility that you could arbitrarily say that we may not sell for more than a certain price, or that certain national products such as cotton and wool may not be sold above a certain price. But whenever we try to do things of that kind, we begin to create property rights in allocations, in priorities, and so on.

As you know very well, the valid order on an automobile for a number of years had a real negotiable value. You could actually sell your right in an order for a car. That is preposterous. It was brought about by the fact that the supply could not accommodate itself to the demand. That will invariably happen when you attempt to control certain prices. I believe it is an extremely dangerous thing, because it is a difficult thing to do well or skillfully.

I think we did learn something from price control during the war. One of the things we learned is that it is possible to get around regulations by changes in quality, by a deterioration of what is actually being sold, by changes in selection. I should say that while the price index does show a fairly steady price level at the point at which the maximum price regulation was applied, if you came to examine it carefully you discovered that it fluctuated much more than those figures would indicate. That is, you actually got less for your money for a great many of these products before the price was stabilized.

Mr. HERTER. Didn't the Bureau of Labor Statistics finally have to change its index based on quality?

Mr. KESTNBAUM. Yes, they did, because we were not talking about the same thing.

That is what I meant when I said I believe that in a country like ours everyone wants to switch with the regulators. I believe that the regulators are at a disadvantage. Therefore, while it may be necessary under extreme circumstances, our general view is that its value would be largely psychological, but that as a practical matter I am by no means convinced—except in wartime when you must regulate both prices and wages at the same time—that you cannot regulate one without the other. Except for those circumstances, it seems to me, it is not of large value.

The CHAIRMAN. Are there any other questions from members of the committee?

(No response.)

The CHAIRMAN. Mr. Kestnbaum, you stated in response to Congressman Herter, that you had not had an opportunity to read the bill. Mindful of your statement in your opening remarks that you felt prices ought to be leveled off about where they are now, I call your attention and the attention of the group to the opening sentence of section 401 of the bill. This is title IV on prices and wages. The first sentence reads as follows:

> The President may by regulation or order require sellers of any commodity which significantly affects the cost of living, the cost of industrial or agricultural production or of construction, or the costs of national defense or foreign aid to give up to 60 days' notice to the President prior to the effective date of any intended price increase with respect to any such commodity.

Then in section 404, the date December 1948 is specifically selected as the period during which to judge the generally prevailing level of prices.

Mr. KESTNBAUM. Is your question, Senator——

The CHAIRMAN. I am not questioning, I am just calling your attention to this fact.

Mr. KESTNBAUM. I see. May I make two propositions on that proposal? One is, the proposal that an industry would be required to file notice before it promulgated any price advance would seem to me to be a very useful one, because it does put the economy on notice of advances in these important commodities.

But obviously, with that meaning, the industry proposing to raise its prices would be indicating the reason for this increase, which would either be an increase in its wage level or an increase in the cost of its raw materials. So that the problem then immediately becomes acute. If there has been an increase in the cost of certain raw materials or the cost of labor, then obviously the question that the committee would have to decide, or the President would have to decide is, what we are going to do in the circumstances. Will we make an increase comparable to these increased costs, which would certainly appear just, but which then obviates the whole purpose of this legislation? Or should we say that irrespective of what happens they must maintain those prices?

Now, the difficulty with the December 1948 date is that at no time do you strike a date which is right for all industries. It may well be that in the case of steel, December 1948 is too low. On the other hand, in the case of textiles it may well be that December 1948 was a rather high point, as I think it was.

When I suggested that we level off, I did not have in mind at all that those prices would be maintained. I simply meant that the wage and price spiral be leveled off at the present time and that these various commodities be permitted to find their level, which in most instances would be down.

I did not have in mind that we would maintain the present prices, because in many instances I do feel they are somewhat too high.

The CHAIRMAN. Will you take the ball, Mr. Reed?

Mr. REED. Mr. Chairman, Mr. Berquist has submitted a number of questions to my company relating to the power situation, supplementing a memorandum which was handed to him some time ago. A little later, perhaps, if you wish me to, I will be glad to either turn those answers over to Mr. Berquist or present them here to the committee. (The material referred to was submitted with Mr. Reed's supplementary statement, pp. 658 to 661.)

I would like, if I may, to go just a moment to a rather general statement which I had anticipated the subject of this discussion would involve. I also have no prepared statement, and with reference to the bill which has been referred to this morning, I saw it for the first time last evening and had an opportunity simply to glance through it. That is House Resolution 2756.

It seems to me in general terms that the inflationary trend in this country has been reversed. The cost of living from all that appears is past its peak. There would appear to be no reason, insofar as an analysis of the statistical measuring sticks that are available to us are concerned, to feel that the adjustment which we are now going through is anything more than a healthy corrective.

There is one element, of course, that no one can find in statistical charts or studies, and that is the psychological element, the element which is sometimes described as confidence. That element is evidenced by the result of millions of individual decisions by people in relation to their own private personal circumstances, and by managers of businesses and other organizations in discharging their responsibilities to those organizations.

It seems to me that we are in a delicate transitional period where, as I say, we appear to have arrested the inflation and we are now at that delicate point of determining at what level we resume our growth and stabilize the activity—a corrective which, I am sure we all agree, inevitably is a result of the whole readjustment resulting from the war.

It seems to me that the important thing at this delicate transitional point is not to take action which might adversely affect the decisions of these millions of people which result from their own environment—the things they read and hear, and their own appraisal of what is going to be done by government and by others in this country.

In other words, we do not want to generate a condition which might produce more than a normal corrective in our economy. That could, of course, be done if things were suggested, things were done, by government and by others, which produced in the end a net adverse appraisal on the part of the American people with reference to what lies ahead.

To that end it seems to me the Government is and must be an immensely important factor. The question of Government spending and of Government expenditure programs looking to the future is certainly an element that weighs heavily in this matter of the psychological attitude toward our times.

Therefore, it seems to me that a program which involves a substantial enlargement of our Federal Government expenditure or any Government expenditure, particularly if that would involve increased taxes, must be thought of in the light of its effect on the judgments of Americans at this sensitive time.

As I have said, I have only glanced through the bill which has been referred to this morning, but it seems to me that nothing could be more drastically influential on the appraisals of a great many people than that bill. It is in broad and general terms, in my judgment, and I am not sufficiently familiar with it to get into a detailed discussion of it, but in my judgment, having looked it through, it is wrong on the merits in substance. It is very much more wrong, if that were possible, in terms of its timeliness. To suggest, to debate, to project what is contemplated by that bill would seem to me to be something that just cannot and should not be considered at the period we are currently in, where we are just leveling off, where we are sensitive, and relatively small things taken together are going to determine where this economy of ours goes from here.

I point out to you that among other things, this is what perhaps shocked me most: That under that bill Congress completely disenfranchises itself, as I see it. The authority granted to the Executive department of the Government with reference to the control of our economy is so tremendous that the bill would, in many respects, grant to our Government a great deal more power than the Labor government in England has asked for or been granted by the Parliament in England.

The CHAIRMAN. May I ask a question at that point, Mr. Reed?

There is currently being discussed in Government circles—and there has been some debate about it on the floor of the Senate—the proposal for an Atlantic pact, the proposal for a new lend-lease to Europe to arm the western democracies. Now, any such program would inevitably require very large expenditures by our Government. In your opinion, would the adoption of such a program, if it should be the judgment of the Congress that it ought to be undertaken, constitute a pressure toward a resumption of inflation?

Mr. REED. That would depend, of course, Mr. Chairman, on the amount that is appropriated to implement the program. In my view, whatever assistance America can properly in her own interests give to the rearming of western Europe, can and should be done with a relatively small amount of money and an amount which, when added to whatever ECA appropriations may be made this year, would not and should not significantly affect our own home economy in terms of additional inflationary pressures.

The CHAIRMAN. What do you call a relatively small amount of money?

Mr. REED. Oh, I would think—and this is just from the curbstone, Senator—that military assistance to our friends in western Europe could, in the next year, not possibly absorb more than, let us say, a billion dollars.

The CHAIRMAN. Well, it occurs to the Chair to remark that a billion dollars expended for that purpose, when added to the proposed expenditures for the continuation of the Marshall plan, would in itself make an amount of approximately 5 or 5½ billion dollars, which is considerably more than the entire cost of the Government of the United States in 1929.

Mr. REED. Yes; I recognize that to be true, but in the light of today's dollars, today's national income, and today's situation generally, I feel that it would not adversely inflationarily affect our economy. I, incidentally, am one of those who believe that ECA appropriations can and should gradually come down. I am not at all certain that whatever military aid we find it necessary and desirable to afford our western European friends, cannot be done by and large within the limits of the 5 billion that you mentioned, including ECA.

The CHAIRMAN. The Assistant Secretary of State, Mr. Thorp, testified before this committee that very satisfactory progress from the point of view of the Department of State is being made in the European recovery, and that expenditures will come down.

On the other hand, the armed services department made very large requests of the President, through the Bureau of the Budget, for appropriations this year. Some of the reports went as high as $23,000,000,000. The President, through the budget, got these estimates down to approximately $15,000,000,000. That again, is a very tremendous expenditure.

Mr. REED. You are quite right.

The CHAIRMAN. And, in your opinion, these expenditures can safely be made without any action by Government to restrain possible inflationary results?

Mr. REED. From the figures I have seen of the actual amount of production for the military program this year, that is, the amount that will actually come out and be paid for, it is not a frightening figure in terms of its inflationary repercussions here.

I again—perhaps because of my ignorance—certainly do not accept as a fact that even $15,000,000,000 is essential for the military program. My own view is—and this, I think, is a little off the subject—that our three-prong policy, vis-à-vis Russia—that is to say, military, economic, and informational, or propaganda, if you want to call it that—is badly out of balance; that we are relatively spending far too little on the propaganda and information aspects of the job. and that if we stepped that up and made it more effective, we could, at a much earlier date, reduce our expenditures for both military and economic aid.

The CHAIRMAN. May I direct your attention now to the decline of agricultural prices. In doing so, my eye falls on Mr. Goss, the head of the National Grange, who has been a very faithful attendant upon these sessions.

Following World War I agricultural prices were the first to break. Eventually, the break spread to every other line.

Mr. HERTER. Mr. Chairman, I think Mr. Reed still had something more he wanted to say.

The CHAIRMAN. Oh, I am not transferring from him to Mr. Goss. I am merely drawing his attention to the presence of Mr. Goss and to the agricultural program, because I want to get this discussion moving.

Mr. REED. May I proceed?

The CHAIRMAN. Certainly.

Mr. REED. Against the background of what I said a moment ago with reference to our general position, I take it I should say perhaps a little about what I think the Government can usefully do at a time like this.

Let me say, first, very briefly that I spent 4 years in the Federal Government during the war. I am not one of those individuals who believes the Government should just remain quiescent and stay out of things. I believe the Government has an enormously important part to play in maintaining the stability of this country.

No one can look at the figures and see 20 percent or more of our national income passing to the Federal Government in revenue, to be spent by that Government, without realizing that the impact of that collection and that expenditure must be and is of tremendous importance.

Therefore, the problem of tax collection, how it shall be assessed in order to do the least in terms of discouraging free-enterprise economy, and the production generated by it, is one of the important jobs, as I see it, of the Government.

Again the matter of expenditure, the amount, the nature and the timing of Government expenditure has an enormous effect on our economy.

The matter of monetary and fiscal controls, controls that the Government has, our bank reserves, rediscount rates, consumer credit, regulation of margin, are important, as also is the question of Government policy with reference to housing loans.

All of these matters have an important bearing on and can influence one way or the other, economic activity in this country.

The management of the Government debt is of tremendous importance in its impact on American economic life.

I recognize fully that old-age pensions and unemployment insurance are exceedingly important factors as stabilizers of our economy, factors which are relatively new in our economic picture.

All of these, if coordinated and used collectively to bear on a given target—that is to say, to stimulate on the one hand, or to steady on the other, American economic activity—could have a most potent effect.

Beyond that, it seems to me that the Government can help most in this country of ours by reasserting through deed and through word its belief in, and support of, private competitive enterprise.

In my judgment the millions of Americans must be further encouraged to venture, to be assured if they do venture and risk that there is a profit opportunity if they succeed.

I am sure I do not need to say that climate and environment are everything to a dynamic private-enterprise system.

This is perhaps a homely way of putting it, but I believe nothing would do this country more good, in the next decade, than more emphasis, a much heavier emphasis on the spirit and philosophy that lay back of the works of our old friend Horatio Alger. We need to encourage self-reliance, resourcefulness, individual initiative, as those factors were so respected and rewarded in his day.

I do not seek or yearn for the old days, but there is one element of the old days that might be more heavily emphasized and injected as I see it, into our present-day system.

One more thing: A great deal has been said about profits. I cannot help but say that to me a little more glorification, if you will, of profits, and a little clearer thinking as to what they really mean, would be an excellent thing for the welfare of every American. Profits, I do not need tell you, are a measure—and I speak now of profits in a competitive community, a competitive economy, because that is what we all seek and want—profits in that kind of a competitive economy are a measure of effective, efficient operation and should be worn as a badge of accomplishment and of honor.

They are a guaranty of job continuity and good working conditions. They are a source of funds for research to find better products. They are assurance that the plant equipment and machinery will be kept modern and new, and finally, they assure, as you all know, a vital source of income to our Government.

Profits today in relation to the volume of sales, that is to say, profits to sales, are, in my own judgment, too low. My own company's profits in 1948 per dollar of sales—and 1948, I remind you, was a boom year—are approximately 50 percent of what they were in 1937 and in 1929.

A comparatively small drop in the volume of sales or of prices would bring a very large part of American industry right to the point of red figures. It seems to me that to operate that close, with break-even points that high, is not a comfortable position to be in.

The CHAIRMAN. How does volume compare with 1937?

Mr. REED. Oh, volume is enormously greater, volume of sales and volume of dollar earning. But, as I say, the earnings per dollar of sales are just about 50 percent what they were in 1937 and in 1929.

The CHAIRMAN. There has always been considerable dispute as to whether or not the volume of sales is a correct measure of what profits should be.

Mr. REED. I agree there are other measures to take for profits, Senator O'Mahoney, but I think one must not ignore the fact that if profits per dollar of sales are not considered, one is likely to forget how quickly he can find himself in the red as the result of a drop in volume, or a very minor drop in prices. The leverage is enormous.

Operating an industry that involves heavy capital goods, that back through the years has been known to have its ups and downs, to operate in a boom year at a profit percentage at the level that we are, which is just slightly over 7 percent, makes the manager worried, because he looks back and sees what has happened in the past, and he recognizes that a drop in volume or a drop in prices might very easily and rather quickly reduce those profits to the vanishing point.

Of course, that makes it even more dangerous from the standpoint of Government revenues. There is no cushion there, and the leverage, as I say, which determines the income-tax collections, with the falling taxable income on the part of American corporations, is something that I think should be carefully considered by Government itself.

That concludes my remarks, Mr. Chairman.

The CHAIRMAN. Any questions?

Mr. BUCHANAN. Mr. Reed, do you care to comment on the decline in employment? I have figures here that there has been a decline of some 6,000 from the 1948 peak of 86,667 General Electric employees.

Mr. REED. Are you speaking of the employment? I don't think I quite heard you.

Mr. BUCHANAN. In your particular industry, would you care to comment on the decline in employment?

Mr. REED. There has been a small decline in the General Electric Co.'s employment. I do not have the electrical industry figures over-all with me, but that drop in employment is not, in our judgment, indicative of an important or dangerous change in the trend. We have had our ups and downs over the last several years. Our employment has been at an all-time peak, of course, as you know. The fact that it has fallen off 1 or 2 percent cannot, as we see it, be taken as a sign of further trouble or of further unemployment.

The CHAIRMAN. Do any of the members of the round-table care to ask questions of either of the gentlemen who have spoken?

Mr. CAREY. Mr. Chairman.

The CHAIRMAN. Mr. Carey.

Mr. CAREY. I would like to ask Mr. Reed if he would not agree that it is now time for Congress, perhaps through this committee, to investigate the extent of unemployment in the consumers' goods industries such as textiles, electrical appliances, shoes, clothing, and elsewhere, in order to determine the causes of that unemployment.

Mr. REED. Well, Mr. Carey, I certainly believe that unemployment, as it develops in the consumer-goods industries or in other industries, should be carefully watched, studied and analyzed. I just do not know whether the Congress of the United States—I am not familiar enough with its machinery—I do not know whether a committee should be set up or some special action taken to make a study. I agree completely with what I assume to be your thought and that is that the trend should be carefully studied by Government as well as by business, by labor and by agriculture.

Mr. HERTER. Mr. Chairman, I am just wondering whether Mr. Carey in that question was not suggesting that possibly some of the lay-offs had been artificially induced by industry to affect the thinking of Congress at the present time.

Mr. CAREY. I am not suggesting that in the way I posed the question to Mr. Reed. I am concerned that we have inflationary trends in the heavy-goods industries and we have a tendency not to expand in areas that so desperately need expansion, such as steel and other industries. Perhaps the committee in getting the facts about the extent of unemployment, where it is taking place, and why, would come to the logical conclusion that what we need is expansion in the steel industry and other industries and we do need some steps by Government in the field of stopping the inflationary trends that still exist in the heavy-goods industries, largely under the control of the large corporations and the heavy combines.

My purpose in suggesting that procedure would be to get the facts so that the public will have the facts and may make their political decisions as well.

At the present time, through the American newspapers and the press and radio commentators, we are told to let well enough alone. To us that is saying, "Let the farmers and the workers in the consumer-goods industries take the rap while the big corporations continue to make exorbitant profits."

Mr. REED. Mr. Chairman.

The CHAIRMAN. Mr. Reed.

Mr. REED. For the record, I think I must say, so far as my company or my industry is concerned, I must discard any suggestion that there has been an apathy or a lack of recognition of the needs of the industry and of the American economy for the products of that industry. I believe we have been far-sighted and while there have been plenty of troubles, we are on top of them and they will be solved, and there has been, so far as General Electric is concerned, in the capital goods industries, no lack of an all-out effort and tremendous investments. Some $30,000,000 are just now being invested in a new turbine plant being completed. I must say, I do not agree with the implications in Mr. Carey's statement.

The CHAIRMAN. Mr. Goss.

Mr. GOSS. Mr. Chairman, it seems to me in studying this whole problem as brought out by the President's Economic Report, that we have to recognize clearly we are in a time of transition from wartime to peacetime, and that that transition is probably more difficult than this Nation has ever seen, in this respect.

In a transition period of this nature, we not only have to supply the normal demands of our economy, but we also have to catch up with a lot of postponed demands which accumulated during the war. This time we not only have our own postponed demands, but we have also postponed demands in Europe, which means that in this period of transition we are producing much more than we would normally.

When those postponed demands are filled, we are going to have a lot of surplus production of one kind or another which we must find a place for.

That seems to me to be the basis on which we must tackle the problem of deflation, because as we go down through history it is just such conditions which have resulted in deflation and we know that those conditions are coming.

Now, the answer, as we see it, is that we must find ways of keeping our production up, keeping full employment, and that the extra production which is now being used to fill these postponed demands here and in Europe, must be distributed throughout our whole economy. That, of course, means increased standards of living and if we are wise enough to accomplish that end, we are going to come out on top. If we fail to accomplish that end, we are going to find that there will be shut-downs, there will be unemployment, and with those shut-downs and unemployment, we will be heading into a deflation that I doubt if we can stop by law, or anyting else.

So we are trying to see how we can maintain the distribution of this tremendous production in approximately the same amount, but distributed among all our people. That, basically, must be accomplished through an economically sound distribution of income.

The problem is how to distribute that income on a just and sound basis, in proportion to what each has contributed to our general welfare in order to keep our economy right side up.

It means, in other words, what we farmers have been trying to do insofar as agriculture is concerned; in seeking parity we seek an equality in purchasing power in proportion to what each contributes to the general welfare. We think that must be done in such a way as to preserve our private-enterprise system and that we must find the way to effect distribution under that private-enterprise system so that our standards of living can be raised. We think that must be done gradually. It cannot wait until all these demands are suddenly filled, and then tackle the problem. We have to start now and develop those devices which will lead toward that—what shall I call it—a universal parity or a comprehensive parity, so that there is a balance rather than an imbalance between the major segments of our economy.

I think that is the problem which has been posed by this report. The question is, What are we going to do about it?

The President has proposed a number of remedies. I have grouped them here into 10 major groups, and would like to express just briefly, if I may, our position on those groups.

The President sees beyond this danger of deflation a temporary danger of inflation which, if it exists, of course would make the deflation much tougher, or the readjustment much tougher. So the President attacks the problem, apparently, with the idea that inflation is more prominently in mind than any other thing, because he puts the remedies first. These are his remedies, as I read them from his economic report in regard to inflation.

First, is the imposition of additional taxes to the extent of $4,000,000,000. That, no doubt, is deflationary, but I do not think we should consider that merely from the standpoint of its effect on inflation or deflation. As a matter of fact, we think our whole tax structure needs a courageous overhauling.

I present it as a serious question as to whether any democracy can live which lacks the courage to tax the voters. And I say tax the voters advisedly, because I think our tax policy is too much designed with an eye on the election returns, and not designed on establishing a sound tax system. All you have to do is look to France and some of the countries of Europe to see what the failure to balance the budget, the failure to establish a sound tax system, the tendency to call on the Government for everything without paying the bill, in order to realize what I am talking about.

I think we should at this time take a very courageous look at our whole tax program.

Mr. BERQUIST. May I ask a question there, Mr. Goss? Are you suggesting that something ought to be done about individual income taxes, individual taxes?

Mr. GOSS. Yes, I am. I feel that we must spread our tax base more widely. I feel there has been a tendency to seek taxes where they could be most easily raised, and I feel that all of us, generally, must figure that individually we have to take a bigger part in supporting our Government financially than we have heretofore. I would be glad to go into the tax program a little later, but there are so many things here that I would like to cover. If there is time, I would like to enlarge on that but it is quite a subject unto itself.

The CHAIRMAN. It is, indeed.

Suppose you proceed to the other points.

Mr. GOSS. Just one phase of that tax program. We heard yesterday, or the day before, that the obligations which we have assumed toward our old-age payments are accumulating three times as fast as the money we are putting away. That has been up before Congress. It has been clearly explained to Congress and Congress has backed away from that question two or three times and has proceeded to maintain the obligations of old age without imposing taxes sufficient to support it. That is the kind of thing I am talking about. The only reason Congress backed away from it is that they do not like to levy taxes because the voters do not like them. I think we have the same thing in our unemployment insurance now, but that comes later on down in the list of what the President said, and I will comment on that later, if I ever get that far down within my 5 minutes.

As to the estate tax and the gift taxes—well, I will save them and will not touch on them now.

In this whole tax program, of course comes the reduction of expenditures and the elimination of unnecessary things to keep our economy in full balance.

I do not believe we can comment too intelligently on that until we hear more of what the Hoover Commission is to report. There are some things in the report which appeal to us—with our limited knowledge of what the report contains, which has come mostly by hearsay—and some things which do not. But we do think the Congress has an opportunity before it with this comprehensive report, to tackle that phase of the tax problem, probably more constructively, than it has had for many years.

The President has recommended that in our fiscal policy we endeavor to transfer as much of our national debt to private hands as possible.

With that we are heartily in accord. It is part of that individual responsibility which we believe we must assume, and I do not know that there is very much the Congress can do about it, but it is very distinctly a part of the program that we, as citizens, should recognize. We all need to support our Government in that respect.

We also approve the reinstatement of regulation W. Generally speaking, we are not for too much Government regulation, but we can see developing the same kind of trouble which developed after World War I. Then, with our largely expanded production, we ran out of markets for our goods. We extended large credits to Europe to continue that production and as those credits became in difficulty, we expanded our installment buying tremendously and got everybody in debt.

Well, it so happens that I was one of the group that ran up against that problem pretty directly because, as Land Bank Commissioner, I saw the tremendous grief which arose from incurring more debt than the normal prospects of ability to repay would support.

We think we should go very, very carefully in these times of encouraging any increase in debt. There is one safe time to go into debt, and that is when prices are down. There is one almost invariably dangerous time to go into debt, and that is when prices are high.

While I hesitate, of course, in saying that the Government should tell me whether or not I should buy a washing machine for my wife, I recognize that taken en masse, on the whole, with industry presenting tremendously attractive installment propositions, that there should be some safeguard against taking that very dangerous step of widespread expansion of installment credit. The problem is distinctly here; we cannot ignore it. We do not know any better way to control it than through regulation W.

Along that same line, we think the Federal Reserve bank should have a continuation of its power to call for excess reserves. I do not know when that expires, but I believe that was also in the President's recommendations.

Now, as to the direct controls suggested by the President with regard to inflation, we believe there should be certain allocations with reference to basic raw materials and basic strategic items, such as steel. Ordinarily, we do not like it. But we are faced with this knowledge that steel is being diverted to uses which we do not need so badly. While it was brought out in these hearings that we are desperately short of power, some of the steel for power equipment and some of the aluminum for power equipment are badly needed. We are way behind.

The same thing is true in the field of transportation. We know those things exist. We do not think we should shut our eyes to it.

We believe that Congress, in giving any powers of allocation, or any powers of control to the President, should set up safeguards, should set up guideposts, or should build the lane down which he can operate, and not give powers so broadly they can be operated indiscriminately, but operated to achieve a very definite purpose. We think that can be pretty well done.

With reference to giving power to the administration—how did Mr. Reed phrase it when he said the Congress disenfranchised itself—I think some powers need to be given, but you do not need to disenfranchise yourselves. You can set up proper guideposts and insist that the administration stay within those guideposts. Congress has failed to do that in a number of cases. This question of giving too much power to the administration can be pretty safely met if we are careful to set up guideposts consisting of certain purposes which are definitely necessary to attain, and then for Congress to provide for itself an opportunity to look at what is being done to see if the administration is operating within the guideposts.

We do not know whether there is any need for an allocation in railroad transportation now or not. We think that is about over. But within certain guideposts, if allocation is needed, we ought to be able to use it.

Now, in regard to price and wage controls, we think we have passed the peak of inflation and we do not approve of the general program of wide powers for price and wage controls. If they are to be exercised, we think they ought to be exercised together. We do not think there should be price controls without wage controls. We do not believe in wage control, and we do not believe in price control.

It is true that some prices are still going up. We think we are close to the end of that.

History shows agriculture has usually led the way, and that others have followed when agricultural prices have gone down. We have been disturbed at the rapid drop in farm prices. I will speak of that a little bit later.

But evidently there has got to be a readjustment in our whole price structure. It has gotten badly out of kilter by reason of shortages, wartime shortages and reconstruction shortages. There has to be some readjustment. We think we must develop some sort of knowledge as to what is equitable.

Again I refer to a universal parity program. We have no universal parity formula, but we think there are some things which can be done.

There are two things which have disturbed us a bit in the presentation of the situation before your committee by all these diagrams that have been set before you. In the first place, wages have not been compared with prices. Secondly, wages, and increases in prices, prices on farm products, and the cost of living, have all been based upon a period when agriculture was greatly out of kilter.

Dr. Clark and Mr. Keyserling both called attention to that, but mere mention of it is not quite as effective as seeing it in figures. So I have had prepared a table, where they are all based on the same time, 1926. That is the period used by the Bureau of Labor Statistics in its commodity indexes. We think we should base them all on that time. It is confusing to base some figures on one period and other figures on another period. You will see from this table, which I will ask to be distributed, that the tendency has been to base farm prices and cost of living on the 1939 period when we were not at the bottom, but very, very low. You will find the figures in the second or third column—the price of all commodities.

We think that in determining a program for attaining this equitable balance, we must start from some more equitable time that when agriculture had lost its shirt and was just beginning to be able to get a little bit of clothing on itself. So I am hoping that your committee, in its consideration of these problems, will give consideration to basing all these figures on the same base and considering them together.

We believe there is necessity for some export controls. That is now being exercised to a considerable extent through ECA, but we would approve export controls over strategic materials to keep our economy in balance.

On the commodity exchange, we have no comments to make.

The President also recommends an increase in the minimum wage. We believe in a minimum wage, but we believe the minimum wage should be adjusted to our cost of living. Again we are talking about a balance, and we believe it should also be adjusted geographically. That is, the difference in cost of living in different localities should be recognized and the minimum wage should be adjusted accordingly.

The President has brought out recommendations on increasing production. He starts with the St. Lawrence seaway. We are heartily in favor of the St. Lawrence seaway and the power development under it. In fact, we are in favor of the development of our water resources by public agencies and private agencies, as fast as they can be developed, to save our exhaustible natural resources and to give us the power we need.

Right now we are very short of power, and I hate to think of where we are going to land if we should be called upon for large military expansion. If we got into war, we are desperately short. We look at the need of power development not only as helping to attain an economic balance, but also almost as a military necessity in the way of a precaution.

In the field of agriculture, farmers have the record of having produced very steadily in good times and bad. Again I would like to submit a table for the record.

The CHAIRMAN. May I ask, what is the source of the figures in the first table?

Mr. GOSS. The Bureau of Labor Statistics. The figures were adjusted by our own economists, to put them all on the basis of 1926.

The CHAIRMAN. And the source of the second table?

Mr. GOSS. The same, and the Department of Agriculture.

The CHAIRMAN. These tables may be received for the record.

(The tables referred to above are as follows:)

Wages, prices, and cost of living index

[1926=100]

Year	Wages—hourly earnings	Wholesale prices: All commodities	Wholesale prices: Farm products	Wholesale prices: Food	Wholesale prices: Total other than farm products and food	Consumer price index
1926	100.0	100.0	100.0	100.0	100.0	100.0
1927	100.3	95.4	99.4	96.7	94.0	98.1
1928	102.5	96.7	105.9	101.0	92.9	97.0
1929	103.2	95.3	104.9	99.9	91.6	96.9
1930	100.7	86.4	88.3	90.5	85.2	94.5
1931	93.9	73.0	64.8	74.6	75.0	86.0
1932	81.3	64.8	48.2	61.0	70.2	77.2
1933	80.6	65.9	51.4	60.5	71.2	73.1
1934	97.0	74.9	65.3	70.5	78.4	75.1
1935	100.3	80.0	78.8	83.7	77.9	77.6
1936	101.4	80.8	80.9	82.1	79.6	78.4
1937	113.8	86.3	86.4	85.5	85.3	81.3
1938	114.4	78.6	68.5	73.6	81.7	79.7
1939	115.5	77.1	65.3	70.4	81.3	78.6
1940	120.6	78.6	67.7	71.3	83.0	79.3
1941	133.0	87.3	82.4	82.7	89.0	83.2
1942	155.6	98.8	105.9	99.6	95.5	92.2

Wages, prices, and cost of living index—Continued

Year	Wages—hourly earnings	Wholesale prices: All commodities	Wholesale prices: Farm products	Wholesale prices: Food	Wholesale prices: Total other than farm products and food	Consumer price index
1943	175.3	103.1	122.6	106.6	96.9	97.8
1944	185.0	104.0	123.3	104.9	98.5	99.3
1945	186.6	105.8	128.2	106.2	99.7	101.6
1946	197.8	121.1	148.9	130.7	109.5	110.2
1947	222.8	152.1	181.2	168.7	135.2	125.9
1948	242.2	164.9	188.4	179.1	150.6	135.4
1948—December	251.5	162.3	178.0	169.8	152.9	135.6

Agriculture's share of the national income and its relative position as a producer of goods

Year	National income [1]	Gross income from agriculture [2]	Percent gross farm income is of national income	Index of volume of agricultural and nonagricultural production, 1935–39=100: Index of agricultural production [3]	Index of volume of agricultural and nonagricultural production, 1935–39=100: Index of total industrial production [4]	Index of population, 1935–39 =100
1910	33,064	7,352	22.2			
1911	32,490	7,081	21.8			
1912	34,456	7,561	21.9			
1913	37,762	7,821	20.7	81	63	
1914	36,367	7,638	21.0	86	58	
1915	38,254	7,968	20.8	86	64	
1916	44,913	9,532	21.2	83	75	79
1917	53,360	13,147	24.6	86	76	80
1918	58,121	16,232	27.9	90	75	81
1919	66,136	17,710	26.8	91	72	81
1920	73,393	15,908	21.7	92	75	83
1921	58,333	10,478	18.0	83	58	84
1922	60,517	10,883	18.0	91	73	85
1923	70,675	11,967	16.9	94	88	87
1924	70,634	12,623	17.9	98	83	88
1925	75,187	13,567	18.0	97	90	90
1926	80,396	13,204	16.4	100	96	91
1927	78,502	13,251	16.9	98	95	92
1928	81,044	13,550	16.7	102	99	93
1929	85,954	13,824	16.1	100	110	94
1930	75,364	11,388	15.1	98	91	95
1931	59,853	8,378	14.0	102	75	96
1932	43,605	6,406	14.7	96	58	97
1933	42,006	7,055	16.7	96	69	97
1934	49,448	8,486	17.2	93	75	98
1935	56,398	9,595	17.0	91	87	99
1936	65,707	10,643	16.2	94	103	99
1937	61,556	11,265	18.3	106	113	100
1938	66,412	10,071	15.2	102	89	101
1939	71,515	10,547	14.7	106	109	101
1940	78,364	11,010	14.0	110	125	102
1941	95,266	13,894	14.6	112	162	103
1942	122,477	18,569	15.2	124	199	104
1943	151,358	23,035	15.2	128	239	106
1944	161,882	24,187	14.9	136	235	107
1945	163,170	25,432	15.6	133	203	108
1946	167,176	29,335	17.5	136	170	109
1947 [5]	190,799	34,702	18.2	136	187	112
1948 [5]	210,000	35,500	16.9	134	194	114

[1] U. S. Department of Agriculture, The Farm Income Situation, June-July 1947, p. 20.

[2] From U. S. Department of Agriculture B. A. E. 1947 Outlook Charts, p. 9. Figures not adjusted for inventory changes but include governmental payments.

[3] Index of agricultural production as given in U. S. Department of Agriculture B. A. E. 1947 Outlook Charts, p. 6, adjusted to 1935–39 base.

[4] Indices as given in U. S. Department of Agriculture B. A. E. 1947 Outlook Charts, p. 7.

[5] Preliminaries.

Mr. Goss. I would like to call to your attention that in the fifth column, the record of agricultural production runs right along with our increase in population which is shown in the last column. But what happens is that in maintaining this full production, which is necessary for prosperity or any stable economy, when we have unemployment and our production gets to be a little more than is necessary, the prices drop and drop. We exchange a full farm production with an industrial 50-percent production in round figures. Just see what happened in the early nineteen thirties.

Now, you cannot maintain prices individually over 6,000,000 farmers. So we believe in a floor under farm prices at some level which will not induce overproduction, but which will protect us from the impact of sudden fluctuations in production.

Generally speaking, we believe in a flexible floor. There are some commodities where we feel that a fixed floor may be necessary, particularly in export commodities and in those commodities where tremendous production adjustments are necessary. But we believe in supports which will contribute toward shifting from one line of production to another line of production. We do not believe in a floor which will hold our economy out of balance but will assist in maintaining that general balance that we seek for all.

Mr. HERTER. Mr. Goss, may I ask one question in regard to the table? Carrying the figure through from 1910 to 1948, you have taken agriculture and have given the figure for gross income from agriculture as a percentage of the national income. But there is missing in that table, I notice, the population in agriculture in relation to the total population. Hasn't there been a very serious falling off since 1910 in the percentage of persons engaged in agriculture as against the total population?

Mr. Goss. Yes; there has been a very serious falling off. The purpose of this table was not to determine what would be an equitable gross income, but it was particularly to point out that agriculture, all through these years, good times and bad, has maintained a very stable production.

Our income from it has fluctuated tremendously, while industry, by reason of causes which we well understand, has not maintained a stable production. We are trying to maintain a full employment and a full distribution so that we can all maintain a stable production, because it is only when we have full employment that any of us prosper. That is what we are trying to bring out by this particular table.

The President has suggested aid in storage. We think there must be more storage. We hope that private industry will provide it. We hope that if they do not provide it, we might have some Government guaranteed loans to our cooperatives to provide it.

If those two means fail, we think the Government needs to step in and provide sufficient storage, so that the crops we need will not go to waste, because agriculture itself cannot provide terminal storage for its commodities.

We believe in an improved distribution system which the President has only mentioned, but which we believe is basically one of the greatest aids in maintaining a stable economy. I will not go into the details of that, because I am over my time now, but there are great opportunities along that line for promoting economic stability.

In this distribution program we are aiding the stabilization of prices at the international level. We are supporting the wheat agreement which the President lists.

He has asked for increased production in steel. We are not in a position to say whether or not the steel industry is doing all it can. We recognize that any industry must look to the day when the leveling off process comes.

We would hope that all of our industries should be so financed, and that the price structure should be such that we could maintain some surplus production capacity to help take care of the ups and downs in demand. We cannot see the need of the Government engaging in steel production.

He advocates that we go forward with the Economic Cooperative Administration, and we are in sympathy with that. We do think, however, that in that Administration there must be a tapering off, such as I mentioned first. There are signs that there is not enough attention being given to an adequate tapering off in ECA.

We believe Congress should make a comprehensive study of that problem in connection with ECA right now. Some of the recipient nations are able to furnish us with strategic materials, tin, lead, zinc, and so forth, and they want cash on the barrelhead. We think we ought to begin trade at this time, and if it means a little longer period, rather than pay them cash for stuff which they export to us, and then give them the money to buy from us, we think there should be a longer period, but we should begin to develop those normal processes of trade.

We believe that is a subject which needs very careful investigation.

The CHAIRMAN. It is only proper to say for the record, Mr. Goss, that the Foreign Relations Committee of the Senate and the Foreign Affairs Committee of the House have been giving consideration to this problem. The Appropriations Committee last year set up a joint subcommittee to watch the operation of ECA. How successful it has been, I cannot say at the moment, but certainly the attempt was to do precisely what you say.

Mr. GOSS. I am glad to hear that. It was set up hastily, and necessarily so, because for 2 years we had no policy. Something had to be done.

Then the President has recommended the extension of the reciprocal trade agreements. We are in favor of reciprocal trade agreements, but at this point we believe Congress has disenfranchised itself. We believe Congress should enact some very definite guides as to a tariff policy on reciprocal trade agreements. The only policy now is to promote trade. That trade may be good, or it may be bad. We ought to have some very definite policies to guide the administration and those we feel are completely lacking.

In regard to housing, we think too much attention has been given to the credit phases of it; that the real problem is short materials and defective building codes. Those things might be handled to some extent by allocations, and to the one extent, which I hesitate to recommend—but it may be justified—that is, the extension of credit when and if building codes are adjusted to make sense. I do not like to see Congress reaching over and trying to dictate the building codes, but some of them are terrible.

As to rent control, we think there is going to be the necessity for some extension of rent control. We hope that it may be administered upon a realistic basis, recognizing those economic forces which may contribute to or prevent the investment of money in private housing.

When those forces are ignored, we have all the evils of a controlled economy. When they are recognized, we may be able to prevent profiteering at a point where it should be prevented.

There are three or four more things here. I would like to mention old age and unemployment compensation. We are disturbed at the unemployment compensation. We believe in the principle but when 80 percent of our receipts are paid out in unemployment benefits at a time when we have relatively full employment, where are we going to land when we have real unemployment? There have been some tremendous abuses. In some places it has been almost a farce. We would like to see it strengthened, but particularly strengthened so as to prevent the abuses and make it serve the purpose which it is intended to serve—that is when we have real unemployment. We are afraid that when real unemployment comes we are going to be out of money. Then they will say, "Well, here are the benefits promised; we haven't got any money. We need an additional appropriation." That will be just the time when the Government ought not to be called upon for an appropriation.

The time when the Government should collect taxes and build reserves is the time when we have good income.

I have a few more things, Senator, but I am way over my time, and I hope someone will bring them out.

The CHAIRMAN. Mr. Patton, you were about to ask a question of Mr. Reed when I caught the eye of Mr. Goss. Do you care to ask that question now?

Mr. PATTON. Yes. The question I wanted to ask Mr. Reed is in reference to his statement about a free competitive enterprise system, which I believe in. But I wanted to ask you whether or not you believe that we have competition as to price and as to distribution in some of our basic industries, such as steel, some chemicals, fertilizer, and a few of the things in that field, and how we could possible have a free competitive enterprise system if we have a constant price-fixing system administered outside of government?

Mr. REED. Well, Mr. Patton, I cannot speak specifically for other industries of this country, but as a general statement I would say emphatically—expressing my own view—that we do have a competitive economy in this country. That does not suggest that there are not exceptions to it, and that is why I am strongly in favor of our antitrust laws. I believe the Department of Justice should be constantly alert in seeking out the spots where rigidities have developed and to free them.

But I repeat, I do not think this economy of ours can be characterized other than by describing it as a highly competitive economy.

The CHAIRMAN. There is, is there not, Mr. Reed, quite an opinion among industrialists, that the time has come to abandon price competition, or at least to minimize it and to substitute competition of another kind, of service, quality, and so forth?

Mr. REED. I do not think I am familiar with those people who believe that we should abandon price competition.

The CHAIRMAN. I have heard it discussed by some, and particularly by the economists.

Mr. REED. I am not one of them.

The CHAIRMAN. However, that is neither here not there. Mr. Hines.

Mr. HINES. Mr. Chairman, I know Mr. Goss would not want the impression to go out that the unemployment-compensation tax would fail to meet the situation in the future, when he refers to the fact that 80 percent of the income is now being paid out. The fact of the matter is, Mr. Goss, as you know, or may not know, that the full tax is not being collected. The tax originally was 2.7 percent for the purpose of paying benefits. There was an additional three-tenths of 1 percent for administrative purposes which has not been changed. but in many, many instances the 2.7 percent has been reduced to about 1 percent, and in some instances it has practically vanished, due to amendments to the State laws which provide that when the fund reaches a certain point the employer will be given what is termed a "merit rating." In many instances, in practically every State, there are a great number of employers who are not paying the full tax. So as our unemployment rises that tax will have to go back on again.

We protested this merit-rating system on the ground that we should accumulate during the seven fat years something to take care of the seven lean years, but the employers said no. They succeeded in getting the legislatures to reduce their tax.

So it is not true that 80 percent of the potential tax is being paid out at the present time. I just wanted to make that correction.

The CHAIRMAN. You statement is as to the potential tax?

Mr. HINES. That is right.

The CHAIRMAN. Mr. Goss was referring to the actual tax collection.

Mr. HINES. But many people may get the impression that this is a reflection of the amount of money that would be or could be available.

The CHAIRMAN. Your point, I take it, Mr. Hines, is that while a tax rate was originally provided, which was estimated to be sufficient to raise the money that would be needed, the legislative bodies, including the Congress, because of the accumulation of the fund, waived a part of the tax payments?

Mr. HINES. That is right.

Mr. SMITH. Mr. Chairman, may I ask a question?

The CHAIRMAN. Yes, indeed, Mr. Smith.

Mr. SMITH. I take it from Mr. Hines' remarks that he also means that the employee should pay the 1 percent he originally was supposed to pay, which was remitted, I believe, in most cases, if not everywhere?

Mr. HINES. No; I am not discussing that at all. I am discussing the whole tax, whether it comes from employees or employers. In some States the employees contribute to it; in many States the payroll tax is upon the pay roll of employers. Now, regardless of whether it is paid by employees or employers the whole tax should have been paid to accumulate the funds to the extent that would have been necessary to meet any contingency that may arise. We will go back to that in accordance with many of the State laws as unemployment rises.

Mr. GOSS. Mr. Chairman, I am glad to learn this from Mr. Hines. We, too, believe in accumulating during the seven fat years, but we think there are some abuses, nevertheless, which arise from a definition of the worker's skills. We catch it from folks who used to work on a farm, who have gotten a job at something else, have worked a few weeks, and then they are out of a job. They do not come back to the farm when we need them, because they have increased their skill and they prefer to collect unemployment insurance.

We do not believe that is a sound way to run this show.

The CHAIRMAN. The Chair would suggest we are now getting into a discussion of the detail and not of the principle. Inasmuch as we have this long list of suggestions in the economic report which has been under discussion here, perhaps instead of debating details of various principles, since this committee has no legislative authority, but only the power to recommend, we will save time, I think, by going on to the general subject.

Mr. Hines, do you care to make your 5-minute contribution at this time? [Laughter.]

Mr. HINES. Yes, Mr. Chairman, I will try to hold it to 5 minutes, because I did not come here prepared to solve all these problems. I merely want to touch briefly upon that I think is the principle involved in this whole question.

We rather liked the President's report, particularly his reference to the resourcefulness of American business, the skill of our labor force, and the productivity of our agriculture.

The fact is, it has lifted our standards of living far beyond any prewar expectations. I also like his admonition that we should remember that our unparalleled prosperity has not been maintained by chance, and that we can lose it if we leave the future to chance.

I want to point out that many people in this country would like to do that, just sit by and pursue a laissez-faire attitude and say everything is going to be all right. We do not agree that is the proper course to pursue.

I am thinking here today in terms of the 8,000,000 human beings and the members of their families who go to make up a large segment of our population. The burden of inflation and deflation falls heaviest upon us. I can assure you of that, Mr. Chairman.

He also says, as we work together in 1949 to combat the remaining dangers of postwar inflation, we should always bear in mind that our purpose is, at the same time, to build strong bulwarks against deflation and depression, and thus to consolidate our past gains and move forward to new levels and sustain prosperity for all.

We are for that 100 percent.

How to achieve that is something else. I am just old-fashioned enough, and have had enough experience during my 38 years in the American Federation of Labor, to believe that the most essential method of acquiring or achieving anything is through cooperation of all the elements involved that can contribute to that end.

I have gone over your bill briefly. I like the purpose of the bill, to encourage maximum production, to improve the distribution of essential materials and facilities, and to discourage the present price movements, and so on and so forth. But I am particularly impressed by the suggestion that improved opportunity for consultation between Government, industry, labor, and agriculture should be developed and utilized. I think that is the key to this whole thing.

I think that industry, labor, and agriculture have it within their means, and Government has it within its means, to achieve the necessary plans to follow the course necessary to save this country from depression.

I believe closer cooperation is absolutely essential between employees and employers. We look with alarm upon the attitude, in some instances, of some employers who are not so much concerned about the future of the welfare of all the people of this Nation as they are about their own personal plans and their own program for themselves in their own private way.

We have elements in industry in this country that would like to get back to what they term the "good old days." That is evidenced by legislation passed in the Eightieth Congress. I refer particularly to—and I hope I will be pardoned for this—I don't know whether I should inject it here, but we cannot think in terms of anything else, Mr. Chairman, when we talk about cooperation between industry and labor, and when we talk about the welfare of our country. I am talking now about the thinking of the 8,000,000 members, not the union bosses, or any of that sort of thing, but the 8,000,000 members who cannot think in any other terms than the necessity for removing all restrictions between employers and employees to the end that we can work together peacefully and in harmony.

To that end we certainly cannot agree that we can go forward to a prosperous America and achieve the ends as desired in the President's report and in this bill, as long as the Taft-Hartley Act remains on the books.

That may not be a proper subject for discussion in the opinion of some people, but let me say to you——

Mr. CAREY. Mr. Chairman, would you permit a question, because I think it is a very proper subject.

The Chairman made reference to a provision in this bill to require the managers of industry to give up to 60 days' notice before they increase a price, and of course, to give the reasons as well.

Now, it would be similar to the provision in the present law that puts on a cooling-off period if labor seeks to increase wages.

Mr. HINES. It is similar to the provision provided in the President's recommendation to replace the Taft-Hartley Act and restore the Wagner Act, which provides for a 30-day provision for cooling-off in some instances.

Mr. CAREY. Mr. Hines, don't you expect all of industry to support that cooling-off period before prices are increased, in view of how they championed the cooling-off period for labor?

Mr. HINES. Well, again we are getting into details. I would rather reserve that until we get around the conference table.

The CHAIRMAN. That is what we call a rhetorical question.

Mr. HINES. Mr. Chairman, I want to say further that so far as the American Federation of Labor is concerned, we want to cooperate to the fullest extent with all elements of our society, including employers, various employer groups, and including the Government. We are not fearful of these so-called government controls that so many people are afraid of in times of stress. We have found them to be necessary. We have found they are needed.

My mind goes back a good many years to the time when some of our representatives in Congress stood up and did not want to lay a hand on anything affecting unemployment, the feeding of our people, or taking care of our people.

I remember a distinguished gentleman from Pennsylvania one time talking about how "we in Pennsylvania would spend for our own."

It was not many years later when I, as Secretary of Labor, was spending several millions of dollars a year to administer just one small portion of our program.

So it is utterly ridiculous to say that the Government should not step in at times when it is necessary, because it is the only place to which we can look to find relief and do the things necessry to bring us together on a united program.

I just threw that in, Mr. Chairman, as a provocative question or subject. You can do whatever you want to do with it. When we get talking about all these other things, I would like to talk minimum wages with my friend over here. I do not want to take the time now, but I would like to ask him just how he is affected by minimum wages; whether minimum wages means the purchase of more farm goods, or whether, if it is applied to farm workers, it will have serious effects upon them.

There are subjects which could be worked out under this provision of your bill here.

I hope to take part in the discussion and answer any questions.

The CHAIRMAN. Just for the purpose of seeing whether there is any agreement in principle, the Chair will venture to ask those who are participating in the discussion, those who agree that there ought to be a legislative provision for minimum wages, to raise their hands.

(Hands raised.)

Mr. FLEMING. Excuse me, Mr. Chairman. Minimum wages spread completely across the economy.

The CHAIRMAN. I am talking of minimum wages themselves. They may be subject to variation.

Mr. HINES. Obviously, we cannot agree, Mr. Chairman, on the type of legislation for minimum wages. We want wider coverage.

The CHAIRMAN. That is a detail.

Mr. HINES. That is a detail, but the principle of minimum wages is what you are asking for, I think.

The CHAIRMAN. All right, the principle. Let us get a raising of hands. One, two, three, four, five, six, seven, eight, nine. Was your hand raised, Mr. Schmidt?

Mr. SCHMIDT. Yes, sir.

The CHAIRMAN. I think it is a universal vote in favor of minimum wages.

That shows how you can come to agreement. [Laughter.]

Mr. HINES. I would not ask for a vote at this time for removal of the Taft-Hartley Act from the books.

The CHAIRMAN. Are there any questions to be asked of Mr. Hines?

Mr. KESTNBAUM. Mr. Chairman, may I ask Mr. Hines a question?

The CHAIRMAN. Yes, sir.

Mr. KESTNBAUM. Just following out your suggestion that there is more agreement than is generally recognized on this subject, I would like to ask Mr. Hines whether he thinks there would be any large body of employers that would want to go back to the period prior to the establishment of provisions for collective bargaining under the Wagner Act. Do you think any large number of employers would like to abolish collective bargaining to destroy unions, and so on?

Mr. HINES. Mr. Chairman, from my experience in contact with employers, and I have met many of them over the years and since the Wagner Act was instituted; in fact, if you go back further when the NRA and the famous section 7 (a) was instituted, I doubt that there are any employers, with the exception of very few hold-outs, who want to go back to the "good old days," to the law that prevailed before the Wagner Act, when section 7 (a) was enacted. I doubt that there are many.

Mr. KESTNBAUM. That is an answer to my question, Mr. Chairman. I think we have made tremendous progress, when Mr. Hines himself announces that if you took a poll amongst employers today, no large responsible group would say, "Let us move back, let us turn the clock back."

Mr. HINES. That is all we are asking Congress to do, to turn the clock back and go back to the Wagner Act. I don't think the employers should object to that much.

The CHAIRMAN. Mr. Schmidt, may I ask you as a representative of the organized chambers of commerce, to make a contribution?

Mr. SCHMIDT. I think perhaps we are talking a little too much about ends and goals, and not enough about means. I think we are all agreed on the ends and goals.

The CHAIRMAN. Well, are we all agreed that these ends and goals should be obtained by government action and, if so, how much?

Mr. SCHMIDT. Let me illustrate my point.

Students of European chaos have said for years that what Europe needs is a unified Europe, a federalized Europe. Well, Hitler offered to do the job for us but we did not like it. In other words, the end that he sought is exactly our end but the means he employed was something else again.

Ralph Waldo Emerson always said that the end preexists in the means. This bill to which the chairman referred has a lot of very noble ends, but it is the means that we have to question and look at most closely. If Emerson was correct then we are not seeking it in the right way.

The second point I want to make is that I think we have had some rather loose talk about maladjustments and balance. We are all in favor of adjustments against maladjustments, in favor of balance and against imbalance.

Mr. Keyserling particularly, and Mr. Clark, used those words again and again. I think they have confused—and I think we are all confusing in the use of our language—the difference between price changes and the problem of inflation. When prices rise that is the result of inflation or the result of shifting supplies and demands, which in itself is not inflation. These price changes which have been lamented here this morning, that is, the upward drift in some of the durable goods prices, may actually be a price adjustment. When prices change, that constitutes always, in a free market economy or reasonably free market economy, a striving toward adjustment and not maladjustment.

Agricultural prices, as you well know, zoomed during and after the war. A lot of people complained about the high prices. Well, as a matter of fact, that was simply the response to the millions of decisions of individuals in their demand, in the light of the supply, that we equilibrate supply and demand. The function of a free price is to do just that, to equilibrate supply and demand.

As Mr. Goss pointed out this morning, we have had these industries with backlogs such as steel, automobiles and electrical equipment.

On the other hand, we have had industries such as cosmetics and whiskey where they have had no backlogs. So, you are bound to get these upward adjustments which do not synchronize but differ from time to time. My guess would be that some of these prices are still too low. Although I agree with Mr. Reed that the general inflationary pressure is about over.

That does not mean that a lot of individual prices may not still have to go higher. Price control is a device for making the price tag say something which is not true. Immediately you have to employ a battery of policemen to try to implement what is the lie in price control. Selective price controls will not work because they overstimulate demand and check supply. Therefore, much of this bill would probably make the system work less effectively.

If you allocate scarce materials to this or that sector of the economy you think you solve a problem. But you discover immediately that you are pinching somebody else, because from whom are you going to take these scarce materials when you allocate them to where the squawks occur? The minute you allocate any quantity of these scarce materials then you create pincers here and there, and everywhere. You create unemployment in some instances.

We are all for equitable price relationships, proper relationships between farm income and other types of income, wages, profits, and all the rest of it. It is the function of our economy to try to discover what these relationships are.

I would like to submit that this concept of a fair price is a pretty nebulous thing and a dangerous thing to play with, because we have no criteria as to what is a fair price.

The result will be that whatever group is in power, politically or otherwise, with the greatest instruments for propaganda at its disposal, will put over its concept of a fair price and there is no assurance at all that you get what you really want.

I would like to quote, if I may, from the Council of Economic Adviser's third report, on page 11. They have a very significant statement that I think ought to be in the record, Mr. Chairman. This is at the bottom of page 11. They say [reading]:

> There is no theoretical necessity in a planned society that the political state shall be undemocratic, or that in a free society political democracy must prevail. But the pragmatic need for these conditions in the respective systems is fairly great, for in what we Americans believe to be the only true democracy in which the people have the right to use political means to further their own purposes and to combine with others of like economic interest to bring about action by government, no planned economy could meet the test, is our conception of democracy. The planners having made their plans would not have the power to make them come true. It would also be conceivable for an absolutist government to decree a free economy, but it is not conceivable that such a government would long be able to tolerate some of the collateral consequences of the free system. For instance, the expanding organization and groups of capitalist enterprisers, workers, and farmers, which are bound to arise in a free economy.

The point I want to make is that while economic problems are overriding and important, we are also concerned with something else, and that is the liberty of the American people which has really been the foundation of the strength of our society, which underlies the free enterprise society.

David M. Wright, in a very interesting book that I am sure all the members of the committee would be interested in reading—a book called Economics of Disturbance—demonstrates absolutely, I think, that even in a socialist society if you have freedom of consumer choice you could not be certain that you could stabilize the economy.

Gustav Stolper, in a book that he wrote on the German economy in about 1940, showed that by that period, by the time of the Hitler movement, that is, before 1933, perhaps 1930, one-half of the national income inside Germany was in the control of government, and yet they were not able to do the job, they were not able to prevent a depression, they were not able to prevent a collapse.

So, I would like to suggest it is a very difficult thing for a congress or an administration to do the kind of things that we have as our goals.

The CHAIRMAN. May I interrupt, Mr. Schmidt, to say, so that the record will be clear, that in the paragraph immediately following the one you just read, the first sentence, the Council of Economic Advisers goes on to say [reading]:

> A planned economy is thus markedly different in kind and not merely in degree from the free competitive economy which the Congress stipulates as a continuing objective of the Employment Act.

I make that interjection so as to make it clear that the quotation which you have read should not be interpreted as meaning that the Council of Economic Advisers was approving a planned economy which it attempted to describe.

Mr. SCHMIDT. I quoted that section with that clearly in mind. I think that is an excellent statement which they have made and I agree with it. I think that is thoroughly in accord with the Employment Act of 1946.

Whereas, this bill, H. R. 2756 is an essential negation. It would require an amendment to the Employment Act, because the Employment Act puts the responsibility on the administration, that is, the Government, to promote a free-enterprise society, whereas, this is the essential negation of a free-enterprise society.

The CHAIRMAN. Do you, Mr. Schmidt, suggest to the committee that Government should take no action?

Mr. SCHMIDT. Oh, no.

The CHAIRMAN. Or do you suggest some other type of action than that which is suggested in the economic report and in the bill?

Mr. SCHMIDT. I look upon this land of ours as being composed of 145,000,000 free individuals. They are free to become job seekers or employers, and they are free to become self-employed. We need the fluidity which that concept implies. If we have a scarcity of jobs, as Mr. Reed has so eloquently pointed out, we need to foster the job-making process. I think one of the reasons we were unable to cure unemployment in the 1930's is because we tried to make the status of the worker more favorable and we tried to make the work of the job maker tougher. We put all sorts of obstacles in the way of job making.

In this economy we have some 4,000,000 independent business establishments. Each of them is anxious to survive and most of them are anxious to grow. That gives a perfectly terrific dynamism to our economy and tends to pull up the standards of living.

The producers produce something like 8,000,000 different items. We often speak of the economic interdependence of our economy, but we have an equally persuasive technological interdependence in our economy.

I would like to remind you of the fact that during the meat-control period in 1946, meat control actually retarded house construction, because you cannot build houses without nails and you cannot make nails without wire, and wire is drawn by the manufacturer with the aid of lubricants produced by the packing plant. So the emptying of the packing plants during that meat-control period actually retarded house construction. That is a rather interesting but actual illustration of what takes place.

Now the whole economy has this very profound technological interdependence. Something like two or three hundred million business transactions take place every day. The minute you control this economy, the minute you allocate, the minute you interfere with the voluntary efforts of these millions of people, businessmen, consumers, wholesalers and retailers, you are bound to set up all sorts of frictions and bottlenecks and that is why all these controls not only breed friction, but every control is bound to create a new source of friction. In fact, that is its intention; that is its purpose. The purpose of control is to divert something from one place to another place and by the very process of diversion you create irritations, frictions, and shortages in areas that you had not anticipated.

So I would like to go on record as very unalterably opposed to this new bill, although the goals in many respects are charming and beautiful, and I think every man around this table on both sides would agree with the goals.

The entrepreneur businessman is in many respects the key to our dynamic system. All segments are important. You cannot say one is more important than another, but in terms of the dynamism it is the entrepreneur, the businessman. Most business transactions, except at the retail level, are what we call forward commitments. A businessman buys a generator. He erects a factory. He has to look a long way into the future. I would like to suggest that if this bill is really taken seriously by the Members of the Senate and the House that it could generate a very serious recession and perhaps a depression, simply because until you gentlemen act on this bill every businessman who is making a 10-year commitment in brick, mortar, and machinery will say, "Well, I will just have to wait. Because if I have to go down to the corner where a Government board sits every time I want to raise prices, who knows who will control the board, who knows what facts will influence that board. I simply will not be able to raise the capital, either loan capital or equity capital under those kinds of conditions."

For that reason I hope, Senator, you will reconsider your own attitude in regard to this particular idea of a cooling-off period. This little colloquy these gentlemen had over here was quite a different thing. There is nothing in the Taft-Hartley Act to stop a group of businessmen or employers and workers——

The CHAIRMAN. Now, wait a minute. This is not the Labor Committee. I do not want to get into that discussion.

I do want to say this to you, Mr. Schmidt. You talked in terms of the individual businessman as though the individual businessman was the representative business and industrial institution of our time.

Mr. SCHMIDT. That is right.

The CHAIRMAN. Within the past 2 months the McGraw-Hill Publishing Co. published a book by Dr. Kaplan of the Brookings

Institution, who wrote the book on behalf of the Committee on Economic Development, which, as we all know, is not a Government agency. This was a book upon the problems of small business. In this book the statistics are presented on page 25, I think, in which it is pointed out that eight-tenths of 1 percent of the business institutions in the United States employ 56 percent of all the workers. More than that, out of the 3½ million separate enterprises, 4,900, or less than one-tenth of 1 percent, employ 40 percent of all the workers.

To me that makes it clear that the trend of our economy is not at all directed by the independent judgment of 3 or 4 million independent enterprises, but is directed by the judgment of the one-tenth of 1 percent who employ 40 percent of all the workers. It is the concentration of industrial control that leads to the expansion of Government controls. The purpose of the report of the Council of Economic Advisers, to which you referred in the beginning, was, I think, as I read it, to give a picture of the growth of Government power to regulate the operation of business. It was just pointed out that these Government regulations have expanded to the degree that the concentration of private control over the economy has expanded.

Mr. SCHMIDT. A little interesting side light. We published a little pamphlet on this same problem 4 years ago. The CED picked the same title as our pamphlet bore. They had it in galley proof and wanted to know if we objected to that. We said "No." They brought out many of the facts that were mentioned in our pamphlet. I do not know what they prove but this is a billion-dollar country and technology, to some extent, requires size.

Speaking purely for myself, if the problem is acute as you say, I would much prefer to see you put a limit on size, rather than to try to regulate business. At the same time I would certainly say, as Mr. Reed said, and one or two others, that we need the antitrust law. Adam Smith, in 1776, said one of the peculiar things about businessmen is that they cannot even go down to the tavern and drink a pint of ale but what their conversation turns to price-fixing.

Certainly we need the antitrust law. We need it intelligently enforced. Nobody likes competition. We are all for it and yet in our own position we do not like competition.

So I do not know. I have read most of your speeches, Senator, and thoroughly enjoyed them, but I do not know what the meaning of what you say is in terms of the welfare of this economy.

Someone mentioned that we should have less price competition and simply more service competition or style competition, and so on. I do not know whether that is correct, or not. Certainly in most lines we have more substitute goods today than we ever had before. When our grandmothers were here they had woolens and cottons, and that was all. Today they have a dozen or more different cloths in the closet.

As to transportation, it is true that the train used to be our only source of transportation. Today we have trucks, cars, pipe lines, air lines and an improved navigation system. As a matter of fact, I read a paper—which is to be published as a chapter in a book—before the Philosophical Library in New York, in which I think I demonstrated very conclusively that if you take the picture as a whole our economy today is more competitive than it was in 1930. That is a thing you cannot prove very well but that is my conclusion.

I hope some day we can thresh out this complex situation.

Take General Motors, relatively unimportant in 1920 in the automobile industry. Ford produced half the cars. At the present time Ford produces, I suppose, 18 or 20 percent; Chrysler would be another 20 percent and General Motors is on top of the heap. A decade from now they may not be on top of the heap.

So the very fact that you have these three big motorcar companies occupying 80 or 90 percent of the motorcar industry, and yet shifting positions, is a very interesting commentary, I think, on the meaning of concentration. It is not a static thing.

The CHAIRMAN. There is not any doubt, Mr. Schmidt, that we are producing more goods than ever before. There is no doubt that we have reached, when the economy is working, a higher living standard than ever before. But this is also true, as set forth in the table presented by Mr. Goss, that when difficult times come upon us there has been a restriction of the output of industry on the whole, and a maintenance of price, while there has been a general maintenance of the output of agriculture and a severe drop in the price.

While it is true that things are much bigger and better while the economy is operating, it is also true that when we go into the declines, the depressions which we get are also bigger and longer than those which have preceded.

So the problem before this committee, before the Congress, before the United States Chamber of Commerce, and before the labor unions and the business organizations, is whether or not we are going to do anything by Government, or otherwise, to stabilize the economy so that these great swings will not take place. That is the question.

Mr. SCHMIDT. But even there, if you take the 10 topnotch economists in the country, known for their objectivity, they would not agree that administered prices, to which you are referring, are a bad thing on the balance; even in terms of the business cycle, assuming again there is this kind of competition that we have, let us say, in the motorcar industry or a number of the other industries where prices are more or less administered.

The CHAIRMAN. That acknowledges the existence of a system of administered prices. In due course I hope that this committee will conduct a study of that.

But let me ask you, Mr. Schmidt, as the representative here of the United States Chamber of Commerce, do you suggest to the committee that Government should take its hand off?

Mr. SCHMIDT. Off of what?

The CHAIRMAN. Off the economy.

Mr. SCHMIDT. Oh, no; not by any means. I am a good constitutionalist. The founding fathers saw the role of our Government.

The CHAIRMAN. Then what do you propose that we should do?

Mr. SCHMIDT. We meet, as you probably know, both officially and personally, with the Council of Economic Advisers quite regularly. We have very agreeable and satisfactory discussions. I made this report to them a year ago. I said that back in 1850 agriculture was the dominant industry. As agriculture went, so went the whole economy. Today the dominant industry in this country is government. The Federal budget is 42 or 45 billion dollars; State budgets are another 15 or 20 billion dollars, so that about 60 billion dollars represents Government behavior.

I said that since this industry is so big—government—what it does in its expenditure policy, its tax-take policy, and so on, really is the dominant factor in our economy. If the Government itself were able to adopt a contra-cyclical policy that would make, probably, the most powerful single contribution to economic stability and to the boom-bust theory that could be made.

Certainly it is just common sense that before the United States Government reaches into General Motors, into General Electric or a little hamburger store down the street, that it act, itself, in the best good housekeeping sense and make its own maximum contribution.

What does that mean? Well, it means that you should not excessively boom the boom with Government policy. It means that you should not encourage deflationary policies within the Government itself. It means that your Government lending policies, your housing promotion, housing-construction policies, your fiscal policies, your monetary, your credit policies, all ought to be carefully worked out in terms of a contra-cyclical philosophy.

One of the things that I missed in the President's Economic Report is the lack of a coherent philosophy or theory of the business cycle. There is an excessive amount of what you might call opportunism, it seems to me, or ad hoc analysis. What is the cause?

You asked a moment ago when the Government should enter into the boom-bust. Some say when the bust is upon us. You have to know the nature of a recession before you can know what the Government ought to do. We do not yet have a very complete, unified, explanation in the Government as to what we could say was the cause of the 1929 depression.

Now, until we can get a consistent philosophy of what caused the depression, what caused the recession in 1937, and what caused the recovery, let us say, in 1922, I do not think we dare act so superficially. I do not think we would dare to say the problem is so compelling that we must act.

Hitler offered to act and you know what happened. It may create more disturbances in the economy than any problems you might solve.

The CHAIRMAN. Then are we to draw the inference that you say, "Don't act"?

Mr. SCHMIDT. No. I would say you have to make a judgment. First of all, get straight on what inflation and deflation are and do not talk about price changes as being inflationary, because inflation is a monetary phenomena and deflation is primarily a monetary phenomena.

For example, from 1929 to 1932, we had an actual destruction of money of about 50 percent. Eight billion dollars simply evaporated by the process of loan repayment. Now, you cannot destroy people's money, which is the lubricating device for the exchange in an economy, you cannot destroy money and expect that economy to function effectively. So you have to have a monetary and credit policy, a bank reserve policy which simply will not allow the destruction of money.

Similarly, on the upswing we ought not to have excessive credit expansion because credit expansion is a device for letting you, as a borrower, get something which you cannot otherwise get.

The CHAIRMAN. Do you agree with Mr. Goss that regulation W should be extended?

Mr. SCHMIDT. Our policy happens to be against that. I personally think the problem is really the method of financing consumer credit, rather than the question of whether you have quality control. Generally, it probably is better to have over-all credit control, rather than quality control, because if you pick out this industry or that particular type of a sector of the economy and put a control on it, you may not reach the objectives you thought you would.

The CHAIRMAN. In the round-table discussion yesterday and the day before, I think there was substantial agreement by all who participated, that the budget should be balanced and the Treasury surplus should be maintained as an anti-inflationary force as sound fiscal policy. What is your view with respect to the desirability of maintaining a budgetary surplus?

Mr. SCHMIDT. So long as the inflationary pressures continue I certainly would agree with what apparently was the unanimous view of this group. But now if you are on this fence not knowing whether inflationary prices are still with us, or whether it is deflation, I would still try to generate a surplus. But instead of paying off the bank-held debt I would pay off the publicly held debt because the paying off of the bank-held debt tends to reduce the reserves of the banking system, and therefore is a much more powerful deflation weapon than is the payment of certain bonds that I happen to hold and you happen to hold.

The CHAIRMAN. I am afraid, Mr. Schmidt, you and I could occupy the whole time of the session in our discussion. I want to invite Mr. S. Abbot Smith of the smaller business group to make such comment as he cares to make now.

Mr. S. ABBOT SMITH. Mr. Chairman, I do not know who arranged the seating here today but I find myself sitting between the representatives of General Electric and of the National Association of Manufacturers, so small business feels right at home boxed in between them.

The CHAIRMAN. I assure you it was not the chairman who made the assignment of the seats.

Mr. SMITH. Thank, you, sir.

I was much encouraged by Mr. Reed's remarks as to the need for initiative and venture, because that obviously is what small business has and what it contributes to our economy.

Small business, in general, does not ask special privilege. We ask for equality of opportunity. If you will give us a healthy business climate we will stand on our own feet and do all right. We recognize the need for tremendous governmental expenditures, foreign aid, adequate defense, and we also realize that adequate defense rests on a sound economy at home. As a matter of fact, the fate of the whole world rests on our maintaining a sound economy in this country.

I am not an economist, but when I see our Federal, State and local taxes taking something like 25 or 30 percent of our national income, it is perfectly obvious to me that we are in a dangerous situation. Now, when a businessman finds himself in a situation like that, the first thing he wants to do is cut his costs. It seems to most of us that the Government should do the same.

Judging from the newspaper articles about the Hoover report, we think it is going to show a lot of places where substantial savings can be made. We would like to see those recommendations implemented, as soon as possible. We realize that it is hard to do. It is hard to cut expenses, whether you are in business, in Government, or in your home. Everybody squawks when you cut things off, but it has to be done.

I was interested in what Mr. Goss said because I have considered farm subsidies as one of the glaring examples of a policy which was inducing overproduction, which is going to cost the Treasury hundreds of millions of dollars, and, as a matter of fact, from what I can make out, most intelligent farmers realize that they simply result in a revulsion of sympathetic feeling which most people have had for the farmers.

To my mind, small business is just as important as the farmers. He mentioned the fact that farmers should have a floor under their prices. I have not heard anybody mention a floor under the prices of small-business products. It seems to me the small businessman takes the maximum risk, but you do not provide any cushion for him.

If you want to do something for all business and expressly something for small business, exempt the first $25,000 of corporate profits from income tax. That would do more to help many small businesses than anything else you could do. To my mind it is a lot sounder than taking the money away from them in the form of taxes and then setting up a Government agency to lend it back to them.

Another important item which it would accomplish is that it would automatically screen out the incompetent. When you have lending agencies they have to make an investigation to see whether or not the fellow deserves a loan. This way the man who makes the profits would probably stay in business. That is another advantage.

The Treasury undoubtedly would say it would cost too much money, that we could not afford it. On the other hand, we are spending billions of dollars on projects of various kinds. The farmers and others have benefited by the taxes which small business has been paying, amongst others, chipping in on their products, now let the others chip in on this one.

The ultimate advantage is that you get a dynamic economy. It keeps small business growing and expanding, dividing more jobs and increasing your tax revenue directly and indirectly.

I have not had time to study this bill. I read it over very casually. I cannot believe that our economy is in as bad shape as the first two pages would make it appear. I think there are soft spots.

Frankly, I think these adjustments as we have seen them so far, anyway, are healthy. Many lines of business are up too high in the air; prices are too high, and we must have an adjustment. We are better off because we have them and we are better off because we are getting them individually in various lines, rather than all at once.

As I read over the bill, frankly, I do not like most of it. First of all, as various speakers have pointed out, it hands over this power to the President which I think should be exercised by Congress. They are our representatives.

Furthermore, I would trust the composite judgment of 4,000,000 businessmen—and I don't know how innumerable investors—in the ultimate appraisal of these various situations, rather than a few individuals, no matter how able or how competent they might be.

The bill states that one of the objectives is the maintenance of free enterprise. Frankly, I think many sections of it would throttle free enterprise. Small business is mentioned at many different points in the bill, but as I read it over the only point I noticed in any way which I thought would really be a benefit to small business, was the fact that any concern employing 10 or less would be exempted from the various questionnaires required. [Laughter.]

As you look over the economy in general it looks to me today as if the Government were taking care of almost everybody, except small business. I suppose we should feel sorry about that but actually we prefer it that way. We would rather be left free and independent, Mr. Chairman.

Thank you.

The CHAIRMAN. It is now 10 minutes of 1. I think probably we can conclude this round table this afternoon. Would it be convenient for the members to return at 2:30?

(No response.)

The CHAIRMAN. Then the committee will stand in recess until 2:30 o'clock this afternoon in this room.

(Whereupon, at 1:05 p. m., the committee recessed until 2:30 p. m. of the same day.)

AFTERNOON SESSION

The CHAIRMAN. The committee will come to order.

Mr. Fleming, are you ready to make a statement?

Mr. FLEMING. I will be happy to, Mr. Chairman.

The CHAIRMAN. Thank you, sir.

Mr. FLEMING. First of all, the members of the American Farm Bureau Federation are very anxious that we continue to develop and maintain the dynamic free economy, and we feel that if we are going to accomplish that objective we are going to have to stabilize the general price level. It might be wondered why farmers are particuarly interested in the general price level. Ours is not an academic interest, it is a real interest brought about by virtue of what happens to farm prices and farm production in periods when changes in the general price level occur.

As you indicated so clearly this morning, Mr. Chairman, farm production remains relatively stable and farm prices fluctuate. Whereas, in the case of industry, much too often the production fluctuates, and it is the price that remains relatively stable.

Farmers know from experience that agricultural prices ordinarily go up faster and further than the general price level and fall faster than the general price level.

In my lifetime—and I am not an elderly man—I have seen hogs sell for $2.91 a hundred and $31.50 a hundred. If farm prices had followed closely the general price level during that same period, the range would have been from $7.80 up to $18.60.

So far as farmers are concerned, they are interested in a stabilized price level and one which does not get them in the position of being vulnerable to the sort of scissors effect which blights the agricultural economy when it becomes subject to those fluctuations.

Farmers today, particularly in light of the recent commodity price declines, are conscious of the fact that farm costs in 1948 were approximately 16.9 billion dollars, which is more than total gross farm income in any year prior to 1942. They are conscious of the fact that they are perched on the steeple of high costs and are anxious to work out programs consistent with the sort of a full production and full employment economy which will enable them to operate at a profit, and still be part of, an integral part of, the free competitive enterprise system.

I should like to say that the statement which Secretary Brannan made to this committee on February 10, so far as it relates to the farm situation and the economics of agriculture, provides a relatively complete factual report, one which is consistent with our whole experience in the agricultural field.

This inflation which we have—and we are wondering whether it will continue or not—is, as has been mentioned here today, a monetary inflation. We have experienced a situation where the supply of money has outrun the supply of goods available. Consequently, we in the American Farm Bureau are trying to take an approach consistent with the problem, rather than just with the symptoms of the problem. For example, a comparison of demand deposits, as one indication of the money supply, reveals that in 1939 demand deposits were about 36.2 billion; in 1948, they were about 109.6 billion.

In other words, it has been a monetary inflation. As an approach to this problem we recommend that the Congress set up a joint congressional committee for the purpose of giving attention to ways and means of correlating our Government policy, as it relates to expenditures, as it relates to the taxes necessary to finance such expenditures, and as it relates to the sort of fiscal policy that it takes to most intelligently handle our national debt.

We are very anxious that affirmative action be taken and that it be taken in time to avoid some of the pitfalls which we are certain will take place if we go about it in a haphazard manner.

Consistent with that, of course, is the necessity to reduce nonessential Government expenditures. We are conscious of the fact that in the United States about 29 cents out of every dollar earned now is used to defray the cost of government. We are very anxious that the Congress give attention to every appropriate means for reducing nonessential Government expenditures.

Now, with regard to price controls, we have been conscious of what we think have been efforts to delude the American people into thinking that price controls will control inflation. Price controls deal mainly with symptoms rather than causes. We would think it a sorry situation, indeed, if efforts were to continue to be made to try to convince the American people, whether it be agriculture, industry, labor, or people who do not fall in any of those classifications, that price controls offered any real hope for dealing with the basic causes of inflation. Price levels reflect basic relationships between money in circulation and goods and services available for purchase. Selective price controls are in fact dangerous. They deceive the people and create a false sense of security.

Now, with regard to agriculture, particularly, I should like to say in that connection that I cannot visualize anything that would be much worse at the moment than to announce price controls on livestock. The livestock economy at the present time is feeling the full force and effect of the commodity price breaks. In order to have the individual decisions of livestock men add up to more meat, which is one of the real shortages in this country, as compared with the terrific demand which has existed for meat, you have to have favorable feed-livestock ratios. The livestock man knows that for sure.

Livestock men like to have a little certainty in a business which at best has a tremendous amount of risk taking in it. Consequently, one of the things that livestock feeders are especially conscious of these days is the feed-livestock ratio, particularly with the break in commodity prices which has occurred. Any fear on their part that price controls on livestock were going to be reimposed would certainly bring about decisions with regard to feeding livestock and providing more meat which would adversely affect the supply of meat available to the consumers in this country. Consequently we would not achieve our objective, which is the proper balance between the demand for meat and the supply of livestock available.

As I indicated previously, farmers are interested in full employment. We have appreciated, Mr. Chairman, the efforts that you have made, and other members of this committee, to break the bottlenecks to full production wherever they exist, whether that be in industry or whether that be in the restrictive practices of labor, or whether it be in actions on the part of farmers, bottlenecks which are inconsistent with full production and full employment in this country.

So far as the farm adjustment programs are concerned, I have intentionally left that subject until a little way down the line. I have done this because, the extent to which we succeed in stabilizing the general price level, the extent to which we can maintain full employment and full production in the nonfarm segment of our economy, will have a profound bearing on the degree to which we have to impose production controls, and the degree to which any controls over price policy run into serious difficulty of administration and excessive cost.

I want to say in this whole field of operation that we feel the report of the Council of Economic Advisers, with regard to agricultural policy, is very good. We appraise the essentials of the problem much as they appear. Their report points the direction with regard to which public policy might well operate in the field of farm policy.

I would like to make one further comment, Mr. Chairman. On behalf of the American farmers, I want to say that we always have produced an ample supply of food and fiber. Farmers like to produce. They only accept production controls when it is impossible to get the sort of full employment and full production needed to provide high consumer demand in this country. We should like to continue operating at full production. We do not just talk about it, we deliver the production, year in and year out.

We should like to urge industry and labor to adopt this program, and to continue the present ones that are consistent with this objective, so that we can have full production throughout the economy.

We sincerely hope that industry will not reduce production to maintain price; that wholesalers will pass on reduced prices to distributors.

We hope that people in industry and labor will follow the policy of trying to increase productivity per man, which is the only way to earn increased real income in this country. In turn, we call on the Government to manage the national debt in a way consistent with a healthy economy, and to attempt to reduce nonessential expenditures as much as possible.

In the meantime farmers will do everything in their power to provide plenty of food for the table, and to participate as citizens in the development and maintenance of a dynamic economy in this country.

In closing, Mr. Chairman, I should like to say that inasmuch as Allan Kline, our president, had last fall accepted an invitation to speak at the National Farm Institute today, he asked me to be here and to serve in his stead. I appreciate that privilege.

The CHAIRMAN. I understand you to say that on the whole you feel that the report of the Council of Economic Advisers was generally good?

Mr. FLEMING. My comments were directed more particularly, Mr. Chairman, to that area of the Council's report dealing with farm price policy. But I would broaden it to include those economic policies that relate more directly to agriculture.

The CHAIRMAN. What recommendations which have been made are you willing to say you favor or oppose?

Mr. FLEMING. Of course, that is a rather broad question, Mr. Chairman.

The CHAIRMAN. Yes, I suppose it is.

Mr. FLEMING. As it relates particularly to the agricultural field, the whole area of their report with regard to farm price policy, which starts at the bottom of page 47 and continues to the close of that section, is thoroughly consistent with our views on that subject.

With regard to control of inflation as a major proposition, as I have indicated it has been our policy and still is that we should deal with the causes of inflation, rather than with the symptoms. We backed up that policy by opposing tax decreases in the Eightieth Congress. In other words, it was our conviction at that time that during periods of prosperity is the time to collect taxes, balance the budget, and make a substantial payment on the public debt.

The CHAIRMAN. How do you feel with respect to taxation now, the recommendation of the President, for example, that an additional 4 billion dollars should be found?

Mr. FLEMING. We are less sure that the inflationary pressures, which we were confident existed a year ago, exist today. Therefore, it would be our suggestion that before a positive commitment be made on that point, we determine more accurate than we can now—and we may be able to do it more accurately within 3 months—the exact point we are in with regard to the transition from an inflationary to a deflationary situation.

The CHAIRMAN. There is also the other aspect of that question, namely, the expenditures of Government. Now, assuming that the Congress will endeavor to keep Government expenditures down; assuming upon the basis of the President's appointment of Mr. Hoover to be head of the Executive Reorganization Commission, that an effort will be made to abolish duplication, and thereby to cut expenses; but facing the fact that the maintenance of national defense and international relations, the payment of the public debt, the handling of Veterans' Administration problems, and so forth, do involve expenditures which cannot be avoided without abandoning or seriously curtailing those efforts; what recommendation do you make to the committee with respect to the Treasury surplus?

Mr. FLEMING. First of all, Mr. Chairman, there are several features of the total budget with regard to which we do not have a specific policy. I should like to read to you a paragraph of our resolutions adopted at the Atlantic City convention in December 1948, which bears directly upon the point of your question. It says [reading]:

For the current tax year every effort should be made to eliminate all nonessential governmental expenditures and to reduce all expenditures to the minimum necessary for good government, essential to world aid, and adequate to national defense. Military expenditures should be scrutinized with the same severity as are those for other essential governmental functions. Proposals for reorganization of government, where it is clearly shown that substantial savings can be made without impairing service, should receive earnest consideration. Now, when demand for military preparedness and world rehabilitation are at an unprecedented peacetime level, is not the time to add costly governmental services, unless such expenditures are clearly in the national interest. We believe that under present conditions the budget must be balanced. This should be done by limiting governmental expenditures to tax revenue. If the threat of war makes additional spending advisable, income taxes should be raised on an equitable and a broad basis.

Mr. Chairman, we have not been hesitant, as an organization, to make those recommendations with regard to tax policy that we thought were consistent with the general welfare.

The CHAIRMAN. Are there any questions?

Mr. BERQUIST. May I ask a question?

Referring to page 48 [reading]:

The Agricultural Act of 1948 represents an important step forward in recognizing the difficulties associated with overrigid supports. But while retaining this essential improvement, the precise formulas for adjustment in support levels, including standards for discretionary action, need careful review and further testing against the criteria both of adequate farm income and of adaptability to meet specific commodity situations.

The flexible aspect of that, that is, under the Aiken bill, has never been tested. I wanted to inquire whether there was anything in that on which you would want to comment, in terms of that flexible feature of the Aiken bill.

Mr. FLEMING. Yes, I would be very happy to comment on that question.

It, of course, is a matter that has received very careful and thoroughgoing consideration by our organization. We gave real consideration to the principle behind that legislation during all of 1947, and 1948. We followed closely the recommendations of the then Secretary of Agriculture, Clinton Anderson, Assistant Secretary Brannan, and the others who made recommendations with regard to the necessity of providing flexibility in farm price-support programs. Later on we cooperated with Secretary Brannan in working out the details of the flexible price-support program.

Our resolution at the annual meeting in 1947 endorsed the principle of mandatory variable price supports and a modernized parity formula.

We worked closely with the members of the Senate Agriculture Committee, who worked unanimously and on a bipartisan basis during the evolution of this program. We were very happy when, on May 14, 1948, President Truman called upon the Congress to enact legislation containing flexible price supports. We aggressively supported it then and do support it now.

There were a couple of changes that we asked to have made in it then that were not made. I shall mention just one of them here. We asked that it be possible for cotton producers to vote on marketing quotas when supplies are normal, rather than at 108 percent of normal, as it was finally enacted in the law. There was a good reason for our recommendations. We wanted to make it possible for the producers of tobacco, peanuts and cotton to be able to have 90 percent of parity whenever they had controls and made them work. This particular provision is the only exception in the bill to the realization of that objective.

So far as the bill is concerned, as I have said, we supported it at the time it was being enacted. We are happy that both of the political conventions supported the principle of flexible price supports, and we are very happy that it was not a major issue in the campaign. There were some people who tried to put it there, but it was not until afterward. The commodity storage program was an issue which was involved in the election but not the price-support issue.

I happen to be very closely acquainted with the situation in the pivotal States of Ohio, Illinois, Iowa, and California, so far as the farm vote is concerned. We have a very sizable membership in all four of these States. I can assure you that what I have said is a fact.

Now, with regard to the Agricultural Act of 1948, we want to see the program work. We want to see it given an opportunity to work. We think it is thoroughly consistent with higher farm income than if the philosophy is adopted that we have to continue to restrict and to reduce, and thereby make it impossible for farmers to get the volume that it takes to earn good income.

We are satisfied with that philosophy. We are happy that the Council of Economic Advisers' recommendation is thoroughly consistent with it, and we are very anxious to have that program put into operation and given a real test.

The CHAIRMAN. Then you are telling the committee that you believe Government should follow the policy of agricultural price supports?

Mr. FLEMING. Price supports as floor prices, rather than as a means of price fixing. Not to guarantee a profit, but to provide a floor against the sort of devastating price declines that too often result from the farmer's own success at high production.

The CHAIRMAN. Do any of the members of the panel care to comment upon Mr. Fleming's statement?

Mr. HERTER. Mr. Chairman, I wonder if I could be enlightened on one point in connection with the question of controls in the farm program? I am not very clear on the situation, for instance, in wheat, which presumably will be somewhere between a three or four hundred million carry-over in bushels of wheat this year. Is that the general estimate?

Mr. FLEMING. The estimates vary, depending upon the purpose of the one using the figures.

Mr. HERTER. What is your own answer?

Mr. FLEMING. Let's take that figure as a reasonable one and start from there.

Mr. HERTER. I had no purpose in giving that figure, I can assure you. It is just a figure that I heard generally discussed.

In connection with a prosperous era in this country, is there a corresponding increase in the use of wheat in the diet of the people? I ask that only because in many European countries the staple food for the poor people is bread. The higher their prosperity the less bread they eat. I am wondering whether that same situation applies in this country from the point of view of our domestic consumption of wheat.

Mr. Fleming. I am certain that the answer to your question is that it does apply, and it is for that reason, among others, that we have attempted to evolve a program which would move wheat through livestock and thereby fulfill the needs of people for better diets, people who want to eat a lesser proportion of their total diet in the form of bread and similar types of commodity, and who want to have their diet up-graded by the consumption of greater supplies of meat.

To set a price for wheat, as though the whole production was going to move as food grains either domestically or in international trade is inconsistent with the probable future situation. We not only have to meet the food needs, but to find a way of utilizing our tremendously expanded capacity to produce wheat, through an expanded livestock economy.

Mr. Herter. Does that mean a substitution of wheat for corn?

Mr. Fleming. It means that wheat and corn are certainly going to have their policies tied together, because, after all, they are highly substitutable as feed in the production of livestock. The answer to your question is yes, to a certain extent.

Mr. Herter. So that in an era of full employment and prosperity in this country, do you think that any margins of what you might call overproduction that nature has taken care of, and that large acreage has taken care of, can be accounted for in that way?

Mr. Fleming. Well, that, plus international trade, including the International Wheat Agreement. We have aggressively supported efforts to get an international wheat agreement that would work. Let me say in that connection, that we do not view it principally as a means of price support in this country. Instead, we view it as a means of providing an assured outlet for wheat, which is in our interest, and which tends to prevent the development of uneconomic wheat production in other areas, which policy is not only in their interest, but likewise in ours.

Mr. Herter. Your interest in the wheat agreement is to have a guaranteed exportable surplus taken off the market each year, regardless of the price?

Mr. Fleming. I would not say regardless of the price, but we should not give major consideration to price factors.

Mr. Herter. It will affect the domestic price itself?

Mr. Fleming. A new wheat agreement currently is being negotiated, and I would not want to be misunderstood.

Mr. Smith. Mr. Chairman, I was interested in the fact that in this farm problem, we are talking about floors all the time, and in all the rest of the report it talks about ceilings, almost every other control that is spoken of. I think it was very interesting what Mr. Goss brought out at lunch, that the rest of them should have floors.

Mr. Kestnbaum. Isn't the minimum wage something of a floor?

Mr. Patton. What about a tariff?

Mr. Carey. A basement floor at the present time.

Mr. Kestnbaum. A lower floor.

The Chairman. Any comment, Mr. Goss?

Mr. Goss. I was just trying to think exactly to what Mr. Smith referred. It is this: We have over a million producers of wheat. We have been urged to produce wheat to win the war. It was the one big food which could bring the greatest relief to the rest of the world. We have advanced our normal production from around seven or eight hundred million bushels, up to a billion and a quarter, one billion three hundred million, and you cannot reduce that to eight or nine hundred million over night.

In making that transition we have had to plow up pastures, we have had to sacrifice livestock, and to get back into a normal position where we might produce eight or nine hundred million bushels would mean reestablishing pastures, reestablishing livestock, and that is a matter of a long, long term.

If the administration were all in one person's hands you could do it normally, but there are over a million people involved in this problem. We may have to have some special kind of controls in order to bring that transition out in an orderly manner. Is that what you refer to, Mr. Smith?

Mr. SMITH. Yes.

The CHAIRMAN. Mr. Carey, are you ready to make your general comment?

Mr. CAREY. Mr. Chairman, I would first like to indicate our appreciation of what the chairman of this Senate and House committee is doing in this regard, and say a few words of commendation for the Council of Economic Advisers for their report, and to indicate the degree of confidence we gained from the approach being made in this bill that has now been presented to the Congress.

We have that bill under careful study now and we believe this whole program engaged in by the participants here, the Members of Congress, the Council of Economic Advisers, and the President, is in keeping with the declared policy of this country, enacted into legislation in 1946, calling for continued full employment, full production, and full consumption.

I would like to repeat that we would hope Congress, in carrying out what the people have indicated they want carried out, will give consideration to these pockets of unemployment showing up in the field of textiles, the railroad shops, electric consumer goods items, and other places, such as textiles, clothing and shoes.

It is not for the purpose of embarrassing any particular corporation or industry at large, but we believe some lessons can be learned from that. We do not believe that will carry over into the field of heavy goods, where we think there are still inflationary pressures.

We believe you are being misled by the papers in this country when they give us a steady diet of this reduction in prices that is supposed to be so widespread that we should have no fear today of inflation. As we see it, it amounts to about 2 percent of the cost of living. That sounds like a significant drop in prices, but we do not feel there is any significant drop in the prices of rent and other things.

We think we should also talk about the fact that the cost of living reached its peak in August. That was 74 percent higher than it was in 1939. A 2-percent drop largely in food items, and in some clothing, is not a good sound reason to us, or sufficient reason why statements should be made that the inflationary situation and its trends have now been reversed.

We have reason to believe that the Government should continue its efforts and increase its efforts to meet the real problems of the people as represented in this bill. We know there are a million people coming into the labor market annually. We ought to gear our production on an increasing basis to meet their needs, the needs of an expanding economy.

I understand people of industry say that the Government should stay out of this field; that they have a monopoly on intelligence, and they are the only ones to decide whether steel should be expanded. It causes us to look into the record a bit.

Industry told us in 1941, through the Gano-Dun Report and representatives in OPM, that we had more than a sufficient capacity of steel in this country. There was a fellow named Truman who looked at that Gano-Dun Report. He did not find there was an excess capacity of steel in the amount of 10,000,000 tons. He found it necessary to bring about a Government policy to expand the capacity of steel production, and we expanded it. The same thing was true in aluminum. They told us in 1940 we had enough aluminum capacity. We were then producing at the rate of 600,000,000 tons of aluminum. In 1943, we had increased that capacity by four times and, in fact, in 1943, we used four and a half times more aluminum, and still we had shortages.

We find that the steel industry is basing its future plans on a depression basis, and we are terribly concerned about it. They talk in terms of years like 1948 and 1929 being abnormal years. I think we better look into that very carefully to see whether or not we should not produce a capacity of steel production of perhaps 10 percent larger than the present capacity.

I do not think there is anything new or revolutionary in the proposal contained in this bill. In the same kind of programs we had Government subsidies to expand industry before, Government subsidies for the railroads, merchant marine, the air lines, and we even subsidized our infant industries through tariffs and still do; Government insurance of real-estate mortgages. These things are accepted by and large in our economy today.

I wonder if American industry wants to repeal the full-employment, full-consumption, full-production act of 1946, or if they are willing to do what is necessary, as called for, recognizing the important role that government will have to play in establishing not a Hoover RFC program for bankrupt industries, but perhaps a public bank for new enterprises, to do it with the concept of a full-production, full-employment, full-consumption economy.

We look back and we find that even McGraw-Hill in their survey indicated that from 1939 to 1948 the manufacturing industries expanded 56 percent. The steel industry, under the pressures exerted by government, expanded 15 percent, the lowest of all industries.

Manufacturing industries, according to this survey, plan to increase capacity about 13 percent between now and 1953. The steel industry plans a 3-percent expansion during that period.

Those things to us, Mr. Chairman, are extremely important, because as we see it, we expect an expansion in American industry of steel production, aluminum and others, at least by a percentage, of perhaps 3 percent.

Now we find that the industry, despite the profits they have been taking out of American industry, which are extremely attractive, still does not have the confidence in the future of this country that they are willing to expand their capacity. I think the Government is going have to do that, and I am not at all certain that just exorbitant profits are going to bring about that amount of confidence, so that the American industrialists, the managers of our economy, will expand to meet the needs of this community.

As we see it, the essential programs, such as the military program that we consider essential, the European-recovery program, the aid programs to China and to other parts of the world like South America, in the future will maintain and continue these inflationary pressures in the capital goods industries.

The limiting factor on our economy today would be industries such as steel, which runs through every other industry in the United States.

So I do hope that the work of this committee in bringing about some understanding will also help in educating the American people as to the needs for taking a chance on the future of America in expanding capacity, especially in those large basic industries. I think to do anything short of that is selling America short, and I do hope that the American industrialists will look to the full employment economy, a full consumption economy, rather than to continue to plan based on a coming depression. Because should they do that they will guarantee to this country a depression.

I hope this confidence that we speak of, that is, on the part of the people—the people of labor have great confidence—that if American industry is unwilling or unable to do the job, our Government will take the necessary steps to see that the job is done.

The CHAIRMAN. Does any of the panel desire to question Mr. Carey?

Mr. HINES. Mr. Chairman, the later reference he made to the need of government, or rather, that government would step in and see that these things are done, would that come under the heading of socialism?

Mr. CAREY. Mr. Chairman, can I reply to that by saying this: As Lew Hines well knows, a man is not made a socialist because a Fabian Society puts out a pamphlet. The organizers for socialism in this country today are those that restrict the expansion of industry in this country and force the Government to take action, due to the fact that they are unwilling or unable to take the action themselves. So if you become a Socialist, Lew, it is because of those who restrict the expansion of the steel industry, and of other industries.

Mr. HINES. I am glad to have that clarification, Mr. Chairman.

The CHAIRMAN. Mr. Schmidt, you were about to ask a question.

Mr. SCHMIDT. I am a little disturbed by Mr. Carey's element of collectivist thinking when he speaks of the "steel industry." After all, this is a free country. If I run a little store down the street I don't have any obligation to grow bigger. The chairman of this committee and many others have complained of the bigness and the concentration of the three or four steel companies that we have. I think about 5 percent of the steel production is now what is known as captive steel, that is, it is owned by manufacturers of other products who produce their own steel.

There is nothing in the world to stop any businessman or labor leader from going into the steel business. And to say that the industry has restricted capacity, I do not understand. There must be some reason why capital is not being lured into that industry. So far as I know, there are no patents, or any other legal barriers to enter in that industry. I think it is careless talk to say that the steel industry is not expanding. The door is open. General Electric can go into the steel business. Ford has done so, and maybe General Electric has, I am not sure; Kaiser has done so, and a great many other people could do so. If there is no adequate expansion of steel—and I am not sure Mr. Carey is right on that, I think perhaps the next 2 or 3 months will answer that question, and we may find him in error—but certainly there is no barrier to anybody going into the steel business. That is the free-enterprise system.

Instead of asking the steel industry to expand, I would like to see a lot of individuals encouraged to go into that industry, if that is indicated.

This committee could make its greatest contribution, I think, if they would find out why the industry has not expanded, or why it has not been expanded, I should say, rather than look upon the group of individuals as though they were engaged in some deep, dark conspiracy to restrict its expansion. I think that is an issue that your staff, Mr. Chairman, might look into.

Mr. Hines. Mr. Chairman, may I just comment on the statement of Mr. Schmidt?

The Chairman. You may.

Mr. Hines. I am not accusing the steel industry of holding back production to maintain an artificially higher price, but it has been known to be done in this country, has it not, where production has been held back in order to maintain the price at a higher level? Goods passing through other channels have been restricted in order to maintain a higher price. We know that commission merchants at times will not process or will not send the farmers' products through to the consumer because they want to maintain an artificial price to the consumer. We know that only too well, and you know it.

I am not accusing the steel industry of maintaining higher prices, or retarding or restricting production in order to maintain a higher artificial price, but it has been known to be done in this country, has it not?

Mr. Schmidt. I certainly think so.

Mr. Carey. Dr. Schmidt, could I ask you a question at this point?

The Chairman. If you will wait just a moment, Mr. Carey.

Mr. Schmidt. Mr. Reed, do you have any idea at all how many manufacturers in this country have some steel making capacity for their own use primarily? I could name perhaps a half dozen, but there must be a great many more.

Mr. Reed. No; I have not seen any figures on that. Of course, there is every step from the production of ingot down to the finished form of steel. If one took them all in there would be a great many who were engaged in at least some step in the production of what we call finished steel. The number of them I cannot give you.

Mr. Schmidt. Do you know any patent barriers, or anything else that would prevent anyone from going into the business, providing he had the ability and the means?

Mr. Reed. None whatsoever, except capital. It takes money to go into the steel business.

Mr. Patton. Just a little thing.

Mr. Reed. I have just been looking over Secretary Sawyer's statement before this committee. He points out the projected increase in steel production, what has already taken place and what is to take place. He indicates it would be very difficult to determine what the needs really are and what they will be, and that it is not a matter that is easy of solution by a very long way.

He closes his statement on steel by saying [reading]:

> Looking at the immediate future we can say that if the anticipated increase in production is realized, the steel situation will be eased materially, though even the expected improvement will not make it possible to meet all projected domestic and export demands in 1949.

As a steel user, I could say that we have been restricted and embarrassed in the years since the war, by a shortage of steel for our own products. But of course, that has been common almost throughout our economy on product after product.

Honest men will differ as to what the point is at which the steel industry—and Mr. Schmidt is right in pointing out that it is not one individual or one group of individuals, but a large number of them—should be preparing for in the way of capacity. I think in the next 6 months it will be determined whether by and large the industry's view is right, and that is that we are very close to balance on steel demand versus supply, or whether they are not right.

But the pressures, the incentives, the inducements to expand production are there, and the result will follow, although if they are wrong in their present view it, of course, will involve an embarrassment and a certain amount of difficulty while the situation is corrected.

On the other hand, there is no way of being sure that some governmental group, without the responsibilities, without the inducements, are any more right than the experts in the steel industry to determine these matters. That is one of the great difficulties I think we face in deciding which is right. I do not know the answer to it.

I would rather put my money, if you will, on the collective judgment of an industry that is all out to do as good, as profitable, as fair, as effective a job as they can do, rather than to leave it to the more or less mathematical and theoretical computations of others.

The CHAIRMAN. Altogether aside from the steel industry, Mr. Reed, do you think that the Government has any responsibility toward encouraging the production of commodities which are in short supply?

Mr. REED. Yes, indeed I do. I think it is entirely appropriate and right that the Government should invite members of industry down see the picture as Government sees it, to answer questions, and to explain why they take the view they do, if it differs from the view of Government economists.

I believe that kind of an exchange can be exceedingly helpful.

But having come to an impasse, if there is one, the way to correct it, it seems to me, is for Government—as I tried to indicate this morning—to be sure competition is free, that the environment and the inducements to more production are there for anyone to come in and take advantage of, and thereby bring supply up to balance with demand.

I would like at some moment, Mr. Chairman, to say a word about the power situation. I think Mr. Goss used the expression this morning that we are desperately short of power. I consider that a serious over-statement.

Mr. Berquist had asked Mr. Milton of my company to give him the answer to certain questions on the power situation. So if I may, I would like to take just a minute to review that.

The CHAIRMAN. That will be quite all right, sir.

Mr. REED. I think it is fair to say, and I think it is accurate to say, that the power shortage in this country since the war has been far less than in any country in the world, in spite of the fact that the demand and utilization of electric power in this country has risen more than in any other country in the world. Perhaps parenthetically it might be noted, too, that in almost all the other countries of the world the bulk of the electric power generating facilities are Government-owned and operated.

The fact is that while there have been certain shortages in certain regions and at certain times, the great bulk of the American people have never been conscious of any shortage of electric power in this country. The capacity has doubled since 1939. 1948 was an all-time record high, both of capacity and of demand or utilization of power.

The amount of kilowatt capacity installed during 1948 is roughly at four millions of kilowatts, which is double that of the previous year. The scheduled additional capacity to be installed in 1949, 1950 and 1951, is of the order of 6,000,000 additional kilowatts in each of those years.

The estimates of Secretary Krug as to requirements are more than met by that schedule of 6,000,000 of kilowatts this year, and the years following. The same is true of the recent report of the National Security Resources Board which came out in December 1948, and which analyzed the power situation both in terms of installed capacity and in terms of facilities capacity of the manufacturers to produce generating equipment.

With reference to both of those estimates, as I have said, the present rate and the projected rate of installation of new generating equipment is well beyond the estimated need.

As far as production capacity of the generating equipment and all the auxiliary equipment that goes with it is concerned, the capacity of the industry for steam-generating turbines is of the order of $8,000,000 per annum. If one adds to that the hydro and waterwheel generators, it is estimated to be $10,000,000. That, against a top need, according to the present prognostications of approximately $6,000,000.

So that there is adequate manufacturing capacity. The program, insofar as actual installations in this year, 1950, and 1951 are concerned, and that is as far as bookings are being received, is more than enough to meet the situation. We are past the tight spot. Each year now should see an increase in the margin or reserves of generating capacity over the utilization and demand.

Mr. HERTER. As I recall it, Mr. Chairman, the Pacific Northwest and a little portion of the southeastern area are the only areas in which there is any existing shortage now?

Mr. REED. That is right.

Mr. GOSS. The whole Pacific coast, is it not?

Mr. HERTER. The Pacific Northwest is the way it was broken down in the National Resources tabulation.

Mr. GOSS. We get complaints from the whole Pacific coast and some in the middle Northwest. One of the complaints is with reference to the expansion of REA. That has been held up partly on the part of power, more on the part of inability to get cable and the inability to get cable was due to the shortage of power.

So we have lined the thing up that if power has been the chief cause, I am very glad to have the reassuring statement of Mr. Reed as to the future, but I am very sure it is short is a lot of places now.

The CHAIRMAN. The demand for power in all of the States west of the Missouri River is so great that the Appropriations Committees of both Houses are constantly under pressure, without regard to party lines, I may say, for public appropriations to expand the electrical energy-producing facilities.

Mr. GOSS. I might say, Mr. Chairman, that there are different types of estimates. I had something to do with helping to get the appropriation for the Grand Coulee power project through. At that time predictions were quite free that we would not use the power for 60 years. But there is a shortage there now, a real shortage, and that is not very many years ago.

Maybe we get our estimates of need from a different source than you, Mr. Reed, but the complaints certainly come piling in.

The CHAIRMAN. I would like to read at this point a sentence or two from the testimony of Secretary Krug, who appeared a few days ago before this committee. He said [reading]:

> Despite a 10-percent increase in electric power output in 1948 over 1947, it is reliably estimated that the Nation in 1949 is still as much as 10 percent short of the electric energy that users are demanding. This shortage affects at least 16 States. National reserve generating capacity shrank to less than 5 percent in 1948, which is less than one-third of what the industry counts as adequate reserve. Even during World War II, class I utility systems had 18 to 19 percent reserve capacity.

Then later on he said [reading]:

> There is every reason to believe that our needs for electric energy will double in the next 10 years or so. They have doubled, on the average, for every decade in the last 40 years. They may increase even faster. Generation capacity must increase on the order of 80,000,000 kilowatts by about 1965, if true needs of the country are to be met.

What is your comment on that estimate, Mr. Reed?

Mr. REED. Yes. Well, assuming that estimate is correct, the rate at which power capacity will be installed this year, the next, and the one after that, is at a rate which would double the capacity in 10 years, more than double it in 10 years. So that the program is aimed precisely at that target and will reach that target, if the demand justifies it.

The CHAIRMAN. Are you including both public and private projects?

Mr. REED. These figures include both, as I understand it. In fact, I know they do. The 56 millions of generating capacity in the country includes both private and public capacity.

The CHAIRMAN. Are you referring to the productive capacity presently under construction, or presently planned over a period of years?

Mr. REED. The generating capacity presently in place is approximately 56,000,000 kilowatts. An amount equal to 6,000,000, and that, as you just read, provided an over-all national margin of about 5-percent capacity above the demand. That is because it was not uniformly spread. It does not mean that there were not spots that were short of power; there were, but over-all there was a 5-percent margin. That margin is too low. It should be 10, 12, 13, or 14 percent and is normally. But that is now being picked up and will be picked up by the projected installation of 6,000,000 kilowatts per year during the next 3 years, at least.

The CHAIRMAN. Then is it your position that nothing need be done to stimulate the expansion of generating facilities?

Mr. REED. That is right, sir. I think it is well taken care of.

Mr. CAREY. Mr. Chairman.

The CHAIRMAN. Mr. Carey.

Mr. CAREY. Will you ask Mr. Reed if he could tell us what happens in the event industry is wrong in estimating your needs? We would suggest that if the steel industry or the aluminum industry are as wrong now as they were in 1940 and 1941, that their position has improved. Opportunities for profits are enhanced, but the public has to pay the bill.

I would ask whether or not Mr. Reed could not agree that if the risk is great the public should share in that risk, in terms of financing the expansion of these enterprises in the event industry is as wrong today as they were in the past.

Mr. REED. Well, as I have indicated a moment ago, Mr. Carey, we have made allowance for being wrong. The capacity of the manufacturing industry in this country to produce kilowatts with generating machinery is 10 millions per year, not 6 which is the figure we are actually going to deliver and install during each of the next 3 years.

If the demand goes beyond that, you see, we have more than 50 percent additional capacity which can be used if it is needed.

Mr. BERQUIST. Could you utilize more of that capacity now and move the date nearer in which you would have the reserve of 12 or 13 or 15 percent?

Mr. REED. Well, not in 1949, Mr. Berquist. Before the end of the year our new turbine plant, for which we are expending, as I said this morning, some 30 millions of dollars, will come into full operation, and that will give us additional capacity which could be used if orders were placed by the utility industry, to accelerate production and to put these machines into place at an earlier date.

The CHAIRMAN. Mr. Carey.

Mr. CAREY. Mr. Chairman, I would like to present a quotation from the Truman Committee Report of 1943. Perhaps Dr. Schmidt will help me on this, because I think this report, and especially this portion of it, indicates one of the reasons why the steel industry resisted expansion in 1940 and 1941. [Reading:]

> The second cause of the delay was the desire of the big steel companies to prevent any expansion that might react unfavorably against their control of the steel industry after the war. They fear both the possibility of having excess capacity of steel-making facilities after the war, and the competition of smaller companies, which might gain strength during the war program. The representatives and employees of the big steel companies dominated the iron and steel branch of the War Production Board. They first failed to direct or even to allow expansion. Finally, they concentrated all of the belated expansion in the hands of the eight largest companies. The Office of Production Management, which was a predecessor of the War Production Board, failed to make proper estimates of steel requirements, even after its delinquencies were called to its attention by the committee.

Are we, Dr. Schmidt, to have a repetition of that situation in the future?

Mr. SCHMIDT. I am against it. I do not think Mr. Carey is quite fair to the——

The CHAIRMAN. Gano-Dun report.

Mr. SCHMIDT. Yes. That was based on certain assumptions. Now with the benefit of hindsight, we can all make fools of each other. It was assumed that Russia would not hold out more than 6 weeks. It was assumed that the Japanese war——

Mr. CAREY. But Dr. Schmidt, pardon me. The steel industry did not make a fool of itself. It was the rest of the economy that paid the price. I am asking a simple question here. Suppose the steel industry is as strong today as it was in 1940, are we supposed to pay the price in terms of unemployment and enhance the profits of the steel industry growing out of this scarcity of steel?

Mr. SCHMIDT. I am against that, too. But remember, if the Government failed then through the War Production Board, what assurance have we that in 1949, if this bill is passed, the Government will not make the same mistake? I am not sure that the solution is an adequate one.

The CHAIRMAN. I think the War Production Board can scarcely be termed a Government agency in the sense that you interpret it.

Mr. Robey, I think we have been neglecting you all too long.

Mr. ROBEY. I can assure you, Mr. Chairman, I do not feel that way at all.

First, I also would like to comment on the seating arrangement. You will notice I am squeezed in a corner here. That is where I usually end up in these things, so I feel right at home.

I want to express my appreciation to the staff in arranging this.

The CHAIRMAN. We will give you lots of opportunity to expand, Mr. Robey. [Laughter and applause.]

Mr. ROBEY. You mentioned this morning, Mr. Chairman, you would like us to discuss general principles. I think it is in harmony with that for me to read one statement, I guess, of a general principle. This quotation is from a speech made by Mr. Keyserling, who has appeared before you at length. He was speaking before the Conference on Unfinished Business in Social Legislation. According to the Washington Post, he said [reading]:

Economy in the United States now is a moral issue.

This is the sentence, Mr. Chairman, that I am especially interested in:

It now is a problem of distributing what we have to raise the standard of people, not only in this country, but in other sections of the world.

Incidentally, in case anyone is interested in finding that, the article was carried on the women's page of the Washington Post. I don't know why, but that is where it ended up.

The CHAIRMAN. Well, I think women are just as much interested in economic progress as any of the rest of us, Mr. Robey.

Mr. ROBEY. The trouble is that not enough men read the women's pages. It should have been on a broader readership page.

The CHAIRMAN. We will have to blame the editors of the Post for that, and not the Council of Economic Advisers.

Mr. ROBEY. I do not mean that it reflected the editorial judgment on the part of the Washington Post.

I want to mention, first, that so far as my organization is concerned, we are quite unwilling to settle for that kind of an idea. Certainly we do not want to stop our progress and just distribute what we have. This country can do very much better than that.

There is no reason at all to assume that we have reached the point where, from here on, it is a mere problem of distributing what we now have.

The CHAIRMAN. I think it is only fair to Dr. Keyserling to say that sentence picked out of a newspaper report of an address which he apparently made, is not at all interpretive of the statement that he made before this committee, nor is it at all expressive of the position that the Council of Economic Advisers has taken in its report.

The recommendations in this report are recommendations for a growing economy, for the maintenance of full employment, maximum production, and maximum purchasing power, to use the words taken out of the act, within the framework of a free competitive system.

That is the problem that we are discussing. What shall Government do about it, if anything?

Mr. ROBEY. I want to come to that problem, and if you will permit, I may give you another quotation or so from Mr. Keyserling a little bit later.

Unfortunately it has not been possible for me to attend the hearings you have been having. I have done the best I could to read some of the verbatim transcripts and follow it in the newspapers.

I was able to be here yesterday morning at the round table of economists and technicians, and I read the transcript of the preceding day.

I was quite struck by the unanimous opinion that by and large we have very little to worry about, so far as 1949 is concerned. The economists, I think more or less without exception, take the position that we are faced with a period of perhaps a little easing off, but no serious decline in the volume of business activity for the rest of this year.

I would like to recall to your mind, Senator, that for some years the American Statistical Association at its annual meeting has devoted one session to business prognostications. This year the chairman of that session was Mr. Goldenwiser, and in introducing the session he said that in looking back over the record he found that the business prognostications made at this special meeting had been right one out of three times. He felt that was a fairly good record.

The CHAIRMAN. Well, Babe Ruth, with an average of 0.330 was pretty well up at the top of the batting order.

Mr. ROBEY. That is quite true, but when you consider this is a group of statisticians, a profession which rests fundamentally upon the odds of heads or tails when you pitch pennies, and you expect 50 percent, it seems to me that an accuracy of one out of three is scarcely good enough to break your arm patting yourself on the back.

In other words, what I am saying is that I gravely distrust long-term business prognostications. I do not care whether they are made by a business economist, a Government economist, or by anyone else. I am an economist by profession, and I do not have any hesitancy in saying that there is not the wherewithal in the economic field to be anything like certain in making predictions.

Now, my own thinking on the present situation goes very much along the line Mr. Reed pursued this morning.

You are very much aware that for 10 weeks we have had an increasing unemployment. That in certain prices we have had a substantial weakness. The particular price index I watch most closely is that daily index put out by the bureau of 28 sensitive commodities. Yesterday that index stood at 273. Only a little over a year ago it stood at 350. Two years ago it was above 300.

Last week, previous to the Government stepping in, the index hit 267 or 269, I forget which. So that we have had a substantial weakness in the price level. We know that pipe lines are pretty well full. We know that the pressure on advance orders is lessening all the time. We know that business is not driving ahead on its expansion program in the way that it was a year or two years ago.

Now, all of that may mean much or nothing.

It seems to me that the record clearly shows we are in a period of inflationary prosperity. The things that we have been seeing the last few weeks may be a little wiggle. We may turn right around and start up again, or we may not.

As I read economic history, a period of inflationary prosperity comes to an end for a psychological rather than an economic reason in the sense that it is something you can put down and add up.

I was quite interested in the hearings yesterday morning in your exchange with Dr. Kaplan when he was talking about the 1937–38 collapse. You mentioned that it started because the President brought in a budget which meant reduced spending. I have not had a chance to look up the record, but my own memory was it started because someone—and I believe it was the President—said that certain prices were too high, and that something would have to be done about it.

It does not make any particular difference which one it was. The fact is that the decline started before anything was done. That is what I mean by a psychological factor.

I think at the moment we are in a position where the psychological impact of developments may be terribly important, may be controlling.

I think it is quite possible that today we could set down all of the available statistics, the kind of statistics that have been presented to you here, add them all up, arrive at a conclusion on the basis of a statistical analysis, and the conclusion would be 100-percent wrong because of some psychological development. Now, no one can tell what that development might be. No one can foretell what the reaction of the public is going to be on a particular development of any kind.

But the major point I am trying to make is that in the interest of the American public, we certainly want to be careful, because we are trying to do something constructive and we don't want it interpreted by the public in a way which is frightening.

Now, you have asked all of those who commented when they expressed an opinion on this bill, especially those who disagreed with the bill: Do you think that the Government should do anything?

Well, Senator, when government is taking 20 percent or better of your national income, quite obviously it is impossible to appraise the economy, or the outlook for the economy, or the current developments in the economy, and leave government out of it.

Also, right at this moment, I am told—and this, too, I have not checked—I am told that there is only one State out of the 48 which is not trying, at the moment, to get higher taxes. It is insignificant, but I presume you have noticed that the great economy minded Mr. Dewey is asking for a mere 66⅔-percent increase in income taxes in New York. That is the highest figure I have heard yet being requested.

I wonder what that means.

Now, if we are in a period that is very touch and go, and you throw at the American public the kind of proposals in this bill, what is the reaction going to be?

If you throw at the American public an increase in taxes, not only on the national front, but in State after State after State, what is the reaction going to be?

It may be true, Mr. Chairman, that the objectives are perfectly good. I will go so far as to say that it might be true that the plan you outline would be to the good of the country, but if the American public decides that you are wrong, then you are going to be in a mess, regardless of your good intentions.

Now, this particular bill is of a character where I think an expression of being in favor of it or being against it is most uninformative. I do not see what it gets you or your committee for me to say either that I do like it or that I do not.

The CHAIRMAN. May I say, Mr. Robey, I am not conscious of having asked that question of anybody because this bill is not before this committee. This bill has been introduced in the House and goes to the House Banking and Currency Committee, which has the legislative jurisdiction of it. The bill was brought in here just incidentally. We are discussing the general terms of the economic report and the recommendations made by the President, as supported by the review of the economic advisors.

So the only question that I would like to ask you, or ask any of the other participants in the roundtable, is whether you think government should take any action in the present situation, as it exists, or whether it should just allow matters to drift, to use a word that Dr. Kaplan and I used in that discussion yesterday.

Now, that is the central thing. Does government have a function to perform? We are here because Congress passed the Employment Act of 1946 which declared its purpose to be to maintain maximum employment, maximum production, and maximum purchasing power. What are we going to do?

Mr. ROBEY. Mr. Chairman, the question as you put it to me is very easy to answer.

I can imagine no worse policy than for the Government of this country today to say, "Well, now, let's just sit on our hands and see what happens." The Government is playing far too wide a part. Actually, the Government cannot sit on its hands with its present spending program, with a spending program which involves the buying of commodities in different directions with a certain amount of discretion. The Government is bound to have a very marked effect upon the economy.

There is no possible way by which the Government can do nothing today. That is just out of the realm of possibility.

I might not agree with you on all particulars as to what it should do. Certainly it is a big subject and would carry us pretty far. But certainly I would meet you on the basic premise that the Government does have to play a part. It cannot escape playing a part. I will go further and say that the Government has a definite responsibility to do everything it can for the general welfare. All I say is, let's not make an error.

I want to make just one further point.

I spend a large portion of my time studying what seem to us to be the important problems facing the country. I am always impressed by the difficulties of them. I am impressed by the relation of one to another. I am quite sure that—and I do not mean to use an epithet—a panacea is not an answer to the kind of economy we have. It takes a very profound analysis and very extensive reasoning to determine the effect of any policies that may be pursued.

That is in pretty direct conflict with the thought that just the proper little group—I do not care again whether it is business, or whether it is in government—if they had a free hand could really do a beautiful job.

I would like to recall to you again a statement from Mr. Keyserling which he made on Tuesday, February 8. In discussing the problem of stabilization, he said [reading]:

> I do not think that we can do a perfect job, and I do not think even if we could we would want to. That may sound a strange thing to say. What I mean by that is that the amount of intervention in the economy required to do a perfect job might sacrifice certain freedoms and flexibilities, which we prefer, to making a mystic perfection.

Now, Mr. Chairman, I submit that you would not get perfection, regardless of freedoms. That is a statement, if I can understand the English language—and in this case I am not sure I do—but I would interpret that to be a statement of faith by a man that if he did not have to worry about our cherished freedoms, he could give you a perfect stabilization. I do not believe there is a man on the face of the earth, or any 10 men, Mr. Chairman, who have that ability. That is all I have to say. Thank you very much.

The CHAIRMAN. Well, again I come to the defense of Dr. Keyserling. I think that you are attributing to him conclusions which he never expressed to this committtee.

But whether you are right or whether you are wrong, I may say, Mr. Robey, it is utterly irrelevant to the purpose of this hearing. The testimony here is divided, of course. I would say that, on the whole, most of those who have appeared here have agreed that the decline in prices, which is reflected principally in agricultural commodities, is not at all indicative of a decline. There is general testimony that with respect to certain basic commodities the price trend is and has been upward. So we are, therefore, face to face, as a committee of Congress, with the responsibility of saying in our report whether or not in our judgment the situation is such that the Government should take a positive course of action to prevent developments which are not desired one way or the other.

Now, the Council of Economic Advisers tells us that on the whole the inflationary trends and pressures are still here. If they are, then obviously the cost of everything that the Government has to buy for its national defense program, for its peace program, for other programs which are being endorsed throughout the country, without regard to political division will also rise. So we must decide whether to recommend any action to prevent that inflation from carrying us to an even greater height, from which the fall, if it should come, would be very much deeper?

Mr. ROBEY. Mr. Chairman, are you convinced in your own mind that the inflationary forces are still running strong? May I follow it by a second question? If that is the basis upon which you outline a program, a positive program, as you termed it, and you prove to be wrong, might we not be in fairly serious shape?

The CHAIRMAN. What I say to you, Mr. Robey, is that I see before me, as a Member of the Congress, certain unavoidable expenditures by government. I see that. I see that we not only have to make the expenditures for national defense, to buy more airplanes for the United States Air Forces, to build more equipment for the Navy and for the Army; I see the demand for housing; I see the possibilities of a new lend-lease in the great fight to win the peace. I realize, as everybody must realize by merely looking at the figures, that the expenditures for national defense alone are many times greater than the entire cost of government just a few years ago.

And over-all I see the national debt of over $253,000,000,000. It seems to me to be inescapable that if we are to carry that debt, if we are to pay the interest upon that debt, if we are to reduce it, it is absolutely essential for us to maintain maximum employment and not to run the risk of the economic situation getting out of hand.

I know of no agency which can do this except the Government.

Now, if you can show me some agency that can do it, I should be very glad to have you do so. I know that all history teaches us that every war has been followed by inflation and inflation has been followed by collapse. I feel that with the debt of $253,000,000,000 on the shoulders of the people of this country, we cannot afford to follow the policy of "let it take care of itself."

Now, you do not recommend that, I am sure.

Mr. ROBEY. No; I was just going to say, Mr. Chairman——

The CHAIRMAN. Therefore, my question to you and to every person is: What do you recommend?

Mr. ROBEY. I was just going to say, Senator, that I agree with what you have just said. I was trying to make two basic points. The first one: We have to be awfully sure of our diagnosis, and that is a tough one. I do not think we can be too cocky about it on the basis of records.

Then the second point, which I am not sure I emphasized enough, is: Let us not build up too much hope about what we can do. That is, let us not put too much faith in some little program that we develop, or big program, if you like.

As you know, we are now running a $250,000,000,000 economy in this country. A 10-percent reduction would be $25,000,000,000. Twenty-five billion dollars is roughly two-thirds of all Federal Government expenditures at the moment. If you have the ice start to crack up around you in many places, you are dealing now with a size of spending that is pretty hard to conceive. Bear in mind that our economy today is running with Government expenditures—Federal, State, and local—of, oh, I suppose, roughly $55,000,000,000. I do not know what it would be all added together.

But we are already conditioned to that. Now, suppose something does start the economy down. Suppose it reduces it 10 percent.

That is $25,000,000,000 lopped off. For me it is a fairly frightening thing. Where would you get $25,000,000,000 to dump in if you wanted to? And where would you dump it in?

Sure, if the commodity market starts to decline there is a leeway now so the Government can step in, as it did last week.

I remember—and this, I think, is pertinent to some of the discussion we have had on selective price control. You will recall that at the beginning of the war we had selective price control. At that time Mr. Leon Henderson was in charge of the price control.

The CHAIRMAN. That was much more than selective.

Mr. ROBEY. At first they were controlling just the basic commodities, you will recall. I happened to be in a bit of a radio debate with Mr. Henderson on this subject. At that time he was maintaining that was all that was necessary, he could hold everything all right by those powers—that was all that was necessary. I was maintaining that he could not, that that was not an adequate price control device.

In the course of the discussion I said, "Now, suppose a thousand commodities start to go up simultaneously?" He gave me a withering look and said, "Well, that's silly." Well, maybe it was a silly question, but that is what happened.

All right, if we just get weakness at one point in the economy, on the commodity exchanges, that is one thing. But suppose because of a psychological reaction for something which may be done with the best of intentions, you start to get weakness at a thousand different points, that is the problem that you also have to consider.

The CHAIRMAN. Very good, I accept that. Now, what shall we do about it?

Mr. ROBEY I am delighted that you are the chairman of this committee and have to make that decision [Laughter.]

The CHAIRMAN. Let me assure you that the decision is not that of the chairman alone.

Mr. HERTER. Mr. Chairman, I wonder if I could ask a question.

The CHAIRMAN. I hope you will.

Mr. HERTER. This is in connection with the testimony of yesterday.

Dr. Schultz spoke about the drop in the farm prices that occurred early in February of 1948 and said that he at least had not as yet been able to find any reason for that very sharp drop that took place at that time. He said there was no economic reason then apparent from the point of view of abundant crops. He differentiated the drop in farm prices at that date from the later drop that began in August of last year, saying that the second drop was due to very justifiable causes, because there was a very large yield that nature had produced.

I am wondering whether Mr. Goss, or any of the other farm experts here, have themselves figured out other than the psychological reasons you raise—which again are completely inexplicable in a case of that sort—why there was that very sharp drop in the farm prices.

Mr. GOSS. I think it was largely psychological, but I think there was something that touched it off. We were short on grain. Everyone knew we were short on grain. We were all asked to conserve grain. We put on some rather drastic means of conserving grain. The shortage was measured to a considerable extent by what had happened in Europe the year before when we had a very severe winter.

In the winter of 1947–48, we ran into a very mild winter, and there was not the demand. Gradually those grain stocks became more ample than they would have been if we had had the hard winter. I did not say that very well, but do you know what I mean?

Mr. HERTER. I think so.

Mr. GOSS. The speculators did not realize we were getting through the winter without the use of this grain. They woke up all at once and began to dump their holdings on the market, and that is where your psychology began to work. They began to dump, and everybody got scared all at once when they found that we did not have the shortage, because we did not have a hard winter, so prices went down.

Then they began to wake up and find out they had made a mistake by getting too badly scared and prices went back up. I think that is what happened. Is that psychology?

Mr. HERTER. It was psychology on the part of the speculators.

Mr. GOSS. Exactly. I think it was purely a speculator's panic induced by those considerations which I have listed.

Mr. HINES. Mr. Chairman, I would like to address myself very briefly to Mr. Robey's remarks, if I may.

The CHAIRMAN. Let us make it brief, Mr. Hines.

Mr. HINES. I will be very brief.

The CHAIRMAN. Because I find I have not gotten around to Mr. Patton yet.

Mr. HINES. I do not want to crowd my good friend out, but he will be interested in this.

Mr. Robey referred to Governor Dewey's budget as being an all-time high. I am remindful of the fact that our Governor in Pennsylvania has also introduced an all-time high budget.

Mr. ROBEY. I sympathize with you.

Mr. HINES. Now, in connection with that we are often told, and I think it has been referred to here, that one of the cures for inflation is less Government spending. In fact, I recall that some of our distinguished statesmen have been on the air and traveled throughout the country—to say nothing during election time—saying that the Government was spending too much money, and that they are still at it. We have been very interested in this, Mr. Chairman—that is, the American Federation of Labor—because it affects us, as you may readily understand, if we spend our money unwisely and we have extravagance in Government.

Our research department and our economists have been trying to find a break-down in this. We have gone over the figures pretty carefully. Now we find, for instance, that a large portion of our income from taxes goes to maintenance of the Army, to pay the expenses of past wars and prepare for future wars. I could go into that rather extensively, but I do not wish to take the time right now, Mr. Chairman. We think to some extent it is justified, that is, the preparation for future wars. It is something over 70 percent, I don't know just what it is. It may run in the neighborhood of 75 percent.

Then we get down to the essential factors in Government, such as the money necessary to maintain the things necessary to make the Government function perfectly. I am not unmindful that the Eightieth Congress, under the control of some of these people who wanted to make political medicine, just went at the budget, as the

President said, with a meat ax. Now we are suffering from some of those false economies that they practiced, or put into effect at that time.

I had occasion yesterday to be in a meeting with some Government officials with regard to matters in New Jersey where they are running 20 to 25 to 30 weeks behind, Mr. Chairman, in the payment of unemployment compensation. I just throw this in as an indication of the false economy that was practiced at that time.

When we boil this down, we find that maybe the Hoover Commission will come out with some magic formula, or maybe they will take some people off the pay roll, or combine some agencies, but it will be a very small factor in this entire picture.

Now, I wish if any of you gentlemen here—especially those of you who have indicated that the Government is spending too much money, and a curtailment of expenditures would bring down taxes, and so forth—would supply me with some definite figures, so that they can be used by the American Federation of Labor, I assure you we will put them to good use, to indicate just where we can put our finger on this thing, Mr. Chairman.

I dislike our people coming back to us and saying they heard a prominent man say that the real cause of this inflation and all of our trouble was too much Government spending. If the Government is spending money unwisely—and I grant there is a possibility that there may be some small, unwise expenditures—but if it in any way affects this situation, I think we ought to know it and not talk about it too much, but be specific and say, "Here is what you can do: Just cut that out and you will be all right, see?"

The CHAIRMAN. Well, Mr. Hines, the fact, of course, is that when the last Congress assembled it announced a purpose of cutting some $6,000,000,000 from the President's budget.

Mr. HINES. That is right.

The CHAIRMAN. And it made an honest effort to do so. The House passed a resolution pledging such a reduction. When the resolution came to the Senate, the Senate cut the pledge down considerably.

But finally the resolution never passed. It never came out of conference because the fact was that even though every dollar of expenditure was carefully scrutinized, no substantial reduction could be made, because we could not sacrifice the Army, the Navy, the Air Forces, or any of these other things.

Now, that does not say that there are not duplications in the Government which ought to be eliminated. It does not say there is not waste, because there is waste. But the fact is that 76 percent of the budget is for these war-connected expenditures, including interest upon the national debt. The actual cost of the civilian government itself has not materially increased, strangely enough.

Mr. HINES. May I ask this question, Mr. Chairman: Are these statements that are made from time to time by various people in high places to the effect that if the Government cuts its expenses we could have a tax reduction—are those statements justified?

The CHAIRMAN. Well, they are justified if one is to say that we shall cut the defense program seriously, if we are to abandon the international program, the Marshall plan; if we are to abandon the effort to win the peace of the world.

Mr. HINES. I don't think anybody wants to do that.

The CHAIRMAN. Nobody wants to do that, of course.

Mr. HINES. Where are we going to find this extra—what shall I say—surplus in Government expenditures that will be wiped out that will materially affect the tax program? That is what I want to know.

The CHAIRMAN. I have some figures here out of the Congressional Record of February 3, 1949, a report of the Joint Committee on the Reduction of Nonessential Federal Expenditures, made by Senator Byrd. It appears, beginning on page 806 of the Congressional Record.

A summary of the figures shows that 1,606,854 persons are employed by the National Military Establishment, the Post Office Department, and the Veterans' Administration, at a pay-roll expenditure of $395,782,000.

All other agencies of the Government have a total personnel of 497,743. That is scarcely a third of the other, at a total expenditure of $139,521,000.

In other words, if we were to wipe out all of the civilian agencies of Government, except the Post Office Department, to carry the mail, the Government would still have an employee roll of 1,606,000 and would be paying out in salaries $395,782,000.

I am frank to say that it has been my experience that the talk of cutting the expenses of Government is just easy talk, which is not based upon any facts or figures at all.

Mr. HINES. Is it not just a little bit misleading, Mr. Chairman—when our people hear these radio talks and they hear these speeches, as reported in the paper—for us to believe that something can be done by way of cutting governmental expenditures?

The CHAIRMAN. Well, I will let your question stand without any answer, because I do not want anybody to get the idea that we are just tossing the ball back and forth here, Mr. Hines.

Mr. HINES. No; but let me say this. You could not tell that to our people up in New Jersey, for instance, where they said they have been behind in payments for from 15 to 20 weeks, and where all elements including the chamber of commerce, the representatives of Government, unions, city officials, and State officials got together in an effort to find a solution for this thing. When we got here we found it was due to the cut that had been put into effect indiscriminately by the last Congress.

Mr. HERTER. Mr. Chairman, may I interject something there? That matter was up on the floor of the House the day before yesterday.

Mr. HINES. And we got a deficiency appropriation raised from an estimate of $5,000,000 to $10,000,000, and that will partially solve the situation.

Mr. HERTER. Not an adequate amount.

Mr. HINES. Of course not.

Mr. HERTER. The Republicans have voted solidly for $10,000,000, and the Democrats voted solidly against it.

The CHAIRMAN. So the Republicans are the spenders. [Laughter.] Mr. Patton, we come to you now.

Mr. PATTON. Since it is so late, I know I am going to come nearer staying within my 5-minute limit than some of the others.

The CHAIRMAN. You don't mean to tell us you have been worried by what has been going on.

Mr. PATTON. No; not at all.

First, Mr. Chairman, I want to join Jim Carey in complimenting you on doing the very thing that has been done here today and during the past week. Second, I want to take this opportunity of expressing deep appreciation on the part of the people that I represent for the excellent work of Chairman Nourse and his committee for the work they have done in beginning to pull this thing together. I personally somewhat resent the inference which Dr. Robey made that Dr. Keyserling was attempting to set himself up as a sort of one-man seer and overseer. I have known Dr. Keyserling a long time. He is a complete believer in people and in the institutions of representative government and the system under which we live. I think that was going a little too far.

I have watched things around this town enough to know that when the NAM wants to get some program they start after some of the keen lads who head up the program and furnish the brains, and if they can really get at them, then they begin to weaken the whole show.

Mr. HERTER. Might I interrupt at that point merely to say this, that I think both Mr. Keyserling and Dr. Clark made it very clear that they found themselves in a very unenviable position in having to prognosticate economic trends and make recommendations, but that the law required it, and they had no choice in the matter.

Mr. PATTON. That is right.

The CHAIRMAN. Of course, it can always be said that the argument ad hominem seldom gets anywhere. We are trying in this committee to get at the facts.

Mr. PATTON. I think this kind of procedure, Mr. Chairman, could be very well carried out into the various geographic regions of this country. I would like to see it get close to the people and, time permitting in the future, I would like to see that sort of thing move out to them.

I have a little different point of view from some people, obviously. I grew up with the feeling that people were the government; that government is not some strange monstrous thing way off in one corner sitting in dark caverns waiting to march out and destroy the people. I feel that in a representative form of government, where the people elect Congressmen and Senators, and elect their President and other officials, they are really the Government, and that since they are the government, the government is one of the many devices that they should use to better themselves.

We had an election on November 2, and the way the conversation is going around this town at the present time you would not think there had been one. And yet the very program outlined in this report, the program outlined in the bill which you have here for reference, and the statements which the President has made regarding it, were made repeatedly to the American people, and at least a majority of them indicated that is what they wanted.

I think they have already made the decision that they do, Mr. Chairman, to answer your question, expect the Government to step in. I have learned a lot of things here. I learned that the psychosomatic medicine men of economics are sure our economy is going to pieces if somebody gets scared.

While we are speaking of psychology, Mr. Chairman, I would like to show you here three ads. They were dated 1946. They were run by the National Association of Manufacturers. They said, "The Future With Confidence." That is, all you need to do is get rid of OPA. They said we could have more butter, more roast beef if we got rid of OPA, and that they would produce so much stuff so fast they would cut the prices down. I do not need to ask anybody in this room if that worked. It did not work.

Mr. ROBEY. Mr. Chairman, may I say what he said is not accurate. It is not in those ads.

Mr. PATTON. But there was an organized campaign of psychology at that time to the effect that all you needed to do was to get rid of the OPA and business would do the rest. We would have prices down in a minute.

Next, I want to say that I think that the program the President is asking for, as his economic report indicates, is a very moderate program. I did not see a thing in either the program or the bill which would cause a depression.

I want particularly to suggest that the investment feature of the proposals is especially important. I am glad, Senator Sparkman, that you are going at it through the Full Employment Act of 1950, which you are taking a considerable interest in. I am glad to see that in this bill much of that investment feature is incorporated.

We have a definite division of opinion in this country. One body of opinion seems to be like the old country doctor out in the West who treated all kinds of illnesses. When he was asked how in the world he was so highly specialized to treat every illness, he said, well, when he ran across something he did not know about, or that he did not know how to diagnose, he just threw them into fits, because he was very good on fits. [Laughter.]

There is a psychology which says we first have to go through fits, lose 300 or more billion dollars through unemployment and have our economy shaken down, and that is the best way to handle it. Just do nothing about it, or give the country fits.

The other approach is as a whole people, getting all points of view as you are doing here, Mr. Chairman, and to positively agree that we are going to do the best we can in the pragmatic sense of finding answers to very difficult problems.

The one point I do agree with Mr. Robey on is regardless of what you do it is not going to come out with a perfect answer, and probably that is a good thing.

But I am certainly opposed to just sitting by, where we sit at the present time, and losing the peace.

I shudder to think what would happen in this country if peace should suddenly break out. If peace should break out tomorrow and in 6 months the Congress should decide we did not have to have all of these war appropriations, we would really be in the soup. We would really have a problem on our hands.

It just seems less than intelligent to us and to me at least not to attempt to do through the Government, and through the cooperation of the various groups who constitute the Government, everything possible to be flexible and ready to meet whatever situation may arise, to the extent that our ability or brains will carry us to the true solutions.

Now, as to maximum employment and production, I think that the individual businessman of necessity has to think about profits as such. Each one makes his decision probably, as is indicated here, on his own basis. But as a total people we cannot sit around while the psychology goes to work on the business fraternity of the community and 2 or 3 million of them make up their minds. Then we have a depression on our hands.

As a total people, we have responsibility for human beings. This country is not made up of things. The really important part of this country is human beings.

As was indicated here this morning, some of the adjustments might have been healthy, if you want to talk about it in the strict economic sense. But believe you me, when you are out of a job, or when the price goes down on your corn, or what you produce with your labor, or something else happens, or if you are a small-business man and the economy begins to go out from under you and you have to lose your business, or if you are a veteran who has borrowed money, you do not feel very healthy about it.

So although there may be some adjustments, when it reduces itself down to human beings, the farmer thus far, and those who have been unemployed, are the ones who have been the shock absorbers for the adjustment.

Although I am for flexibility and for flexing I certainly do not want to see the American farmer flexed through the floor. We can use flex-up just as well as flex-down. I am not for flexing him down into the basement any more than I am anyone else.

Certainly our economy does need flexibility within it.

Now as to monopoly, Mr. Chairman, as to what you lawyers call a nolle contendre—anyway, no contest—the hundreds of no-contest settlements of the Justice Department certainly indicate that in somebody's opinion there is quite a bit of monopoly around. Some of the penalties of the Justice Department and some of the fines paid, to me are nothing but licenses to steal.

I mean, if you are fined $50,000 for violating the anti-trust laws and have made a million in the process, you have just paid a license to steal from somebody under the law. I think it is time that we do something about breaking up monopoly, in addition to just talking about the antitrust laws. Now they are trying to get around those laws.

Well, one thing that has not been mentioned, we have talked about production and pricing in relation to monopoly, but I have a statement which indicates the other factor I want to talk about, and that is the investment factor.

The Metropolitan Life Insurance Co. is shown to have $100,000,000 in Shell Caribbean oil, $84,000,000 with Gulf. The third largest loan is $77,000,000 to Union Carbide & Carbon. Why is the farmer interested in that? Because Union Carbide & Carbon are large manufactures of fertilizer. I would like to submit this to you, Mr. Chairman.

The CHAIRMAN. What is the source of those figures?

Mr. PATTON. From standard handbooks prepared by the industry. In the fertilizer situation we have not only had Justice Department cases but we have had failure to produce fertilizer at various times. At the present time, of course, the fertilizer supply is being equalized only because of the fact that farmers are being priced out of the market.

Some of the farm organizations have sponsored a bill before, but there again we think it is a case where the Government ought to step in and at least develop some yardstick plants.

Mr. HERTER. Mr. Chairman, may I interrupt for just a moment. I see some of the participants who are here today are leaving. Would it be appropriate to suggest that all those who have been here have the same privilege as those who were at the hearing yesterday, that is, of submitting a written statement?

The CHAIRMAN. I am very glad you made that suggestion, Congressman Herter. I will say to Mr. Reed and Mr. Robey that at the conclusion of the roundtable yesterday we invited those who had participated to extend their remarks, in the words of the House of Representatives, within 2,400 words and submit them to this committee by Wednesday of next week, if you so desire.

I will take advantage of the interruption to express the great appreciation of the committee for the attendance of all of you who have participated in this meeting. I know that Mr. Reed and Mr. Robey have to make a 5 o'clock train. We are very grateful to you.

Mr. PATTON. Mr. Chairman, I also have a memorandum on the fertilizer situation which ties in with the remarks I am making about the monopoly situation. I would like to submit that for the record.

The CHAIRMAN. Let me suggest, in order to preserve the same condition for all, that you present this material with the 2,400-word statement.

Mr. PATTON. Very well, that will be fine.

Senator SPARKMAN. Mr. Chairman, I wonder if I might ask Mr. Patton a question?

The CHAIRMAN. Certainly.

Senator SPARKMAN. You apparently have already left this subject but I want to ask you one more question with reference to the farm-support program. You said you were not willing to flex the farmers down. Just what kind of a price-support program would you advocate? As I understand you are not for this 60-to-90 sliding scale?

Mr. PATTON. We are advocating 100-percent parity support prices for family farmers, on that portion produced by family farmers, with lower floors down to 60 percent for farm units bigger than family units. Our purpose in that is to very definitely encourage, that is, to use price supports as one of the devices—and only one—for encouraging the family-owner operated farms in America.

Senator SPARKMAN. Will you define the family farm, as you use the term?

Mr. PATTON. We are going to define it in terms of units. Roughly, it is that type of farm operation which will yield an equitable or equal standard of living to the farm family working that farm.

If I may defer for a moment, we are developing a very definite unit program which will, I think, end the looseness, at least from our point of view, in defining what a family farm is. Obviously, you cannot define it in acres or a lot of other factors that have been used in the past. But I think we are developing a program, or rather, a system of definition that will tie it down pretty well, Senator Sparkman.

Senator SPARKMAN. Here is a question which has been bothering me. I might have asked this of Mr. Fleming or Mr. Goss, either one. That is whether or not a flexible-support program, around 60 percent when the production is big, when the surplus is large, whether or not that sliding scale will have the desired result of encouraging the farmer to control his output, or if it will have just the opposite effect of increasing the output in order to get the same number of dollars?

Mr. PATTON. Senator Sparkman, I am quite sure, from what I know of farm organization, that you would probably have three different answers, so I will give you mine.

Mine is that if you go that low you are very apt to get an increase in production in order to make up for the loss in price, particularly if you are not using acreage controls, if you are not using some kind of marketing quotas. Certainly in 1932 and 1933 when we did not have the program we produced as much as we could to get 25, 30, or 40 cents for it, in terms of wheat, to make up for the lower price. The tendency of the farmer—not always but usually—is to try and make up in volume what they lose in price. That is not universally true but there is that kind of psychology from my point of view.

Now, I am sure that both Mr. Fleming and Mr. Goss would differ with me, but that is my opinion.

Mr. FLEMING. Mr. Chairman, might I make a statement there, with Mr. Patton's permission?

Mr. PATTON. Certainly.

Mr. FLEMING. I would like to make two points and make them very briefly. First, the legislation as passed provides minimum price support at 72 percent of parity on the so-called basic commodities—when you have either acreage allotments or marketing quotas; i. e., when you get to the surplus situation you described, Senator Sparkman.

Second, with regard to the matter of what happens to farmers in a depression period, I can speak from personal experience because I am a member of a family that lost their farm in 1933. My point is that if we had then had a price-support program half or two-thirds as high as is provided in this legislation, we might have been able to avoid much of the distress in agriculture. We thought we were really doing something, and we were, in this country, when we got farm-price supports at 52 percent of parity. Had we had the kind of legislation that we now have on the books containing provisions for 72 percent of parity floors, when either acreage allotments or marketing quotas are in effect—and I would remind you that acreage allotments can be put into effect any time at the discretion of the Secretary of Agriculture—we would have been in far better shape.

This legislation by all odds provides the highest level of price supports that we have ever tried to operate in this country in peacetime. This program deserves a fair trial.

Mr. PATTON. Mr. Chairman, I would suggest we are not having an agricultural hearing. I did not mean to get into that except to answer the Senator's question. We could argue here and have a nice little farm organization yak-yak and go over the whole thing. But if I may I would like to go on with my testimony.

To summarize: First, I very definitely feel that people working through their Government and by joining in cooperation with each other can avoid the major cyclical swings in the economy.

Second, I think the people through their Government have the responsibility to see that they are not put down through the economic trough of a great depression and lose billions of dollars of income and product.

Third, that America is, and will continue to be, a greater and greater country as we take a progressive, dynamic point of view and do not throw ourselves into fits every few years, but say that we can have some kind of economic medical treatment that will prevent the worst of our economic diseases and still give us freedom in this society.

I think it has to be something besides psychosomatic economic medical mumbo-jumbo, too. There has to be a fixing of responsibility all along the line. It is fundamental to peace. It is fundamental as a matter of being well prepared. And, lastly, it will be a demonstration to the people of the world that the last, and about the only democracy of any importance in the world, can and should demonstrate to the world that a democratic form of government or representative form of government using the great technical, business, farming, and labor skills of this country, can have an ever-increasing richness of life and make an impression upon the people of the world leading them toward the pathways of democracy.

Thank you.

The CHAIRMAN. Thank you.

Senator Myers asked me to announce for the record that he was extremely sorry to be forced to miss this session. He had to be present at a meeting of a subcommittee of the Senate Interstate and Foreign Commerce Committee on trade practices. It kept him away from our hearing.

The Chair again expresses his appreciation to all who have appeared before the sessions. I think they have been very constructive and very helpful.

The hearing is now closed and we shall proceed to the consideration of the report.

(Whereupon, at 4:45 p. m., the hearing was closed.)

(The following statements were submitted in compliance with an invitation extended by the chairman to each participant in the round table to supplement his remarks with a statement for inclusion in the record:)

SUPPLEMENTAL TESTIMONY OF DEWEY ANDERSON, EXECUTIVE DIRECTOR, PUBLIC AFFAIRS INSTITUTE, FILED PURSUANT TO REQUEST OF SENATOR JOSEPH C. O'MAHONEY, CHAIRMAN, JOINT COMMITTEE ON THE ECONOMIC REPORT

I am submitting this additional statement because my analysis of the developing economic situation and my proposals for corrective action, differed sharply from the views expressed by the business economists, who comprised the majority of the members of the panel of experts, participating in the Round Table Forum.

If I interpret their position correctly it indicates:

1. They fail to recognize or, if they do, will not support the major thesis contained in the Economic Report of the President and his legislative proposals—the necessity for a flexible program to implement the Employment Act of 1946.

2. They have incorrectly assessed as a desirable and normal transition, what has in effect been a continuing and successive basic weakening of demand since early 1947.

3. Because of their failure to discern the developing weaknesses in demand, they have incorrectly concluded that Government has been standing idly by during these transitions, and consequently counsel that Government should at this juncture continue its nonintervention role.

4. By implication, they advance the insupportable and "fool's gold" thesis that, unhampered by Government intervention, the economy can smoothly effect the remainder of the transition and stabilize itself. They left unanswered the question: At what levels of output, employment, and incomes? At the maximum levels explicit in the Employment Act of 1946, or substantially below those levels?

The President's report has the dual task of reviewing and interpreting economic developments in the period just ended, and assessing prospective developments against the requirements for sustaining maximum employment, maximum production and maximum purchasing power. Insofar as his review and evaluation indicates the development of imbalances—deficiencies or excesses—which are incompatible with the essential needs and obligations of national policy, the President and the Congress are authorized by the Employment Act of 1946 (sec. 2) "to coordinate and utilize all its plans, functions and resources," for the purpose of restoring stability and maintaining maximum employment levels.

In examining the President's Economic Report and his legislative recommendations I find that a misleading label has been placed upon both the findings of the report and the President's legislative recommendations. This has occurred because some proponents unwittingly and some opponents purposefully, have attributed to the report an unequivocal (although this is not supported by a reading of the report) and predominant inflation thesis, and to the legislative proposal—an exclusive anti-inflationary label.

Careful reading of the report leads to no such unequivocal thesis.

The report states (p. 3):

"* * * So long as the rising course of incomes and activity continues, there will be in operation many of the forces which have been responsible for the long-sustained advance of prices. There are a few sectors of our economy where dangerous inflationary forces continue to be predominant. For example, the shortages of steel and electric power, and the steadily mounting costs of public utility services, add further to the higher costs of production which up to now have been rather readily passed on to the consuming public.

"The recent appearance of wider areas in the economy where supply conditions have improved, where the pressure of demand has been reduced, and where price inflation has been halted or reversed, should be looked upon as a desirable development to be welcomed rather than feared. It marks the beginning of the process by which a more stable condition can be reached after a long period of rising prices.

But these adjustments have not proceeded far enough to justify a cessation of concern about inflation. Besides, a sharp and uneven adjustment of prices downward may cause dislocations quite as serious as the sharp and uneven movement of prices upward. *Since both factors may be at work in different parts of the economy at the same time or in rapid sequence, we need to have available a range of governmental measures which can be applied as brake or as accelerator according to the need.*"

I have italicized this last sentence for the reason that the report, and consequently the legislative recommendations to implement the report's findings, really envisage the necessity for a flexible program.

In short, we need a policy and legislative enactments that are attuned toward stabilization of the economy at maximum production, employment and income levels. We require a policy that can cope with both inflationary and deflationary tendencies as these arise.

Many have failed to recognize that a "maximum production," "maximum employment" and "maximum purchasing power" economy cannot remain free from frictions. Imbalances tend to become cumulative and reinforcing in such an economic setting and consequently corrective measurss must be at hand to maintain balance and compatibility among the various sectors. For, if left unchecked these divergencies grow and render the economic structure vulnerable to ultimate collapse.

Opponents of the administration program have sought to pin the exclusive anti-inflation mislabel upon it, in an attempt to defeat the proposals. They can then argue that since the inflationary surge has passed its peak, the proposed measures are no longer necessary. Proponents are thus placed in the position of insisting that inflationary forces are still predominant and thus the debate resolves itself into a fruitless conjecture about the possible future course of the price level.

Consequently the real intent of the proposals which are actually stabilization measures designed to cope both with inflationary and deflationary trends becomes obscured.

Let us examine the position taken by the business economists who were a majority of the panel of experts appearing before this Committee. Their position is essentially this. The economy for the past 2 years has gone through a succession of individual sector adjustments from abnormal postwar demand, output and price peaks. We are currently completing, in a few remaining sectors, these postwar corrections. The economy is in a delicately balanced condition at present and presumably, if these further adjustments are smoothly effected, the entire economy may become stabilized at high levels of activity. Consequently, they counsel, control measures are no longer necessary. Government intervention at this time would rock the boat and seriously upset what appears to have been a smooth transition.

I find myself in disagreement with this analysis. The so-called successful adjustments made by individual sectors in the economy up to now, and the ones currently in process, I believe, reflect continuing changes in demand, from an urgent to a less insistent nature. Put it another way, we have been "drifting" through these transitions, and at present we are experiencing a successive weakening in consumer, business, and foreign demand, which these transitions presaged. Furthermore, there is no assurance that if left unchecked this successive weakening will not accelerate into the rapid down-turn of output, employment, and income which has accompanied other such post-war adjustments in the past. These adjustments in the nature of demand have not occurred merely because urgent needs have been fulfilled, but rather, because since mid-1946, when we removed all controls, we have had developing in the economy growing maladjustments. Disparities between prices, wages, and profits have sharpened maladjustments in income distribution. Prices among the various commodities have become unbalanced. Unduly high profit levels have stimulated high levels of capital investment, which appeared to be unsupportable in the long run, and are, in fact, presently declining.

The question arises why, if these successive adjustments reflected a continued weakening of effective demand, did output, employment, and incomes rise to new peaks?

The answer to this question is, that a series of fortuitous and temporary developments have occurred since 1947 which have operated to defer temporarily the adjustments in output, employment, and income which the developing weakness in total effective demand presaged. The recent decline in output and rise in unemployment, which have been characterized as primarily seasonal adjustments, represent, in fact, the emergence of the heretofore deferred effects of a continuing decline in the urgency of demand.

Early in 1947, the economy experienced a hesitation in activity, as the result of pessimistic business expectations regarding prospective levels of consumers' demand. This was reflected in the second and third quarters of 1947 in restrictive business spending policies on plant, equipment, and inventories, and in the curtailment of residential construction. The decline in business spending which occurred in this period is shown in table I below.

TABLE I.—*Gross private domestic investment, seasonally adjusted quarterly totals at annual rates*

[In billions of dollars]

Period	Total gross private domestic investment	Producers' durable equipment	Changes in nonfarm business inventories	New construction	Residential nonfarm	Private [1] nonfarm nonresidential
1947—First quarter	$32.6	$16.6	$6.8	$10.8	$4.5	$3.5
Second	26.4	17.9	.8	10.3	4.3	3.1
Third	25.6	17.6	−.9	11.6	5.2	2.8
Fourth	35.4	18.9	4.2	14.0	7.0	3.2

[1] Industrial, commercial, and institutional (excludes public utility construction).

Source: U. S. Department of Commerce.

Government action in the second half of 1947, however, in the form of the proposal for the Marshall plan, in combination with an usually high level of exports in the first half of 1947, resulted in a reassessment of business expectations and played a decisive role in arresting the reduction in business spending. But, it is significant that the impact of Government action and the other factors did not succeed in arresting the developing decline in the urgency of consumer demand which became apparent after the second quarter of 1947. Although total consumers' expenditures have continually risen since mid-1947, the developing weakness in consumers' demand has been reflected in a declining rate of consumers' expenditures relative to disposable personal income. This is shown in table II by the rising rate of saving relative to disposable income.

TABLE II.—*Annual rates, seasonally adjusted*

[In billions of dollars]

Period	Disposable personal income	Personal consumption expenditures	Personal net savings	Net savings as a percent of disposable income
1947—First quarter	169.7	158.1	11.6	6.8
Second quarter	168.2	164.2	4.1	2.4
Third quarter	175.0	165.6	9.4	5.4
Fourth quarter	180.9	171.1	9.7	5.4
1948—First quarter	184.1	172.1	12.0	6.5
Second quarter	188.2	176.5	11.7	6.2
Third quarter	193.7	178.5	15.2	7.8
Fourth quarter	195.4	180.0	15.4	7.9

Source: Department of Commerce and Council of Economic Advisers, The Economic Report of the President, January 1949.

Again in the early months of 1948, pessimistic business expectations, resulting in a hesitation and the prospect of a decline in business spending, were countered, temporarily, by the impact and anticipations deriving from three important Government actions—the passage of the European Recovery Act, the step-up in the domestic, rearmament program, and the tax reduction bill.

The conditions which produced the hesitation in early 1948, were a lagging consumers' demand which produced involuntary accumulations of inventory in the face of a high level of output.

Appraisal of the entire year 1948 discloses that the private sectors of demand had definitely eased. Gross private domestic investment and net foreign investment combined, remained virtually stable from the first to the fourth quarter, and personal consumption expenditures although rising, displayed a significantly declining trend relative to disposable personal income.

During this period, the major expansionary force which accounted for the continuing increase in the general level of over-all economic activity was the very sharp rise in Government spending, stability of receipts, and decline in Government surplus. This reflected the reemergence of Government to a primary position it had occupied previously, only in war time.

In table III below we see the developing weakening of both business and consumers' demand reflected in the sharply rising levels of both personal and business savings as gross private investment remained virtually unchanged. Offsetting this weakening of private demand, we see, was the sharp decline in the Government surplus.

Of particular significance is the fact that in the face of this substantial expansionary force generated by the change in the Government's fiscal position, by the end of 1948 and in early 1949 the price inflation appears to have come to a halt, if not definitely reversed.

Equally significant is the fact that the main impact of the change in the Government's fiscal position insofar as business derivative expectations are concerned has probably been absorbed. And further changes in the Government's fiscal position during the remainder of 1949, as reflected in the President's Budget Message, while continuing to be expansionary will be comparatively slight in contrast to the major shift that occurred during 1948.

TABLE III.—*Gross saving and investment seasonally adjusted quarterly totals at annual rates*

[In billions of dollars]

	1948			
	I	II	III	IV
Gross private saving	28.5	31.7	34.8	40.3
Personal saving	11.4	12.9	16.1	18.4
Business saving	20.0	24.0	23.8	25.9
Statistical discrepancy	−2.9	−5.2	−5.1	−4.0
Gross private investment	41.9	40.7	39.9	42.4
Gross private domestic investment	38.0	38.0	40.2	42.8
Net foreign investment	3.9	2.7	−.3	−.4
Government surplus (Federal, State, and local)	13.1	8.9	5.2	2.0

Source: U. S. Department of Commerce.

The factors underlying the developments reflected in the foregoing analysis and the implications as to the economic outlook lead me to disagree completely with the conclusions of the majority of the panel that adjustments to date have been desirable and that Government should continue to stand by and not interfere in the rest of the transition process.

For the analysis suggests two things:

1. That there has been a continuing weakening of the private sectors of demand since 1947. That this has been due to growing disparities between prices, wages, and profits. We are now beginning to feel the effects of sharpened maladjustments in income distribution, which have heretofore been obscured by fortuitous and temporary offsets. More recently the situation has become further aggravated because of reductions in industrial output, employment, and incomes. Consequently the adjustments to date have been neither normal nor healthy.

2. That Government has not been standing idly by while this transition has been taking place. On the contrary, Government has in fact played a decisive expansionary role in the economy at critical junctures, and has served to offset, temporarily, developing weaknesses in the private sectors of demand.

Let us not be deluded into thinking that Government has been "standing by," or that we have been going through "desirable" adjustments.

Let us not continue to trust to luck and fortuitous circumstances. Above all, let's not attempt to improvise to meet developing situations on a day-to-day, month-to-month basis. For it must be recognized that highly developed private economic systems are extremely vulnerable. A temporary hesitation can become quickly converted into a sharp accelerated decline. Especially in a highly industrialized economy as ours, which characteristically tends to defer decisions to spend for replacement of old equipment, for expansion of existing facilities, or for consumers' purchases of durable goods, in any period of uncertainty.

It is time we began to implement and strengthen the Employment Act of 1946 by approaching the problem of stabilization in an organized and sensible fashion. This means first of all discarding the worn-out phobias about planning. We have definitely got to plan not in terms of 1 year, but in terms of several years ahead.

To get and maintain full employment we have to accept the fact that there will always be need for restraints and supports. When "normalcy" appears, that's the time for alarm.

I believe we need price ceilings on vital commodities that significantly affect living costs, industrial and agricultural production costs, construction costs, and the costs of national defense and foreign aid.

We need to bring prices, profits, and wages into an arrangement that will make for a healthier distribution of incomes and a high-consumption economy. We have been moving steadily away from such an arrangement.

We need to increase minimum wages, broaden our social-security coverage, and increase benefits.

The prices of agricultural commodities and the income of our farm population must be supported at levels that will assure adequate purchasing power and rising living standards for that vital sector of our economy. This means that we must protect farm prices against excessive fluctuations; control excessive speculation in agricultural commodities; provide reasonable floors under agricultural prices that will not encourage excessive production and will bring benefits to, and encourage the development of, the family-size farms. We must protect the farmer from undue increases in the price of industrial products he purchases.

In the field of housing, we must move quickly. The housing boom was largely geared to a luxury market and has been rapidly declining since the spring of 1948. Present rent-control laws must be extended, in view of the shortages, and the provisions strengthened to assure adequate enforcement.

The low-rent housing provision of the comprehensive housing bill, as reported out by the Senate Banking and Currency Committee—810,000 units to be constructed over a 6-year period—is entirely inadequate. I would suggest a national survey to determine the gap as between what private builders are willing and able to provide and what is realistically needed; then set the quotas to be provided by the Federal Government on that basis.

With respect to the private housing sector, I think we have been placing too much emphasis on credit facilities. The problem is to get housing costs geared to the mass market. We need to have reenacted the highly successful although much-maligned Wyatt housing program. The developing decline in the housing industry can become a serious drag on the rest of the economy. The way to save the private housing industry is by enacting mandatory materials allocations, price ceilings, production incentives, and revamping of antiquated building codes, that will enable the industry to mass-produce housing at prices geared to the mass market and assure them through volume and lower cost, adequate profits. It will never be done without these incentives and insurances.

An expanded housing program requires more materials; a rising level of consumers' expenditures demands more goods, a growing labor force, more jobs. To meet these requirements our capacity to produce basic materials, steel, aluminum, energy, fertilizer for farm products, etc., needs to be geared to such rising levels. Lags in these areas retard and ultimately depress over-all levels of activity. To avoid these pitfalls we must plan ahead, investigate and gather facts, and on that basis reach decisions concerning capacity needs. Once industry has the unequivocal assurance of the stability of demand, the deterrents to expansion will be overcome.

Of importance, too, in capacity expansion is the problem of concentration and control. Government policy in this respect must be unequivocally against further concentration. Here is the opportunity to revive and stimulate competition in the basic industries. New independent enterprises should be encouraged and aided in entering the basic industries and other unduly concentrated fields.

With respect to fiscal policy, we sorely need to revamp our tax structure. The decline in revenue from estate and gift taxes which have been occasioned by the community-property provision of the Revenue Act of 1948 should be arrested. The increases in unincorporated business and professional incomes indicate that there should not have been a tax reduction for the middle and upper income brackets last year. These brackets could contribute a larger share, since they tend to save large proportions of their income instead of adding to demand by spending; and because they have been contributing as a group a declining proportional share to total personal-income-tax liability as compared with prewar.

Lagging consumers' demand can be arrested and a more balanced distribution of incomes effected by increasing tax-exemptions in the lower income brackets.

Regarding the arguments which have been advanced against the President's proposed corporate-income-tax increase, I would suggest that business investment decisions are more closely related to the outlook for sales, the general level of prices, and output than they are to prospective changes in taxes on business incomes. Moreover, since corporate taxes are levied on residual income, the proposed increase in corporate tax rates should not adversely affect business output plans.

In conclusion, let me say that although it has become fashionable in recent times to scornfully reject the forecasts of economists who have guessed wrong in the past, it would be foolhardy to adopt an equally wrong position now, of "let's wait and see."

I think I have indicated briefly why the forecasts of some economists in the past 2 years have not been borne out by subsequent events. At this juncture, the accumulation of imbalances in our economic structure could operate to produce sharp disturbances.

The longer we defer corrective action the more difficult the adjustment becomes and the less well prepared we are to put into operation effective counter measures.

There is no lack of opportunity open for profitable investment, once the Government has made clear such economic policies as will implement the Employment Act of 1946. Many of these policies require working partnerships between Government, management, farmer, and labor. This particularly applies to a wide variety of programs to conserve, develop, and use our natural resources. In this connection, the Public Affairs Institute has spelled out in a recent study the requirements of a National Resources Corporation investing some $13,000,000,000 in profit-making resource ventures which will be most beneficial to the whole economy. Housing, public works, increased educational and health facilities are also important units in the kit which should be readied for application at appropriate times in an economy whose very nature requires them. Strictly in economic terms, these have great stabilizing potentialities. In social terms they are likewise essential in a democratic nation seeking to meet its people's needs.

SUPPLEMENTARY TESTIMONY OF ROY BLOUGH, PROFESSOR OF ECONOMICS, UNIVERSITY OF CHICAGO, FILED PURSUANT TO REQUEST OF SENATOR JOSEPH C. O'MAHONEY, CHAIRMAN, JOINT COMMITTEE ON THE ECONOMIC REPORT

In my oral statement I discussed the question of whether there should be a tax increase. The following supplement considers the relative merits of different forms of tax increases.

Any tax considered by itself is "bad" in the sense that it has repressive effects of one kind or another on economic activity. Tax policy is a matter of alternatives. All taxes have anti-inflationary effects although per dollar of taxes some forms have more than others. Various considerations—economic, administrative, ethical, and political—enter into tax policy decisions. Among the political considerations is the narrow, short-run, but very important one of what kind of tax measure can be gotten through the present Congress. This consideration has been excluded in the following comments.

INDIVIDUAL INCOME TAX

On balance, it would appear that the least undesirable form of tax increase under present conditions is an increase in the individual income tax. The tax decrease of 1948 was a decrease in individual income taxes. The individual income tax permits the burden of taxation to be allocated among taxpayers with the greatest possible precision. Through changes in withholding rates, the economic effects of individual income-tax changes can be made quickly effective. The individual income tax exerts a minimum of distortive pressures and incentives on specific forms of business and economic activity. Finally, the public is better able to judge the relative importance of taxes and expenditures when increased expenditures are paid for out of increased direct taxes on individuals.

The 1948 act made some changes which should probably not be disturbed. The increase in exemptions was justified by the general increase in incomes and living costs. On balance, the privilege of splitting incomes, which was granted to married couples, is no doubt desirable as being the only politically feasible method of equalizing income taxes in community-property and common-law States. The reduction in taxes resulting from income splitting, when added to the rate reductions, afforded exceptionally large relief to married couples in the middle income groups. Higher tax rates might well be imposed on these levels of income. However, it will be necessary to increase rates throughout the rate scale if several billion dollars of revenue are to be raised. In determining the rates in the higher brackets, the changes should be geared to the desired effect on income after taxes. The revenue involved in the top rate brackets is relatively small, while the economic and social implications of heavy taxes on these brackets have not been fully explored, and may be very important.

There would seem to be no point in discussing here detailed proposals for increasing income taxes since your committee is presumably interested in general fiscal policy aspects of taxation.

EXCESS-PROFITS TAX

The arguments that profits are unnecessarily high seem to point to the excess-profits tax as the appropriate tax measure. The proposal to tax excess profits has many attractive aspects. However, there does not seem to be any practical way of distinguishing excess profits from other profits in tax legislation of general application. If the economic situation should require wage controls and top limits on farm prices, the excess-profits tax would undoubtedly be necessary as part of a near-war economy. In the absence of that condition, the measurement difficulties seem to me to be decisive. I have recently discussed this problem in another place and will not elaborate the discussion here. (The publication referred to is Measurement Problems of the Excess Profits Tax, National Tax Journal, vol. 1, pp. 353–365, December 1948.)

UNDISTRIBUTED-PROFITS TAX

Certain proposals have recently been made to raise additional revenue through an undistributed-profits tax. The present taxing method under which distributed profits are taxed more heavily than other income, while undistributed profits may be taxed much less heavily than other income, presents a difficult and serious problem. The effects of imposing an undistributed-profits tax as a method of solving this problem might well extend far beyond tax-burden distribution to the basic organization and growth patterns of the economy. The existing special tax on retained earnings (sec. 102) is an unhappy compromise which must be kept in the law until the major problem has been solved. This problem ought to be attacked by the most capable students of business organization and evolution, as well as by students of taxation. In the absence of such a study, it would not seem wise to impose an undistributed-profits tax which might have serious effects on the growth of small businesses and the maintenance of competition.

CORPORATION INCOME TAX

There are certain objections to increases in the rates of the corporation income tax. By no means have all corporations enjoyed either high or increasing profits, but all would pay the higher tax rates. Particularly heavy burdens would fall on common-stock holders in corporations that were obliged to pay large preferred-stock dividends. In the public-utility industries and in other industries where prices have been held below a free market price, an increase in corporate taxes might be added to prices. These objections do not appear to be decisive for the year 1949, assuming it to be a year of high profits. Nor am I much concerned about the effects which increased profit taxes would have on short-run capital formation in such a year. It may well be that the higher tax would result more in preventing higher dividends than in curtailing capital formation. However, I do not wish to take the space to discuss the relationship of taxes to capital formation. My misgivings about higher corporation taxes relate to their longer-run implications. The defects of the corporate income tax are well known and need not be listed here. Among the obstacles to the reform of corporate taxation is the political popularity of this form of tax. When there is opportunity to decrease taxes, the powerful tendency is to decrease the individual income taxes since they are felt directly by the voters. I think the record both in the 1920's and in the tax reductions since the war confirms this statement. The repeal of the excess-profits tax in 1945 was a special matter which has little bearing on the main argument. There is danger that if the corporation taxes are now increased for short-run considerations, the increases may remain permanently in the system, whereas corporation tax rates should move lower rather than higher in an economy of real peace.

DEPRECIATION

Another reason why it may be unwise to increase corporation taxes at this time is that such action would undoubtedly set in motion a strong demand for changing the rules regarding depreciation for tax purposes. One proposal which has been urged is to allow very rapid depreciation; if this were done the result would be the postponement, diminution, or even complete avoidance of taxes, depending on the circumstances. There is something to be said for accelerated depreciation as a stimulus to investment, but primarily for its use in depression years as a special inducement when there otherwise would be very little new capital formation. The present period of high-level capital formation would be a completely wrong time to allow accelerated depreciation.

A second proposal regarding depreciation in a period of rising prices is to allow depreciation in excess of cost, the argument being that the new replacement asset will cost more than the asset being replaced. This is a highly technical matter. There is much to be said for the view that book profits do not measure economic profits in periods of rising costs. However, this does not mean that an increase in depreciation allowances for tax purposes would be desirable. Taxation must look to general problems of equity. Many other groups in the community are adversely affected by rising prices. The new holder of a bond, for example, may lose more real value through a price rise than he receives in interest. Shall we therefore exempt the interest from taxation? If depreciation is to be increased for this reason, many other adjustments should be made throughout the income tax. Moreover, it should be borne in mind that the general competitive position of a business operating with assets purchased at lower prices may be far better than that of a business started today with assets purchased at higher prices. There is an unrealized capital-gain factor which enters into the problem of tax equity.

ESTATE AND GIFT TAXES

The estate and gift taxes are long overdue for a thorough revision to improve their equity and make them more adaptable to congressional policies toward the long-run distribution of wealth. The need for revision has been accentuated by the Revenue Act of 1948 which allowed an interspousal deduction. The interspousal deduction moves to some extent in a desirable direction, but in its present form it sets up new opportunities for tax avoidance and creates some new inequities. The problems of estate and gift taxation are not importantly related to short-run inflation and revenue policy and, accordingly, I shall not discuss them further here.

EXCISE TAXES

There is little prospect of finding substantial new revenue by increasing excise taxes, and it would be undesirable to do so. A thorough search was made for sources of excise-tax revenue during the war. The rates of these taxes are still at their wartime peaks. Excise taxes tend to distort the allocation of resources among industries and to affect welfare adversely, in comparison with the individual income tax. Some excises ought to be repealed or decreased in the present situation. The transportation tax on goods, for example, operates to raise prices and acts as a sort of internal tariff and should have no place in our tax structure.

A great deal of revenue could, of course, be raised by a broad expansion of excise taxes into the equivalent of a general sales tax. This was rejected during the war, largely because it would inequitably distribute tax burdens and place a long-run drag on consumer purchasing power. There would seem to be no justification for adopting the tax now.

SOCIAL-SECURITY TAXES

Social-security taxes are in a special class because they are viewed as being in payment for present and future social-security benefits. The deflationary and inflationary effects of such taxes and benefits must, of course, be kept in mind in the adoption of general tax and fiscal policies. A general comment may be made here. The freezing of the old-age and survivors insurance pay-roll taxes at 1 percent over the past decade has, in my judgment, resulted in teaching the American people a very erroneous lesson, namely, that social-security benefits can be purchased cheaply. I am a strong believer in greater social-security coverage and benefits, but only to the extent that the public understands what the cost is and is willing to pay it. If the pay-roll taxes had been increased during the war years, the fiscal position of the Government, the economic condition of the country, and the public understanding of social-security costs would all have been improved.

SUPPLEMENTAL TESTIMONY OF A. D. H. KAPLAN, SENIOR STAFF MEMBER OF THE BROOKINGS INSTITUTION, WASHINGTON, D. C., FILED PURSUANT TO REQUEST OF SENATOR JOSEPH O'MAHONEY, CHAIRMAN, JOINT COMMITTEE ON THE ECONOMIC REPORT

[Mr. Kaplan's statement was worked in by him as a part of the transcript of the record, and not prepared as a separate supplemental statement. We have accordingly reproduced here several pages preceding his supplemental material, in order to give continuity and coherence to the extension of his remarks.]

After the war we were subjected to a variety of group pressures, generally inflationary, which did not simplify the problem of an orderly postwar readjustment. But, strangely, the thing scaring us most is the fact that, on balance, we have fared so well in our domestic economic readjustment. We have not had that depression generally expected as the aftermath of war. We have not had the equivalent of the 1919 temporary let-up; we certainly have not had a 1921. Therefore an uneasiness persists that the set-back is long overdue.

Businessmen, as well as employees, feel that way especially where their own lines have softened. With the stock market at levels where some of the prime shares are selling for less than 10 times the earnings, there is obviously a general lack of confidence that the current business levels will be sustained.

But I do not think we are giving enough emphasis to the smoothness of our postwar reconversion, all things considered, regardless of what else we might have done and did not do.

The war concentrated our energies on military durable goods; the soft-goods lines were the ones that were most ready for civilian demand at the end of the war. We spent more than the normal share on nondurables, and pushed their dollar volume at a pace that could not be kept up once the durables became more available.

The softening in the nondurables is necessary in order to get them in balance with the durables. It was evident that by taking all the traffic would bear a good many items would price themselves out of the market. And what is true of the markets for goods also holds true, to a degree, in the market for labor. Some forms of labor did not get their share in the postwar advances; others got more than they are likely to keep when competitive costs and productivity must be closely figured.

The durable goods are keeping the economy firm at the present time, while overpriced foods, apparel, and other soft lines are settling. It is partly due to the fact that most durables were slower in getting into normal supply. It is due in part to the fact that the prices of basic durables were administered at levels well below what buyers were offering in the gray markets. The fact that the output in durables has required relatively more time to catch up with the heavy backlog of demand may prove in the light of history to have been a healthy thing, because we can still see a backlog of unfilled orders in those particular lines.

We are, then, in the process of making natural market adjustments of prices and production with wages and profits to sustain peacetime demand and employment. I therefore believe that if, right now, we go in heavily for piecemeal public intervention in that process of adjustment, to fit a particular blueprint for a standard business pattern, we would not be planning for sustained full employment. We would be planning for freezing an imbalance and that requires continuous deficit financing to keep it up; I doubt that the artificial props would hold up for long.

Though we are in a period of readjustment, we have not had a depression, because we have not had what the European economists call a conjuncture—their word, for the converging of strains that create a business crisis.

While overstimulated lines have been taking their turn at meeting buyers' resistance to inflated costs and prices, others—notably in the area of durable goods have moved in to increase their share of the total market—some with still rising costs and prices. To illustrate the sequence:

Rubber goods were among the earliest to undergo postwar readjustment. The price peak there was reached in the fall of 1946. Now we have the phenomenon in tires and tubes that prices today are below the wartime ceilings, while production is almost double its prewar level.

Hides and leather goods reached their price peak before the end of 1947. Since the beginning of 1948, the raw material prices have tapered off by 10 percent, while shoes show the expected lag and have come down approximately 4 percent from their peak in February 1948.

Textiles had their sharpest rise in 1946, continued moderately upward in 1947, and hit their peak in April 1948; since then there has been a consistent gradual tapering off in both prices and production to find more stable demand levels. Paper and pulp went through 1948 with a slight increase over 1947 production, and with prices holding at a level roughly 8 percent above the 1947 average.

In steel the production index for the last quarter of 1948 was approximately 50 percent higher than the 1946 average while prices have consistently gone up to a present level which is about 70 percent above the ceiling prices at the end of the war. Here supply has yet to catch up with the current backlog of demand.

We must expect that this adjustment to more tenable market patterns will be painful to those entrepreneurs and workers who cannot continue to sell their goods or services at the inflated prices they have enjoyed during the past few years, and who cannot bring down their costs to meet more normal conditions. Thus, among the 1,100,000 enterprisers who started new businesses since VE-day, we must expect, from past experience, that a large fraction will not make the grade and must give way to more efficient or more favorably situated competitors. In planning for competitive opportunity to small business we would not claim we were serving the economy if we embarked on a program of subsidizing the inefficient. The same principle applies to those workers who, under the stress of acute labor shortages, were upgraded to jobs which their skill or output has not justified. Social Security recognizes the importance of cushioning their loss of earnings until they find their job level under less inflated conditions. Basically, however, mobility among workers, as in commodity areas, is essential for growing enterprise and maximum employment opportunity over the nation as a whole.

No one knows better than the members of this committee that Congress must meet the fiscal issue of achieving a surplus, or at the very least a balanced budget, at the present high levels of production and employment. Right now a budgetary surplus could serve as a symbol of the strength of the American economy in its effort to facilitate economic rehabilitation abroad. That fiscal goal must needs be reconciled with our continuing interest in public welfare areas such as slum clearance, education, and optimum utilization in our natural resources. The two goals will be weighed one against the other as Congress seeks the best compromise.

But with respect to such selective, specific controls as are contemplated in H. R. 2756, the bill which has been submitted for consideration as a program for implementing the objective of high employment, I feel that it represents the kind of intervention in the competitive market which, on balance, would be a disservice rather than an aid to the healthy readjustment and growth of our postwar economy.

With all due respect to the high caliber of the professional work that has entered into the greater part of the Report of the Council of Economic Advisers, I am disturbed by some of the recommendations that have emanated from its analysis of our economic position. I cannot see that a convincing case has been made for the proposition that the inflationary dangers require the Government to move in on selected commodities in competitive markets to control prices; or that as a result of current high profits, the economy has been overstimulated on the side of capital formation, to be rectified by reducing the rate of capital formation to 11 or 12 percent of the national income. I would not go along with the proposed intervention of the Federal Government to expand capacity in commodity lines like steel because it happens that the industry and the investors therein do not see eye to eye with administration spokesmen on the size of the market that can be sustained for steel in the years ahead. The leading members of the steel or any other industry may prove wrong in their judgment as to whether they are increasing capacity at the highest feasible rate justifying the investment. If they prove wrong, competitors may move in on them from within or without the industry, as they did a generation ago; or in conceivable circumstances the Federal antitrust agencies may step in if restraint of competition becomes the cause of a lagging supply. But if the Government builds up additional capacity and there is later no market demand for it, who will take the onus of the industry's losses in that case? Whose plants will be shut down—the private or the public? Whose stockholders and whose employees will take the ensuing loss of income and employment?

To legislate for selective price and production controls on individual commodities at this stage, with the enlarging problem of public wage adjustments which they imply, would seem to invite renewed drives by pressure groups to use the

Government in furthering their own particular sectors of the general struggle for economic advantage. How it can be justified as planning for business confidence, continuing investment, and sustained high production in the private competitive enterprise areas of our economy, is difficult to understand.

SUPPLEMENTARY TESTIMONY OF DEXTER M. KEEZER, DIRECTOR OF THE DEPARTMENT OF ECONOMICS, MCGRAW-HILL PUBLISHING CO., NEW YORK, N. Y., FILED PURSUANT TO REQUEST OF SENATOR JOSEPH O'MAHONEY, CHAIRMAN, JOINT COMMITTEE ON THE ECONOMIC REPORT

The testimony at these hearings offers extraordinary provocation to engage in disputation on a broad economic front. However, in availing myself of the privilege of extending my remarks, I propose to stick to that aspect of the almost cosmic range of subject matter before the committee about which I suspect myself of having some special knowledge which would be useful to the Committee. That aspect is the need of American business for new plant and equipment.

The department of economics of the McGraw-Hill Publishing Co., of which I am the director, recently completed a survey of these needs which I believe throws new and important light both on the needs and the possibilities of meeting them. At the hearings I reported a few of the principal findings of the survey, but there are others which I believe to be worthy of the careful consideration of the committee.

Included in the survey were companies employing about 5,000,000 workers or about one-fourth of all of the workers employed in industry. For those industries which make about three-fourths of the capital expenditures of all American industry, the coverage was even more extensive. Companies employing about 60 percent of all of the workers in these industries were included. Most of the companies covered were large companies. In previous surveys we had found that the smaller companies tend to follow the pattern of expenditure set by the larger companies. Also the larger companies are much more apt than the smaller to have relatively long-range investment plans, with which our recent survey was particularly concerned.

As of late December, 1948, when it was completed, the survey showed that—

(1) Industry, as represented by manufacturing, mining, transportation, and utilities, was planning to invest $14,100,000,000 in 1949 in new plants and equipment.

(2) Industry had plans to invest $40,000,000,000 in the 4 years 1950–53.

This is not a forecast of what industry will actually spend. It is a report of plans to invest in new facilities if a high level of prosperity continues. Whether the plans can be carried through depends on a wide range of unpredictable and economic developments.

The survey, nevertheless, sheds much valuable light on the potentialities of business.

Here are other major findings:

(1) Manufacturing industries alone plan to spend 7.2 billion dollars for new plants and equipment in 1949. This is about 7.5 percent of the estimated value—$96,000,000,000—of all manufacturing facilities at todays' prices.

(2) Manufacturers estimate conservatively that it would cost $136,000,000,000 to completely replace their present facilities with the most up-to-date plants and equipment.

(3) Manufacturing industries have increased their capacity 56 percent since 1939. Almost one-half of that increase came in the last three years. But expansion is slowing down. The increase planned in the next five years is 13 percent.

(4) Today half of all manufacturing companies are operating at 90 percent of capacity or better, but most of these would like to have capacity which would permit an operating rate 5–10 percent lower.

(5) Manufacturing industries are emphasizing efficiency more and more in planning facilities. Their capital expenditures in 1948 went nearly 50–50 for expansion and for replacement and modernization. But in the next 5 years they plan to spend three-quarters of their funds to replace and modernize, only one-quarter for expansion.

(6) Equipment should pay for itself in 5 years or less, say three companies out of four. New buildings, say 77 percent, should pay out in 15 years or less.

(7) Profits and depreciation reserves are counted on to pay for the new buildings and equipment they plan, report three out of four manufacturing companies. Some 15 percent expect to borrow, only 9 percent plan to sell stock. However, 20 percent would like to sell stock, only 4 percent want to borrow.

(8) A more liberal depreciation allowance for income-tax purposes would prompt almost two-thirds of the companies surveyed to increase their capital expenditures. Almost a third of the manufacturing companies report that they would increase their expenditures if they could sell stocks at a fair price.

These findings make a factual challenge to the proposition that the current rate of expenditure for new plant and equipment is too high. They indicate that rate of expenditure for new industrial facilities is low, whether measured relative to the total investment in manufacturing facilities or measured by current needs.

Covering these points more in detail:

In our survey we found that to replace our present manufacturing facilities in their present condition would cost about $96,000,000,000. In 1948 we invested about 8.2 billion dollars to improve and expand these facilities. That is at a rate of only about 8.5 percent of the total value, anything but a high rate. The prospective rate for 1949 is only 7.5 percent.

The rate looks even lower when it is measured against our needs for new plant and equipment.

We found that it would take more than $40,000,000,000 to replace our present manufacturing facilities with strictly up-to-date plant and equipment, and that it would take more than $20,000,000,000 to put these facilities in what those who use them would call first-class shape. (We are sure that both estimates are low.) The principal difference between a complete job of modernization and getting these facilities in first-class shape is that it would not be necessary to modernize stand-by equipment to get the facilities in what those using them would call first-class shape.

If we should continue the 1948 rate of expenditure for new manufacturing facilities it would take many years to meet these needs of new equipment. This is how that conclusion is reached. At present it takes an investment of about 3.5 billion dollars a year to offset the wear and tear on our manufacturing facilities. It takes a minimum of about $2,000,000.000 more for expansion to meet the Nation's growth. That is a total of 5.5 billion dollars. When that is taken from the 8.2 billion dollars spent for new manufacturing plant and equipment in 1948 it leaves less than $3,000,000,000 for modernization. More, I believe, much more than $20,000,000,000 is required for that purpose.

Another at least suggestive way of measuring the need for new plant and equipment is to find out how soon corporations expect new plant and equipment to pay for itself before they will buy it. We made inquiries along that line and found that the so-called pay-off period is extremely short. Three out of four of the manufacturing companies we surveyed reported that they expect new equipment to pay for itself within five years before they will buy it. About a third of them said 3 years or less. That does not mean that they always make good on this pay-off schedule, but that the officer proposing the purchase must make a convincing showing that the schedule will be kept before the purchase is made.

We asked many companies why they set such an extremely short pay-off period. More often than not the answer was that with the limited funds they had available for investment in new plant and equipment, they didn't need to set the pay-off period any higher. With industry generally limiting itself to the purchase of new equipment that is expected to pay for itself in only a few years, it is extremely hard to argue that, in terms of need, too large a share of our productive resources is being devoted to capital investment.

Still another way of measuring our need for new plant and equipment is in terms of capacity requirements. Through our survey we got some light on those. We found that in late 1948 over half the manufacturing companies thought they should have from 5 to 10 percent more capacity to operate effectively. We also found that, at present, they plan an increase of about 13 percent in manufacturing companies over the next 5 years. The natural growth of the country will call for an annual increase of 2 to 3 percent in industrial capacity. When the present shortage of capacity for full employment of the sort prevailing in 1948 is added to the increased capacity to meet the growth of the country, the need for an increase of from 15 to 25 percent in our manufacturing capacity during the next 5 years is sighted. If the present rate of capital investment were maintained we would scarcely have the money to meet the lower (15 percent) increase in capacity which promises to be needed.

Some people concede that we have great need to maintain the present high level of capital investment, but think the business community will not do it. They fear that after this postwar spurt in capital investment we shall have a bust, because business will cut back its rate of investment sharply. The report of the Council of Economic Advisers is not very explicit on how it feels about this possibility.

So far as we can tell, however, there is little foundation for the view that the business community wants or plans to cut back the rate of its capital investment any time soon. As a result of our survey we found that business has plans for capital investment which, if not interrupted, would sustain a high rate of investment for years. Over the 5-year period which our survey covered, we found that business already plans to invest $55,000,000,000 in new plants and equipment. Naturally enough, the annual investment goes down as we go further into the future. So too does the capacity to see what will be needed. Much more will obviously be needed than can now be envisaged. But the program already laid out would assure a high level of capital investment by industry if it were not interrupted.

To cut down that program would involve grave risks of creating or accentuating a general economic reverse or recession. Whether it is capital expenditure which produces good times or good times which produce capital expenditures the fact remains that a high level of capital investment and general prosperity go hand in hand. Hence to cut back on the rate of capital investment inevitably involves courting general economic trouble.

As I have also tried to indicate, a policy of cutting back the rate of capital investment also means leaving acute needs of industrial plant and equipment unsatisfied.

Most unfortunately we are woefully short on authentic information about the precise physical condition of our industrial plant and equipment. To get it we would need an engineering survey. However, in addition to indications of the sort I have already given, we know enough other information to know that much of it is badly run down.

It is not hard to understand why this is so. During the depressed 1930's there was almost no investment in new plant and equipment. During the war there was a great deal, but much of it cannot be effectively adapted to peacetime needs.

Dean Neil H. Jacoby of the College of Business Administration, University of California, Los Angeles, estimates that "by 1940 there had emerged a deficit in the fixed assets of American business of some $40,000,000,000 in terms of prewar prices," and "that this sum is probably equivalent to a deficit of 60 to 80 billion dollars at current prices." He further estimates that "up to the end of 1945, the magnitude of private and convertible public investment in fixed assets was scarcely more than sufficient to maintain the productive plant at the level at which the nation entered the war," or, in other words, with a deficit of from 60 to 80 billion dollars at present prices.

Since the war we have made some headway in overcoming the deficit, but not much. Dean Jacoby estimates that at the 1948 rate of investment "it would require nearly a decade of spending on new plant and equipment at the planned rate for 1948 in order to erase the deficit."

The proposal that we cut back on capital investment has a major bearing on the national safety and defense. At the very time that we are being advised to cut back on investment needed to get our industrial plant and equipment in good condition, our antagonists in the Soviet Union are moving heaven and earth to increase their investment in new plant and equipment.

There seems to be general agreement among students of the matter that the Russians are devoting a far larger share of their total income to new industrial plant and equipment than we are. The figures for the U. S. S. R. in the following break-down of the national income came from The (London) Economist, of December 18, 1948. Those for the United States of America were worked out on a comparable basis from our Government figures.

Break-down of net national income

	Union of Soviet Socialist Republics	The United States
	Percent	*Percent*
Civilian consumption	60	80
New capital formation	21	[1] 12
Defense	13	5
Stocks	6	2

[1] Including public works.

While I am in no position to underwrite the accuracy of the Russian figures, I find their showing that the Russians are spending far more relatively for capital equipment than we are is generally accepted by those in a position to know.

There is also at least a possibility that the Russians are currently spending as much in absolute terms to build new industrial plant and equipment as we are. Under such circumstances, I think that any policy or program which serves to cut back our expenditures for industrial plant and equipment may actually be a menace to the national safety.

SUPPLEMENTAL TESTIMONY OF JAMES G. PATTON, PRESIDENT, NATIONAL FARMERS UNION FILED PURSUANT TO REQUEST OF SENATOR JOSEPH O'MAHONEY, CHAIRMAN, JOINT COMMITTEE ON THE ECONOMIC REPORT

There appears to be virtual unanimity of opinion, both within the committee and among the witnesses it has heard, as to the necessity for positive governmental action in the economic sphere. The differences arise over the extent of this intervention and over the kind of intervention.

It is my view that those who are unwilling to advocate the principles put forward by the President in his economic report, and the bill just introduced to put those principles into practice, have a very weak case indeed. I have examined the hearings carefully and I fail to find any very tangible substitute for the kind of action proposed by the President. In the large, those spokesmen who are unwilling to put forward such a substitute are the spokesmen for business. This is disturbing to those who cherish the maintenance of a purely American system, with strong emphasis on competition and individual enterprise. Those businessmen who recoil in horror from any suggestion that government take steps to insure expanded production and expanded industrial facilities would do well to remember that business itself is among the principal sufferers both from depression and from its aftermath.

The tragic pattern of Germany is too close for us to forget. Business should recall that the Nazis used the leaders of German finance, industry, and trade, then took them into concentration camps along with other citizens when they had no further use for them. Business should remember also that it was out of depression that the Nazis arose.

The National Farmers Union is wholly aware that undue centralization of governmental power has severe liabilities. If the Government falls into the wrong hands then such power can lead to disastrous consequences. But it seems to us that those who fear this power at the present time are confusing cause and effect. So long as the Government asks power for the purpose of promoting the welfare of all the people and uses it to do just that, then we have little to fear. It is failure of government to act when action is necessary that is the root cause of the evil centralization that business fears.

It has been our conviction, however, for a number of years that those actions by government which constitute intervention in economic affairs ought to be the kind of actions that will involve the least possible impact upon the lives of individual citizens. When we put forward the proposal in 1944 which resulted later in the Employment Act of 1946, we made it clear that a principal concern of ours was the formulation of a measure so sweeping and comprehensive that it would enable the Government to avoid such individual regimentation. We still believe that. The proposal which I put forward for the Farmers Union in September 1948 for a full Employment Act of 1950 was in pursuance of this same principle. I will not attempt to describe either of these proposals in this statement, but have attached a copy of the bill of the latter, in the form in which it was introduced by Senators Sparkman and Murray, for the information of the readers of this record.

It is gratifying to note that H. R. 2756 embodies in its loan provisions some of the very same proposals put forward in this bill.

In my oral testimony it was not possible for me to discuss at the length which it deserves the impact of monopoly on our economy and particularly on agriculture. I have therefore appended to this statement two memoranda, one regarding fertilizer, the other regarding holdings of insurance companies which are of very great pertinence to this subject.

A Memorandum on the Life Insurance Business

It is becoming increasingly obvious that the life insurance industry has taken a full partnership in the building of highly concentrated business controls in the United States.

With around $4,000,000,000 of new capital to invest annually, their effect upon the economy and the national business level, as well as their effect on the nature of the economy, has become of almost unparalleled importance.

The public has recently been startled by huge private placements of insurance loans. The New York insurance investigation has shown that Equitable has $1,441,000,000 out of $4,000,000,000 total assets invested through private placements. It has loaned $100,000,000 to Gulf, one of the major oil companies. It has $90,000,000 in Reynolds Tobacco, one of the major tobacco companies, and another $75,000,000 is out to American Tobacco.

Metropolitan is shown to have $100,000,000 in the Shell Caribbean Oil Co., $84,000,000 with Gulf. Its third largest loan is $77,000,000 to Union Carbide & Carbon Co., which is a major concern in the fertilizer field. Union Carbide also has $68,000,000 from Prudential.

The United States Attorney General, in an antitrust complaint which he filed against a group of 17 large investment banking houses in 1947, charged that the major life insurance companies had a formal agreement with those investment bankers to take huge blocks of securities from them at private placement and "to reduce substantially their purchase of securities from investment bankers not party to the insurance agreement."

This matter was not aired in court, but the complaint made it evident that life insurance companies with more than 85 percent of the total life reserves in the Nation had agreed, in effect, to make their rapidly accumulating capital resources useful, on a priority basis, to investment bankers who were engaged in merging, consolidating, and gaining control over larger and larger segments of American industry.

The continued operation of such an investment agreement guarantees progressive concentration of business controls in this Nation.

The assets of life insurance companies have been doubling every 10 years since the turn of the century.

In 1906, life insurance company assets were $3,000,000,000. Their growth, by 10-year periods, has been like this:

1906	$3, 000, 000, 000
1916	6, 000, 000, 000
1926	12, 940, 000, 000
1936	24, 874, 000, 000
1946	48, 191, 000, 000

At the end of 1947, the total had grown to $51,735,000,000 and it is probably near $55,000,000,000 today.

A study of the investment banking houses with which this insurance agreement exists shows—as the investments mentioned above would indicate—that they are the financial agents of our best-known monopolies. The banking group named included Morgan-Stanley, First Boston Corp., Dillon-Read, Kuhn-Loeb, Blyth, Smith-Barney, Lehman Bros., Harriman-Ripley, Glore Forgan, Kidder-Peabody, Stone & Webster, Goldman-Sachs, Harris-Hall, White-Weld, Eastman-Dillon, Union Securities Corp., and Drexel & Co.

The huge investments of Metropolitan, Prudential, and Equitable which have been mentioned indicate where the life-insurance reserves are being used under this agreement—with Gulf, Shell, Union Carbide, Reynolds and American Tobacco, and other majors in their business fields. Elsewhere we have noted large insurance financing of Armour, Sears, Roebuck, and major food chains.

In agriculture, we are well aware, as small-business men must be, what is on the back side of the insurance agreement with the investment bankers.

The president of the Aetna Life Insurance Co., with a billion and a third dollars in assets, has written one of our editors that it is true that they have gone entirely out of farm loans. The same is obviously true in the small-business field if the agreement, as the Attorney General stated, includes agreement to "reduce substantially purchases of securities from investment bankers not parties to the insurance agreement."

State insurance investment regulations must, in some degree, bear responsibility for the increasing use of insurance reserves to finance monopolistic business. In considerable degree, those laws require companies to limit their investments in business securities to monopolies. Insurance companies have always been heavy investors in railroads and public utilities, and so-called natural monopolies. The tendency now appears to be to go into fields where large business combination has established monopoly or near monopoly, which supposedly makes their securities highly secure.

The result is to fortify, strengthen, and extend the concentration of control within the various business fields.

Congressman Celler and Senator McCarran have introduced a resolution to authorize an investigation of the life-insurance business. Such investigation is needed and should be highly significant to this committee and everyone interested in the national economy. The life-insurance industry is becoming an increasingly important factor, through investment policies, both in the level of economic activity and in the nature of our developing economy.

A Memorandum on the Fertilizer Situation

There is no better example of business controlled economy than the current fertilizer situation.

The fertilizer monopolists are on strike against adequate production, modernization, against farmers and against the national welfare. The monopolists are refusing to modernize and make use of new, tested and nationally needed production and distribution practices. They now claim to have caught up with demand in two or three major plant food elements, when they actually have price-rationed them.

One of the three key plant food elements is phosphate, P_2O_5. The American Farm Research Association has estimated that American lands are being depleted of 4.8 millions of phosphoric acid every year. We have an existing deficit of phosphate in the land. We need not only to be replacing withdrawals, but catching up with overdrafts in the past.

During the war, when there was Government rationing and price controls, farm demand for phosphate fertilizer ran around 2.5 to 2.8 million tons. The land-grant colleges and United States Department of Agriculture estimated that farmers wanted to buy 2.86 million tons in the 1946–47 fiscal year, for the 1947 crop year. This demand was about 2,000,000 tons under our withdrawals from the soil, and necessarily meant a deficit operation, further depletion, of our soil resources. The supply that year, however, was about 1,000,000 tons short of what the farmers would buy, 1,736,000 tons.

This year, the industry claims that supply will meet demand for phosphate plant food. The supply is estimated by the Department of Agriculture at 2,100,000 tons. This is a a 20 percent gain in output. But, if that amount meets the current demand, then the demand has been reduced nearly 800,000 tons in 2 years by skyrocketing fertilizer prices and decline in farm commodity prices. About 25 percent of demand has been met by the pricing route rather than the production route. Increasing freight rates, a big factor in fertilizer costs, helped achieve this end result.

Now, as for the increased production: It is accounted for in two ways. Part of it results from return of plant capacity to fertilizer production instead of phosphorous production for war. Some of it results from new, low-analysis phosphate plants which have been built in recent years, in spite of the national need for the use of TVA-developed techniques of high-analysis phosphate production. There is an obvious strike against the construction of high-analysis production facilities to protect the status quo, which includes high margins on a scarcity of plant food.

The new processes mentioned permit the production of phosphate fertilizer with concentrations of 42 percent, 48 percent and even higher proportions of P_2O_5. Previously, 16 to 20 percent concentrations were regarded as "super" and labeled "superphosphate." The new concentrations are sometimes known as triple-superphosphate.

The savings made possible by high concentration are very great. In a 100-pound bag of 16 percent superphosphate, there is 16 pounds of phosphate plant food. In a 100-pound bag of 48 percent, there is three times as much plant food, and the freight costs, per unit of plant food shipped, are only one-third of the costs of the low-grade material. That is only a beginning. The dealer's commissions on a ton of fertilizer run about the same, whether it is single-super or triple-super. The farmer can get a ton of plant food on to his farm, from town, in one-third the number of trips required by low-grade. He has savings in all his loading and unloading handlings. The costs of spreading are reduced.

The amount of fertilizers farmers can afford and economically use would be greatly increased, and demand would be far ahead of present figures, if the industry would call off their strike against modern practices. But the large percentage of the scarcity of phosphate plant capacity which has been built in recent years is still single-super. Farmers in the middlewestern Corn-Hog Belt particularly, who are most remote from phosphate deposits and have the highest freight costs, are eliminated from the market by this refusal to expand the use of the high-analysis production techniques. The Nation's soils are unnecessarily depleted, and medical scientists have demonstrated that the health of people is injured, as a result of monopoly dictated and enforced horse-and-buggy practices in phosphate production.

The problem of concentration is of less importance in potash and nitrogen plant food, but the scarcities are as real.

Farmers wanted 1,359,000 tons of potash in the 1946–47 fiscal year. About 858,000 tons were produced. That was 500,000 tons short. It is estimated by the Department of Agriculture that demand will be met this year with a production of 1,020,000 tons. This means that production has been increased 160,000 tons in 2 years, and that demand has been knocked down 340,000 tons by the price route.

In nitrogen, we are actually short of enough supply to meet domestic demand. Our production just about equals domestic demand, according to the Department of Agriculture, but we are exporting considerable, leaving us short within the Nation. The significant fact in nitrogen is that 50 percent of our production comes from converted munitions factories. If war were to break out tomorrow, those plants would be reconverted back to munitions, and farmers would be short of fertilizer supply. The Government, not the industry, has met plant requirements. For security, we should have an estimated 300,000 tons additional nitrogen capacity and hold part of the war plants as stand by. In this element demand, of course, has been reduced just as in phosphate and potash. Farmers wanted 1,160,000 tons of nitrogen in 1946–47. Our total supply this year will be about 810,000 tons from domestic plants plus 202,000 tons imported, less 61,000 tons exported. The grand total would not be sufficient to meet demand if some farmers had not been priced out of the market.

Supplementary Testimony of Paul J. Raver, Bonneville Power Administration, United States Department of the Interior, Pursuant to the Request of Senator Joseph O'Mahoney, Chairman, Joint Committee on the Economic Report

I am glad to accept your invitation to supplement my remarks on the power shortage made at the round table discussion of the President's Economic Report, February 16–17.

I am disturbed by current suggestions that the softening of business in some lines, or the prospects of reduced demands in others in the near future, make certain measures in the President's program no longer necessary. I do not see at all how the appearance of some so-called surpluses eliminates the need for expansion of production in other lines, or even the expansion of production in some of the so-called surplus lines. Certainly, the deficiency of power capacity will continue for the next few years regardless of reduced sales in some other businesses. This deficiency is so serious that I believe it calls for the adoption of allocations and the promotion of production of power equipment and related products, such as aluminum conductor and steel for transmission towers. As for surpluses in other fields, some of them may well be fictional, caused by prices that placed the products temporarily beyond the mass market—such as housing and the more expensive automobiles. Some of the surpluses may also be fictional in that demand was previously discouraged by threats of continued shortage and high prices—such as the discouraged use of oil for house heating in the last two seasons. In some surplus lines, adequate price reductions may be all that is necessary to eliminate surpluses and to restore the need for expanded production. But if certain lines prefer to restrict production in order to maintain prices, then inventories may pile up, and the Nation may be misled into believing that increased production is unnecessary.

The most compelling guide to policy in all basic industries, including electric power, seems to me to be the recommendation of the report of the Council of Economic Advisers that the economic system can sustain high levels "only if business, workers, farmers, and the Government are guided less by the records of the past than by the possibilities of the future." The President, therefore, called for studies of production goals in critical fields and positive measures to achieve them.

The round table did not, in my opinion, give sufficient attention to goals needed for continuously maintaining margins of extra capacity in major industries, including electric power, in order to provide the base for continuous expansion of the economy. This need is clearly demonstrable in the case of the power industry, where shortages in some areas have held back the purchase of electric appliances and equipment, forced curtailment of aluminum production, and prevented expansion of a number of other basic products. Because electric power underwrites all phases of the national economy, from productivity on the farm and in the factory to welfare in the home, it is essential that the power industry—public and privately owned—establish goals of power capacity and output always somewhat in excess of demands in order to permit demands to grow.

This is not being done as yet. The power report made to the National Security Resources Board deals with power requirements in the limited sense of those most apparent and necessary for the utility systems to meet in the next three years. This is a very useful approach to a practical problem. But a much broader and equally practical study of requirements is necessary in order to plan the growth of the power industry to support the full expansion possibilities of the country. Such a study would include the following, in addition to the requirements considered in the NSRB report:

(1) Requirements of industries that largely generate their own power or that would like to purchase large amounts of utility power. These industries include, among others, the rapidly growing electrochemical and electrometallurgical groups, some steel plants, and pulp and paper mills. These industries used one-sixth of the total electric energy output in 1948.

(2) An allowance for expanding defense production, including an allowance for reserve capacity needed as a security measure.

(3) Allowances for load expansion once the utility systems are again able to promote new loads. These allowances would be made after studies of increases possible in consumption of electricity per home and farm; new requirements for synthetic fuels; needs for railroad electrification; and the new demands for power in industry resulting from further mechanization, applications of higher energy inputs to lower grade ores, and new technological uses of power.

It seems that in opportunities for increased power consumption, the power industry faces a rate of increase in demand greater than it is now preparing to meet. If the industry were to continue to lack an adequate goal, it could hold back the development of the country. The best insurance against such a contingency is the building up of capacity to meet assumed goals, including an allowance for extra capacity.

One lesson of the value of extra capacity was demonstrated in the Northwest where, during the 1930's, the construction of Bonneville and Grand Coulee Dams aroused objections that these dams would provide more power than could be used —that they would be white elephants. These dams doubled the then capacity of the region. The war caused all of this new supply to be absorbed rapidly. But in the absence of the war, industrial progress would probably have had the same result if at a slower pace. Another lesson is shown in the Tennessee Valley where the development of power supply in advance of the market stimulated new and expanded uses of electricity faster than in other sections of the country.

The lesson should be equally applicable in steel, oil, and other basic materials. A margin of extra capacity provides a powerful impulse to market development through new products and lower prices. In truly competitive industries, there necessarily is a margin of extra capacity because no producer can control the market, and each tries to get as large a share as possible. This situation was more prevalent in the nineteenth century in this country than now. A number of our basic industries are now largely controlled by a small group of producers who determine the size of their industry. In some cases, they are aided by the lack of availability to competitors of new ore bodies and other sources of raw materials. Their motives were demonstrated in World War II when they were reluctant to expand for fear of excessive capacity at the end of the war. Generally, businessmen would prefer to keep capacity below effective demand so that they can enjoy a sellers' market. As national policy, this country has relied on the antitrust laws and competition to prevent businessmen from accomplishing this purpose. It should be clear that with the growth of concentrated control in certain industries and the following of policies of certain industrial leaders, the country has lost some of the protection of a freer competitive system. Instead of relying upon competition of many businessmen, we now rely on the less expansion-minded leadership of less competitive industries.

This situation raises the question whether the national interest is adequately protected by the decisions of industrial leaders whose main obligation is to their stockholders and whose instincts work toward achievement of a sellers' market, avoidance of excessive capacity, and avoidance of price competition. In industries where these conditions exist, it seems proper for Government to promote production or expanded capacity through measures such as the President has proposed.

The costs of maintaining extra margins of capacity are not substantial if the capacity margins are modest. If industry is no longer willing to stand those costs, it is proper for Government to bear them.

The alternatives are few. Where competition truly exists, we can rely on it to provide expanding capacity. Where it does not exist, business leaders ought to be willing to have the Government share with them decisions on expansion in order to protect the public interest by providing, through margins of extra capacity, the continuous pressure needed to build new markets, new products and to reduce prices.

It seems to me that these considerations deserve the fullest examination by the joint committee. If they are correct, then there is no reason to delay action on the President's program because of softenings in various fields of business. Regardless of the stage of the business cycle, such a program will always be necessary because it will do more than business alone will do to meet the needs of an expanding national economy.

Supplementary Testimony of Philip Reed, General Electric, Filed Pursuant to Request of Senator Joseph O'Mahoney, Chairman, Joint Committee on the Economic Report

MEMORANDUM ON ABILITY OF UTILITIES TO MEET NATIONAL ELECTRIC POWER REQUIREMENTS

The present situation

In the year 1948, the electric utilities of the Nation generated more electric energy than ever before, in order to meet the greatest industrial and consumer demands ever made upon their facilities. According to preliminary reports of the Edison Electric Institute, utilities contributing to the public supply generated approximately 282 billion kilowatt-hours during the year. This was about 10 percent more kilowatt-hours than were produced in the previous record year of 1947, and was more than double the output of 1939. This unprecedented output, in 1948, met a record demand estimated at some 53 million kilowatts—an increase of 7 percent over the previous year.

The Nation's electric utilities kept abreast of the increased demand and preserved existing reserve margins by installing more than 4 million kilowatts of generating capacity during the year. This was twice the capacity added in the previous year. Great quantities of associated equipment such as power transformers, switchgear, distribution transformers, etc., accompanied the capacity installations.

While the over-all reserve margin in 1948 was small (about 5 percent according to the EEI) this margin was achieved in spite of factors which prevented the even greater additions of postwar capacity desired by the utilities. Although farsighted utilities had placed orders for early postwar delivery of equipment during the national emergency, sizable deliveries were not possible in 1946 and 1947 because WPB authorizations could not be obtained by the equipment manufacturers for the early release of land turbine manufacture together with necessary allocations of needed raw materials such as steel. The manufacture of utility equipment was also delayed in early 1946 because of strikes in some plants of steel companies and those of principal equipment manufacturers.

In particular areas of the nation, margins between peak demand and capacity have been narrower than the national average, particularly in the Pacific Northwest. In this section of the country, the existing and proposed generating capacity is dominated by Government hydro developments. The expansion of hydro facilities, especially dam construction, in general, involves much longer construction time than needed to place fuel-burning capacity in operation. These long construction times together with the delays occasioned in obtaining Government authorizations, appropriations, etc., for additionally planned generating facilities, have prevented early relief in this area.

Action taken to meet expansion requirements

According to the Annual Economic Report dated January 3, 1949, of the Council of Economic Advisers—

"Consistent with our estimate of an increase of 3 percent annually in total production, an acceptable estimate of the annual increase in electric utility output is 20 to 25 billion kilowatt-hours. To provide for this output at reasonable ratios of plant use with allowance for restoration of that normal margin of reserve capacity which is now lacking in many parts of the country, we should need to increase capacity each year by approximately 5½ million kilowatts. Allowing one-half million kilowatts for further retirements of obsolete capacity as soon as the present tightness of reserve capacity is alleviated, the necessary gross addition of capacity would be 6 million kilowatts each year."

The 1948 record expansion is only part of the vast enlargements planned by electric utilities for the postwar period. Basing their plans not only on long-range studies of growth made for their particular areas by the individual utilities, but also on over-all forecasts of Government agencies, equipment manufacturers, and other interested associations and groups, utilities have placed orders for even greater amounts of new generating and associated equipment in the coming years.

One of the most recent of the over-all studies is the Second National Electric Power Survey (December 1948) of the National Security Resources Board. The report represents available data from published records and from recent information contributed by Government authorities on power and defense, operating utility executives, and manufacturers of utility equipment.

In general, the NSRB report shows that—

1. The indicated margins between capabilities and peak loads are expected to increase each year through 1951, the last year covered in the report. These margins were estimated to be:

	1948	1949	1950	1951
	Percent	*Percent*	*Percent*	*Percent*
Adverse hydro	[1] 1.6	4.6	6.8	10.3
Median	3.4	6.8	9.2	13.1

[1] The results of the Edison Electric Institute survey recently published indicate that the over-all margin actually achieved in 1948 was 5.1 percent.

2. To meet expansion requirements, the NSRB report also shows that utilities have under way an accelerated construction program which already (as of October 1, 1948) finds equipment manufacturers committed to deliver generating equipment as follows:

Total electric generating capacity (steam and hydro) on order and scheduled for shipment as of Oct. 1, 1948, for continental United States utilities

[Kilowatt capacity—Units 4,000 kilowatts and larger]

	1948	1949	1950	1951
Steam turbine generators:				
10,000 kilowatts and larger	4,348,750	4,585,000	5,282,500	2,717,500
4,000 to 9,999 kilowatts	293,100	212,500		
Water wheel generators: 4,000 kilowatts and larger	1,014,600	1,181,500	840,000	389,100
Total	5,656,450	5,979,000	6,122,500	[1] 3,106,600

[1] According to the EEI, generating capacity already scheduled for installation in 1951 will amount to 6,000,000 kilowatts. Since Oct. 1, 1948. manufacturers have received substantial additional orders for equipment scheduled for shipment in 1951.

3. Commenting on the manufacturers' part in the expansion program, the National Security Resources Board report said:

"The manufacturers are doing an excellent job and there is every reason to believe they will continue to do so. Shop facilities are being effectively scheduled to insure deliveries of controlling equipment to meet field construction schedules."

General Electric's expansion of facilities

In the case of the General Electric Co., we have been well aware of the probable future equipment needs of the electric power systems. For many years we have conducted continuing studies of probable electric load growth, the characteristics of these loads that determine peak demands, and the generating capacity needed to take care of these peak demands, reserves, etc. Some of these studies have been extended to 1960. As a result of these studies and of orders for equipment placed by the utilities, many manufacturing facilities have been expanded since the end of World War II. The following are indicative of these expansions:

Steam turbine generators: In 1948, the General Electric Co. produced and shipped the following steam turbine generators in sizes 4,000 kilowatts and above:

	Kilowatts
Large (10,000 kilowatts and above)	2,761,500
Small (4,000 to 9,999 kilowatts)	397,000

This record production in 1948 was achieved without the use of new facilities that will be provided by our new turbine plant. Manufacturing facilities provided by this new plant will begin to be used in 1949.

To help meet the great demand for more power, construction of a giant new $30,000,000 turbine plant was begun at General Electric's Schenectady works early in 1947. When completed—sometime in 1949—this plant will be the world's largest turbine manufacturing facility. It will produce turbine-generators ranging in size from 20,000 kilowatts to 200,000 kilowatts.

The new plant covers 20 acres of land and has more than a million square feet of floor space. The building is 650 feet wide and 1,290 feet long, and contains a three-story, 40-foot-wide service bay running the length of the building. A four-story air-conditioned office building having 71,000 square feet of floor space will house engineering, drafting, and other activities. The complete plant will employ approximately 5,000 persons.

As a result of complete transfer and consolidation of existing and new facilities now coming into use, it is expected that the output could be increased by almost 50 percent over 1948 levels.

Power transformers: In the power transformer field (500 kilovolt-amperes and larger) our manufacturing facilities, on a total kilovolt-ampere basis, have already been expanded since the end of World War II by about 68 percent.

Further expansion now under way on large units (15,000 kilovolt-amperes and larger) will give us a total expansion since the end of World War II of about 130 percent by midyear 1950.

Water wheel generators: That portion of our large electric motor and generator facilities allocated to these units has proven adequate to take care of the demands on the General Electric Co. for this equipment. If required, we can quickly make necessary arrangements for further expansion of our production of these items. Our facilities are adequate to provide deliveries on schedule for hydro projects now under construction and which will be completed in the next 3 or 4 years.

We are now making a study of proposed hydro projects up through 1958 in which both Government and private utility operators are cooperating. The purpose of this study is to determine whether additional facilities will be needed in the period 1952–1958.

Switchgear: Our facilities for providing for the switchgear needs in connection with the expanded power program have proved adequate to date. At the present time, we are in a position to improve on past performance.

Notes on the long-range program

As mentioned before, many over-all studies have been made on the power situation at present, and on probable future requirements. Those made on a relatively short-term basis, such as the NSRB (through 1951) indicate that both the utilities and the equipment manufacturers are keeping pace with the increasing demands for power. Also indicated is that the utilities will improve their reserve margin as a result of their present construction programs.

General Electric's experience indicates that the planned construction program of the utilities has made good use of our expanded equipment facilities to date. There has been no apparent reluctance on the part of the utilities to continue to place orders in long range anticipation of future needs.

Both short- and long-range studies indicate that manufacturing facilities and necessary amounts of materials will need to be protected and kept available for supplying the essential utility needs. While present and planned equipment facilities appear to be adequate, the long building times, etc., inherent in this type of equipment means that these facilities must be kept occupied constantly to the extent that future needs can be foreseen. The supplying of more electric power equipment is recognized as vital to national security and development.

(The information which follows was submitted by Mr. Reed in response to a specific request of Mr. Berquist, member of the Staff:)

(1) *Production of turbines and waterwheel generators lost due to strikes and material shortages.*—Although the 9 weeks' strike of the United Electrical, Radio and Machine Workers of America (CIO) strike at General Electric plants occurred during the first quarter of 1946, the effects were, of course, felt for many months after the strike ended.

We estimate that the resulting loss at General Electric in production of turbines and waterwheel generators amounted to about 200,000 kilowatts—sufficient generating capacity to meet the needs of several hundred thousand persons.

However, it should be emphasized that this occurred when our production rate was considerably lower than it is today; hence, a break in production of similar duration at this time would mean a proportionately greater loss in the production of generating equipment.

(2) and (3) Tabulation (also in chart form) for the years 1920 to 1948, inclusive, of—

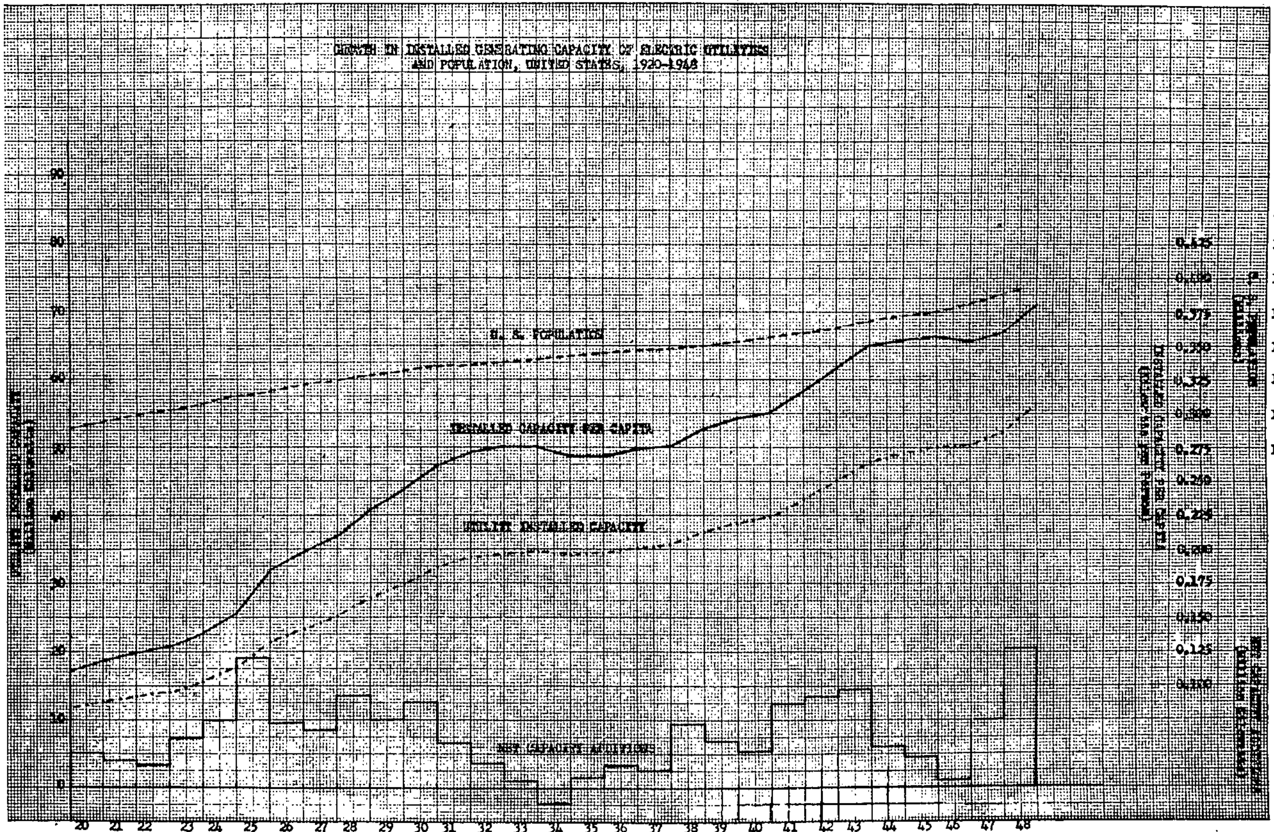
(*a*) Net additions to electric generating capacity.
(*b*) Utility installed capacity (cumulative).
(*c*) United States population.
(*d*) Installed capacity per capita.
(*e*) Annual utility generation.
(*f*) Annual generation per capita.

(4) *Estimated time that would be required to duplicate General Electric's new turbine manufacturing facilities and ship a 100,000-kilowatt unit.*—If an organization with many years of experience in producing power-generating equipment were given the responsibility of building the new $30,000,000 facilities which will be completed by General Electric at Schenectady, N. Y., next fall, we believe it could be accomplished in about 3 years.

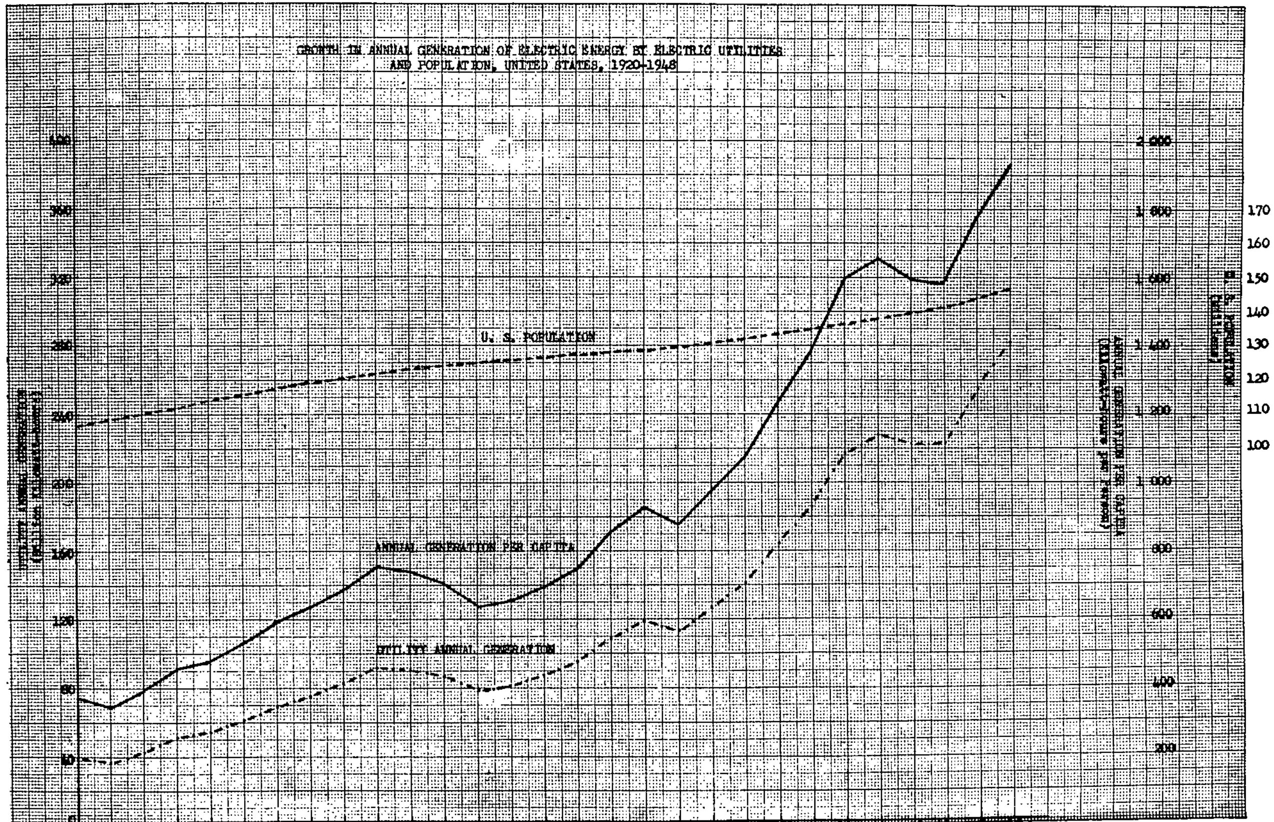
However, if it were necessary to start from the beginning, plan a turbine factory, design the turbines, and create the organization necessary for the turbine-manufacturing business, we do not believe that the facilities could be completed and work started on a 100,000-kilowatt unit before 5 to 6 years.

(5) *Estimate of total annual manufacturing capacity for turbine and waterwheel generators now in place.*—We estimate production capacity of facilities now in place at 10,000,000 kilowatts per year.

(6) *Estimate of amount of generating equipment shipped from the United States since the end of World War II.*—We estimate that approximately 900,000 kilowatts of generating equipment has been so shipped. Of this figure, slightly more than 270,000 kilowatts were built under high priorities.



Source: Federal Power Commission and Bureau of Census



Source: Federal Power Commission and Bureau of Census

Installed generating capacity and annual generation of electric utility generating plants, and population, United States, 1920–48

Year	Installed generating capacity: Electric utility generating plants on Dec. 31 [1]	Net additions to installed capacity [2]	Population: Continental United States on Dec. 31 [3]	Installed capacity per capita [2]	Annual generation: Electric utility generating plants [1]	Population: Continental United States on July 1 [4]	Annual generation per capita [2]
	Million kilowatts	*Million kilowatts*	*Millions*	*Kilowatts*	*Billion kilowatt-hours*	*Millions*	*Kilowatt-hours*
1920	12.7	1.0	107.5	0.118	39.4	106.5	370
1921	13.5	.8	109.3	.124	37.2	108.5	343
1922	14.2	.7	111.0	.128	43.6	110.1	396
1923	15.6	1.5	113.0	.138	51.2	111.9	458
1924	17.7	2.0	115.0	.154	54.7	114.1	479
1925	21.5	3.8	116.6	.184	61.5	115.8	531
1926	23.4	1.9	118.2	.198	69.4	117.4	591
1927	25.1	1.7	119.8	.210	75.4	119.0	634
1928	27.8	2.7	121.2	.229	82.8	120.5	687
1929	29.8	2.0	122.5	.243	92.2	121.8	757
1930	32.4	2.5	123.6	.262	91.1	123.1	740
1931	33.7	1.3	124.4	.271	87.4	124.0	705
1932	34.4	.7	125.2	.275	79.4	124.8	636
1933	34.6	.2	126.0	.275	81.7	125.6	650
1934	34.1	.5	126.9	.269	87.3	126.4	691
1935	34.4	.3	127.7	.269	95.3	127.3	749
1936	35.1	.7	128.5	.273	109.3	128.1	953
1937	35.6	.5	129.3	.275	118.9	128.8	923
1938	37.5	1.9	130.4	.288	113.8	129.8	877
1939	38.9	1.4	131.5	.296	127.6	130.9	975
1940	39.9	1.1	132.6	.301	141.8	132.0	1,074
1941	42.4	2.5	134.0	.316	164.8	133.2	1,237
1942	45.1	2.7	135.6	.333	186.0	134.7	1,381
1943	48.0	2.9	137.3	.350	217.8	136.5	1,596
1944	49.2	1.2	138.9	.354	228.2	138.1	1,652
1945	50.1	.9	140.4	.357	222.5	139.6	1,594
1946	50.3	.2	142.6	.353	223.2	141.2	1,581
1947	52.3	2.0	145.3	.360	255.7	144.0	1,776
1948	[5] 56.4	[5] 4.1	[5] 147.9	[5] .381	[5] 282.0	[5] 146.6	[5] 1,924

Sources: [1] Federal Power Commission, Production of Electric Energy, Capacity of Generating Plants, 1947. 1948 data are preliminary estimates of Edison Electric Institute.
[2] By calculation.
[3] Calculations based on July 1 population estimates by Bureau of Census.
[4] U. S. Department of Commerce, Bureau of Census, as quoted Statistical Abstract of the United States (1947), p. 9.
[5] Estimated.

Jan. 26, 1949.

SUPPLEMENTARY TESTIMONY OF EMERSON P. SCHMIDT, DIRECTOR OF ECONOMIC RESEARCH, CHAMBER OF COMMERCE OF THE UNITED STATES, FILED PURSUANT TO REQUEST OF SENATOR JOSEPH O'MAHONEY, CHAIRMAN, JOINT COMMITTEE ON THE ECONOMIC REPORT, FEBRUARY 16–17, 1949

The legislative recommendations of the President's economic report of January 1949 to the Congress, and H. R. 2756, based thereon, appear to run contrary to the spirit and purpose of the Employment Act of 1946.

THE CITIZENS' CHOICES ARE TO BE RESTRICTED

The President's recommendations (and H. R. 2756 which constitute these recommendations in bill form) would displace the judgment of the citizen in a wide range of situations by Government directives and edicts.

The heart of a free society is the free market. These recommendations appear designed to destroy the free market. The heart of free contract is the substance of the contract. These recommendations would control the substance of contracts between employers and workers, between house owners and tenants, between producers and consumers. They would destroy the liberty of the investor by Government control of construction and other materials.

Destroy freedom of contract and the free market in goods and services, then you destroy the foundations of freedom. These are the instruments which the authoritarian governments of Europe and Asia have been employing. It may be argued that these powers will not be abused, they will be used only "if needed," and Congress can always repeal the powers. Perhaps; but who can tell?

Many dictatorial regimes, including Hitler's, came into power by constitutional means. Furthermore, the weakening of the economy through the use of the President's recommended powers, instead of leading to the rational conclusion that mistakes have been made, is equally likely to lead to the conclusion that the Congress should have granted still greater powers over the people to the bureaus, and now it must do so.

This is the process of creeping intervention; a process which whittles down freedom and liberty, bit by bit. From it comes a less and less effectively functioning economy and a public crying out for more and more controls apparently made necessary by the chaos created by the prior controls. Because each new control or directive is relatively small and appears to affect only a limited number of persons, the total impact and restrictive character of the cumulative controls is not fully realized until it is too late. Hayek in his Road to Serfdom and Jewkes in his Ordeal by Planning have shown how from actual experience this process works and how the people lose their freedom and liberty without ever knowing just how and why it all happened.

This is the direction now proposed by the President of the United States. Even though he intends no such evil result, which he does not, this does not change the direction in which we are moving and are being moved.

Have we the wit to preserve our liberties? Do we know what Patrick Henry meant when he said, "Give me liberty or give me death"? Or do we first have to lose completely our freedom before we will see what has been done to us?

WHAT DOES THE PRESIDENT PROPOSE?

Mandatory controls

"I therefore recommend that the use of mandatory allocation powers be authorized so that they may be employed on a selective basis without delay where they prove to be needed," states the President. Again he says, "If it proves necessary, I shall not hesitate to use allocation authority * * * to channel such materials into home building" (pp. 12 and 16, respectively). Who is to decide the "selective" basis and who will determine when "it proves necessary"? The people, expressing themselves through the free market, must have their will thwarted.

What this may mean in practice is that raw materials and finished products can be diverted by Government edict from areas and uses as expressed by free market consumer demand, into channels determined by the Government bureaus to be "good for the people." Is this consistent with the freedoms extolled in the Employment Act of 1946? In practice it may mean that the man who would build a chicken house, or add a room to his home, or a garage for his car, could be prevented from following his own wishes. A Government bureau knows best what is good for the people—this is the America which we would be fostering.

From what uses would the materials be diverted? Why? Would not such diversion quickly raise cries of anguish which a political-minded administration would have to heed?

Government steel plants

President Truman's recommendation that legislation be passed to authorize Government construction of steel facilities "if action by private industry fails to meet our needs" has touched off a good deal of "collectivist" thinking.

The steel industry is condemned for not expanding but the steel industry is not an entity. It is a mere name that we use to refer to certain types of economic activity composed of scores of individual enterprises.

But is not anyone or any group, with the means and the ability, privileged to go into the steel business? There are no legal or patent barriers to free entry. If I am in the packing or automobile business, have I any obligation to grow bigger?

To be sure, opening an integrated steel plant is a major undertaking, although partial processors and fabricators abound all over the place. Hundreds of steel-using plants could expand into steel making and many have done so. If the steel outlook were good it would not be too difficult for new comers to raise several millions of dollars to enter this business.

The very same groups that today are condemning "the industry" for not expanding were the ones 10 years ago (see TNEC hearings and monographs) who said that the industry was overexpanded. These same people today are also very vocal in condemning "economic concentration." If the "steel industry" followed their present advice, how long would it be before they would cry "concentration" even louder?

The same critics have become so allergic to profits that the steel industry is induced to quote its prices at a figure which will not supply much capital for plowing back. To erect an integrated steel mill today probably costs $400 per yearly ton of salable finished steel, the base price of which averages about $75 per ton, according to the Iron Age. On this new high investment base, nothing can be earned, after meeting raw material (steel scrap, a major raw material costs $40 per ton), fuel, power, labor, depreciation, maintenance, and other costs.

Under these conditions we are lucky that we are getting at least a million tons additional capacity per year. In fact, the steel-making capacity of the American steel industry has risen from 82,000,000 tons in 1939 to 96,000,000 tons at the present time. Two million tons of additional steel capacity are scheduled for completion by various steel companies in 1949.

We have generated such hostility toward free market prices and we have become so allergic to profits that steel makers are unwilling to charge buyers a price which will reproduce the assets and encourage new venture capital to move into the industry. If anyone denies this, let him state whether or not he is willing to buy stock in a new steel mill even under the ablest management.

This is how democracies commit suicide. We make it so tough for private initiative to function, and then when it fails to meet our needs, we propose to go down the fateful Socialist road. Then because at the beginning, catastrophe is not clearly visible we conclude that the only cure is more intervention and more socialism.

It is indeed an interesting commentary on the thinking of our times that the United States with 7 percent of the world's population and 55 percent of the world's steel capacity, which last year enabled producers to ship the largest amount of finished steel in history, should now be threatened by its politicians with the medicine so fatefully tried in decadent Europe, now getting some 10 percent of our free enterprise steel and steel products.

Wage and price controls

The price controls recommended would depress prices below their natural market levels, thereby encouraging excessive demand and checking supply. Instead of helping to restore balance and reasonable prices, these controls are designed to make the price tag say something which is not true. A free price equilibrates supply and demand; price freezes perpetuate and accentuate the disequilibrium and always breed the economic chaos which leads to outcries for still more controls.

The President urges "selective" price control, decrying the need for over-all price controls, the recent memory of OPA being too vivid. The OPA was not abolished "too soon" as many are wont to say; the OPA broke down and the President merely officiated at the final rites in the fall of 1946. He, himself, said that the administration had given serious consideration to going out to seize the cattle off the ranches, but this was impractical, and it also considered seizing the packing plants, but this would have been futile because there was "no point in seizing empty packing houses."

Price control broke down and history is not likely to record that it was abolished too soon. Now it is proposed to restore selective price control which will only drive labor and capital out of the sectors where the returns will be less attractive. We discovered early in the war that selective price controls merely divert the inflationary pressures to other sectors of the economy.

While the President discusses wage control and implies that such might be necessary, experience during the war, and especially in 1945–46, demonstrated that wage control is impossible when the Government has fostered a labor movement that is more powerful than the Government itself.

The recommendations include two other new ideas. We are told (p. 12), "Sharp rises in the prices of essential products may be harmful to the economy even when the general price level is fairly stable." Here, indeed, is complete negation of a free economy. Flexible prices, always ready to rise here and decline there, are the heart of the adaptive process. Even though inflationary pressures are past as indicated by general price stability, individual prices are to be stopped from expressing underlying changes in demand and supply conditions.

But this is not enough. The President urges that a Government bureau be given power to withhold price advances until an investigation has been made. Is this the way to lure additional investment into areas of the economy in which there is price pressure? Who would invest in job-making facilities where this threat of both price control and of price withholding powers were granted or threatened or even where they would be legally possible? Scarcely a better way to perpetuate shortages could be devised.

Rent control

The tenant who not only fails to provide housing for himself, to say nothing of providing housing for others, is given a real increase in his income by rent control, while the landlord who provides his own housing as well as housing for others is forcibly made to transfer income from himself to his tenants. Is this the way to get more housing? Is this the way to protect tenants as a whole? Is this the way to encourage the most economic use of housing facilities? Or is it designed to pave the way for governmental housing?

Let everyone who believes in rent control ask himself this question: "Suppose there were more voters who were landlords than there were voters who were tenants, would I still believe in rent control?" Let him also ask: "What moral or economic right does the Government have to take from landlords and give to tenants? What is the difference between this practice and that of the Bolshevist dispossession of the Kulaks? Where may it lead us both morally and economically?"

Minimum wage

Something can be said for minimum wages designed to prevent sweatshop conditions. But what is a Government up to when it is concerned about inflation and yet at the same time recommends nearly 100 percent increase in minimum wages, when it is perfectly aware that the rise in the minimum wage will give an upward thrust to the entire wage structure because as the minimum rises each layer of wages above it will be under pressure in order to retain the historical differentials in the wage structure, differentials which are highly prized in our society?

With the growing soft spots and the unemployment in our economy, will such an upward thrust on wages not force more and more workers to price themselves (with Government fiat and aid) out of the labor market? What right does the Government have to say to American citizens, "You shall not work at all unless you can find an employer who is willing to pay you at least 75 cents per hour?"

The Chamber of Commerce of the United States in its pamphlet The Economics of Minimum Wage Legislation has fully analyzed the conditions under which a minimum wage bill (1) destroys jobs (2) stimulates inflation and (3) helps or hinders the low-income groups. Before any action is taken on this proposal this pamphlet might merit study.

Socialized medicine

The President's report states, "The high percentage of rejections under the military recruitment programs has provided striking evidence of the unsatisfactory state of the Nation's health." Dr. Maurice H. Friedman, perhaps the closest student of selective service medical statistics, has demonstrated that this is not correct. (See his article in Reader's Digest, August 1948, p. 41.)

Again the President states, "Few of our workers enjoy systematic protection against loss of income through temporary or permanent disability" (p. 17). Three States have compulsory cash sickness-benefit programs, and millions upon millions of other workers have other forms of protection through group sickness insurance, individual policies and a host of other arrangements. It is unfortunate that the President is surrounded by advisers who mislead him and force people who know the facts to lose confidence, especially when these facts are readily available as in the Chamber's Toward Sound Social Security, for example.

The foregoing points, among many others which might be made, suggest the direction in which the people are being led. That such a program of intervention and individual interference should be given serious consideration during a period of unprecedented prosperity and widespread well being, shows how far down the authoritarian road we have traveled.

It is up to this committee to make decisions which will help determine whether we are to have a strong or a debilitated economy, whether our economy is to be secure from external aggression and internal retrogression, whether we shall continue to be a great people, or whether we shall follow the fateful steps transversed in decadent Europe. Given time and the facts, we believe your decision will be sound.

GOVERNMENT BY PRESSURE GROUPS

The more the Government intervenes in the economic process, the more are the citizens forced to combine themslves into pressure groups in order to protect their interests or to get their share of the Government loot. Government by pressure groups must finally break down, and some form of authoritarianism will take over. This is evident from the developments of the past generation.

One hundred years ago the famous French economist, Frederic Bastiat, stated (almost as though he had seen the President's recommendations and H. R. 2756):

"Cast your eye over the globe. Which are the happiest, the most moral, and the most peaceable nations? Those where the law interferes least with private activity; where the Government is the least felt; where individuality has the most scope, and public opinion the most influence; where the machinery of the administration is the least important and the least complicated; where taxation is lightest and least unequal, popular discontent the least excited and the least justifiable; where the responsibility of individuals and classes is the most active, and where, consequently, if morals are not in a perfect state, at any rate they tend incessantly to correct themselves; where transactions, associations and meetings are the least fettered; where labor, capital and production suffer the least from artificial displacements; where mankind follows most completely its own natural course * * *"—From The Law.

SUPPLEMENTARY TESTIMONY OF BRADFORD B. SMITH, UNITED STATES STEEL CORP., FILED PURSUANT TO REQUEST OF SENATOR O'MAHONEY, CHAIRMAN, JOINT COMMITTEE ON THE ECONOMIC REPORT

One proposal in the Economic Report of the President (p. 12), as implemented in H. R. 2756, contemplates the Government's constructing facilities and engaging in the production of goods determined by the President to be currently, or expected to be, in short supply. Certain participants in the round table strongly endorsed the proposition with respect to steel production, while limits of time unfortunately did not afford full opportunity for such different attitudes as may exist to be expressed. In accordance with the chairman's kind invitation to do so, one such attitude is herewith submitted as an extension of remarks.

The round table is obviously not the occasion for a full-scale investigation of the adequacy or inadequacy of current or prospective steel production. Nevertheless I would respectfully invite the attention of the round table to certain considerations deemed relevant to this proposition, as follows:

The Employment Act of 1946 asserts that it is the policy of the Government to foster and promote free competitive enterprise. Nothing would seem to me to be more clearly the antithesis of free competitive enterprise than Government ownership or operation of facilities, or close supervision of prices or production in nonfranchise industries. Such consideration does not, of course, extend to production of national defense articles not distributed to customers through competitive markets.

The corollary of government stepping in is that private enterprise must step out. Even the threat of government stepping in could stop private progress and generate capital flight. Private enterprise to persist is compelled to keep costs within what those who get the goods themselves are willing to pay. It has no way of making people pay for more than they get. Government has. It can sell to some at less than cost, and force the rest of us to make up the difference in taxes. With this private enterprise cannot compete.

A very grave matter has thus been presented to the committee: It might care to consider whether its mere consideration of the proposition on its particular merits, rather than its rejection on principle, might in itself constitute a confidence-destroying injury to free competitive enterprise. Supposing the committee deems the proposition to be within the national policy expressed in the Employment Act, the committee might care to consider, next, whether establishing a foot-in-the-door precedent in the case of any one industry or product—no matter how serious a particular shortage (other than for national defense purposes) may appear to exist—would not be widely regarded as so ominous a portent as to chill new private investment in the tools of production and thus tend to augment the very types of shortages it was sought to remedy. I believe the committee and the Congress is here confronted with the necessity of resolving what may later come to be regarded as an historic ideological crisis in America, and that in good measure there hangs in the balance whether or not a self-stimulating spiral into socialism will be initiated.

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Since an alleged shortage of steel production appears to be the principal, or at least the most publicized, reason for considering Government participation in competitive production, I would like to direct the attention of the round table to certain aspects of such shortage, some of which are generally overlooked.

(a) During the depression and war, great backlogs of demand for peacetime goods made out of steel were accumulated, as is, I believe, generally conceded. Less generally understood, but equally true, is the fact that ordinarily peak demand for steel from one segment of the market is matched by less than peak demand from other segments. Capacity quite adequate for normal compensation in the incidence of peak demands can prove insufficient for temporary concurrency in peak demands.

(b) The war and its termination synchronized peak demand from all segments of the market, while simultaneously releasing the backlogs to focus on the suppliers of steel. For such concentrated and transitory demand (backed by the flood of money, unmatched by marketable goods, created before and during the war) steel production was inadequate—as was the production of most other things—but only in the same sense as an otherwise adequate fire department would prove temporarily inadequate if every house caught on fire at the same time.

(c) It is the Nation's installed inventories of steel products that do the Nation's work. It is the steel in railroad equipment, trucks, autos, ships, bridges, buildings, power plants, machinery, equipment, etc., which results in production and distribution. Steel production is the input to the inventory in use, subtractions being by wear, corrosion, and abandonment. It is natural, but erroneous, to confuse the want for expanded steel in use with the input capacity. It is like confusing the size of the reservoir with the size of the pipe that feeds it. Steel is durable. The bridge, once built, lasts a long time, and immediate replacement, as of food on the pantry shelf, is neither needed nor wanted. This also partly explains the relative violence of fluctuations in steel demand. Relative changes in demand for steel in use find expression in proportionately greater changes in input demand, which, however, rapidly shrinks as the inventory in use fills up to requirements. Confused notions of the nature of steel demand should be particularly guarded against by those whose only experience is with demand for agricultural products. The Nation each year substantially uses up its food output with little inventory of past years' production to fall back on; in the case of steel it is, in exactly opposition fashion, the accumulation of past years' production upon which the Nation principally relies. In this connection, it should also be noted that steels are becoming stronger and longer lasting in terms of resistance to corrosion. As the inventory in use turns over lesser tonnage will do the same work and last longer, thus cumulatively reducing the relative input requirement.

(d) Since the war, the principal problem of steel producers has not been the adequacy of mechanical capacity; it has instead been the problem of getting existing capacity into operation and keeping it going in the face of the manpower, materials and supplies shortages, and the strikes with which most other industries have also struggled. The difference between actual and capacity production, if it could have been attained, amounts, for the years 1946–48 inclusive, to over 30,000,000 tons. Concern over mechanical capacity has been misguided. It is production that fills comsumers' needs.

(e) Mechanical capacity is, however, rapidly expanding. From the beginning of 1946 to the end of 1949 the rise in annual ingot capacity is from 92,000,000 tons to 98,000,000 tons. To seek its more rapid expansion at taxpayers' expense is to try to put a high polish on that which already possesses considerable lustre.

(f) The United States is currently collaborating in the destruction of existing steel capacity in Germany which could, instead, be restored with minimum delay to production over there at the small cost of \$10–\$20 a ton of annual capacity. If such production were restored it would presumably lighten the foreign-aid demand on American steel mills, and shorten the period of foreign dependence on American taxpayers. New integrated steel capacity in this country costs about \$300 a ton and takes a long time to construct and get into operation. It seems somewhat contradictory to be considering charging American taxpayers \$300 for "delayed delivery" of what could be obtained immediately for \$10–\$20, especially since choice of the bigger cost would additionally promote continuance of European dependence on American taxpayers, while the smaller cost would shorten such dependence.

(g) Since employment is "full" and has been for several years, except when voluntarily interrupted by strikes, there is no element in the economy, including steel production, which can be charged with interfering with "full employment." Argument on possible inadequacy of steel capacity contributing to technological unemployment is thus wholly in the realm of conjecture and hypothesis with regard to the future. Two such conjectures are here proffered: (1) Since present demand equals "normal" full employment demand plus backlog demand plus temporary (presumably) foreign-aid demand, and since production is substantially adequate to those currently combined demands within the limits of available manpower, simple arithmetic suggests capacity should be adequate to "full employment" demand for some time into the future after the transitory segments of the demand have been liquidated. (2) "Fading" of gray market prices, reports in industry journals, and testimony, such as that of Mr. Sawyer on tremendous improvement with respect to the voluntary allocation plan, suggest that some liquidation of the temporary demands is already under way.

(*h*) Since the war and in conformity with public policy, major steel producers have voluntarily kept prices at less than buyers with "flush funds" were competitively willing to pay. The demand for steel is relatively inelastic. Nevertheless, to some unmeasurable extent part of the shortage of steel is attributable to the fact that its relative cheapness has attracted buyers—e. g., gray-market speculators and inventory accumulators—who would otherwise not be in the market. To such extent the shortage can be legitimately regarded as artificial rather than real—especially in the presence of "full employment." And, perhaps, I can be forgiven the remark that it is a bit ironic that cooperation with Government policy in the price matter should have created the seeming shortage on the basis of which the remarkable job of raising steel production and capacity since the war should be condemned as not good enough, instead of commended as well done.

(*i*) It is suggested that the committee inquire of big steel users, possessed of adequate resources and credit to do so should they think it worth while, why they have not themselves undertaken to erect and operate steel plants. From such an inquiry there might result a relevant conclusion: Those asking the Government to supply them with steel are selfishly asking that other people be forced through the tax power to provide facilities in which they would not themselves voluntarily invest—and this at a time when the Government is already straining its tax resources to meet its commitments. Is it a proper function of the American Government to force some to provide production for the private and selfish benefit of others, themselves unwilling to undertake it; or is it preferable for for those who get the steel themselves to bear the cost of its providing?

SUPPLEMENTAL TESTIMONY OF S. ABBOT SMITH, PRESIDENT, SMALLER BUSINESS ASSOCIATION OF NEW ENGLAND, INC., FILED PURSUANT TO REQUEST OF SENATOR JOSEPH O'MAHONEY, CHAIRMAN, JOINT COMMITTEE ON THE ECONOMIC REPORT

Taking advantage of your kind offer, I should like to extend my remarks on the report of the President's Economic Council and its implementation in H. R. 2756.

First, in answer to several questions asked me at lunch, I should like to say that although it has been impossible to obtain a definite answer as to just how much revenue the Treasury would lose by exempting from Federal income tax the first $25,000 of profits if retained in the business, as I proposed this morning, a well-educated guess I am told would be about $900,000,000. That is a large sum, but the gains would be large too: More prosperous small businesses, more jobs, thus indirectly more tax revenue, perhaps the elimination of the need for a Government agency to finance small businesses.

Now, referring again to the economic report, I feel we are over the peak of the inflationary spiral, barring war or a drastic stepping-up of preparations for war, and consequently, the present price changes, pockets of unemployment, etc., represent merely individual adjustments toward a more balanced economy. Therefore, I believe they are healthy and should be allowed as the normal way of adjustment through competition in our free enterprise system. There is no need at this time for the Government to jump in and try to "freeze" the economy, wages, employment, business and production at its present point and relationships. They must be given time to work their way back into balance after this period of inflation.

I am, of course, in favor of policies which make small business stronger and healthier and thus contribute more to the general welfare. As I study the bill, however, although there are frequent references to the encouragement of small business and free competitive enterprise, it does not seem to me the bill offers small business any real advantage.

For instance, the suggestion is made that the President may contract with private industry, particularly small or independent enterprise, for research or development. How many small businesses are there in the country equipped or available for that kind of work?

How many small concerns are likely to have the essential metals, minerals, and raw materials in short supply which the bill authorizes the President to purchase "particularly from small or independent enterprises"? Only a handful, if any, would be in a position to produce them even if aided by Government loans as authorized.

Is it not more likely that increased production facilities built with Government loans may when the peak period is passed result in over-production, lower prices, and further "squeezing" of the small units in that industry?

During the last war price controls, while justified in the circumstances, worked a hardship on thousands of small concerns. We do not want to see them instituted again except in case of war and certainly not unless wages are also equally and simultaneously controlled.

The farmers are assured of parity prices under controls. Why should not small business, likewise an important segment of our economy, at least be allowed opportunities for profit commensurate with "hazards occurring in connection with the production and marketing of such commodity"?

If it is in accord with the policy of the United States "to afford an equitable distribution between wages and profits," that would seem to mean that wages should also go down when profits shrink. As a small-business man, it does not appear to me that the wage adjustment procedures are feasible.

In that connection I should like to point out that the Smaller Business Association of New England has received many complaints from its members and others that the proposed 75-cent minimum wage in one step will cause them much hardship and may even put them out of business completely. Some who employ handicapped, unskilled, part-time or submarginal labor say they will be unable to continue employing them at that proposed new wage. There will be a screening out of all but the most efficient workers. The less desirable will become unemployed and be thrown on local relief agencies.

Employers who are now paying 75 cents or more per hour say they will also suffer because if the new, unskilled worker must get 75 cents at once, all others will have to be up-graded accordingly.

Most of our complaints come from small businesses out in the small towns, also farmers and certain industries like laundries which use to a large extent the less efficient types of labor.

Summing up, it seems to me this is a time to cut Government expenses, not to levy additional taxes unless absolutely necessary but I do believe in balancing the budget at a time of high employment levels like the present. In connection with the suggestion of increasing taxes on corporations, it should be kept in mind that corporations do not really pay those taxes. The corporation is merely a legal entity through which the money passes. Actually the taxes are paid by the customers in the form of higher prices, by employees in the form of lower wages, by stockholders in the form of lower dividends, or by a combination of all three, depending on conditions.

It does not seem to me H. R. 2756 implementing the economic report offers any advantage to small business. It is too general and vague, conferring altogether too much power on the President, in peacetime. Those powers should be retained in the hands of the Congress, our elected representatives in whom we have confidence, and who are directly responsible to the people.

Neither the preamble to nor the specific provisions of the bill is conducive to creating the healthy business climate and confidence so necessary to all business including small business.

Supplementary Testimony of Theodore O. Yntema, Research Director, Committee for Economic Development, Pursuant to Request of Senator Joseph O'Mahoney, Chairman, Joint Committee on the Economic Report

STATEMENT ON H. R. 2756, THE ECONOMIC STABILITY ACT OF 1949

For the consideration of the Joint Committee on the Economic Report, in connection with the committee hearings on February 16 and 17, 1949, I offer these brief comments on H. R. 2756, the Economic Stability Act of 1949. In these remarks I express my own views as an individual, and not those of the Committee for Economic Development, of which I am research director.

1. *The bill delegates enormous power to the President.*—This is not merely an expansion of the power of the President; it is so great an expansion that it basically changes the character of the Presidency. It makes the President not an executive administering the law, but a czar administering the economy. He is given the power to set maximum prices, to influence but not control wages, to allocate products, to make (and forgive) loans, to construct plants. He is authorized to control the level and distribution of incomes, products, and investments. This is the power of economic life or death over regions, industries, businesses, unions, and individuals.

2. *The bill contains no meaningful standards by which the President is to be guided or judged in the use of this power.*—The President is instructed to pursue certain valuable but vague objectives—"general welfare" and "free competitive enterprise," for example. He is told to correct maladjustments, maldistributions, shortages, deficiencies, excesses. He is enjoined to do what is reasonable, necessary, or essential. These are empty words. There is nothing in them or in any other language of the bill that effectively distinguishes between what the President is to do and what he is not to do.

3. *The absence of standards is not accidental but is the result of the impossibility of specifying concretely the conditions that the bill is intended to correct or bring about.*—The bill, insofar as it has any clear purpose, is intended to effect a better structure of relative prices, a better distribution of product and a better flow of investment than is brought about by the market and the free-price mechanism. But no one has ever defined what better means in this connection, or devised any objective way of telling what better is. The Council of Economic Advisers makes frequent use of the concepts of balance and maladjustment but has never isolated any case in which maladjustment had more scientific meaning than "What I don't like." The best it has been able to do is to compare the relation of investment to national product, or wages to profits, or farm prices to nonfarm prices as produced by the market today with the relations produced by the market in 1939 or 1929 or some other period. But there is no reason to think that the results of the market process in an earlier year in other conditions is a standard by which to criticize or improve the results of the market process today.

The inability of the Council to find objective standards for judging or superseding the market process is no reflection on the special competence of the Council. It reflects the present state of economic science. But it indicates that there will be no scientific basis for the President to make the decisions he will be required to make about the internal relations of the economy.

4. *Developments since the war, far from demonstrating the need for this legislation, have demonstrated the great adaptability and capacity for progress of the free economy.*—Almost without missing a beat the economy shifted from military production to civilian production. It absorbed the returning veterans with minimum unemployment. It made successive smaller transitions as the intensity of demand shifted from one area to another. It overcame numerous shortages by expansion of production. It maintained a high rate of private investment and high and widely shared levels of consumption. In these respects the free-price and private-investment system has worked well in the postwar period.

Postwar experience, however, has reemphasized one thing that the free economy cannot do unaided. It cannot assure stability of the over-all level of prices or of economic activity. Here is an essential area of Government action to supplement the free economy. But the action needed is not the action authorized by this bill. Our major requirement is a Government monetary and fiscal policy that will reduce and not aggravate instability. This bill would supersede the free economy where the free economy works best—in the determination of relative prices, distribution of product, and direction of investment. It ignores the area where the economy most needs supplementation—monetary and fiscal conditions for stability.

5. *The bill will reduce the adaptability, efficiency, and progressiveness of the economy.*—In the absence of any objective standard of operation, the inevitable recourse of controllers is to the "freeze." The controllers must cling to past prices and past allocations as the only firm basis for any position. Price adjustments that would evoke needed production are resisted and slowed down by the bureaucratic process. The patterns of allocation become frozen so that the new firm cannot break in and the enterprising firm cannot grow. Private investment diminishes as the investor sees that he is not only assuming ordinary risks but also giving hostages to the decisions of a Government agency which can squeeze him between the free wage rate, the maximum price, and the competition of the Government plant. Production flows into uneconomic channels as it seeks to escape the impact of controls—witness the upgrading problem of wartime.

6. *The legislation will inevitably be administered under political pressure.*—"Every county will want its steel mill." Every industry and union will want favorable price, wage, or allocation treatment. The President will be unable to escape the political inducements and pressures of his power. The unequal treatment of wage rates and prices in the bill itself is evidence that the political influence is inescapable. The result is bad economics and bad government.

7. *The powers granted cannot be regarded as insurance to be used only in exceptional cases.*—Once the powers are granted they cry out to be used. The standards of the bill are so loose that it will always be possible to justify action. Administration of the bill will attract persons who want to use it, not persons who will consider use of the power as a last resort. Use of the power will create conditions justifying further use. By discouraging private investment it will make it easier to show a need for Government investment. Price controls and allocations on one commodity will divert demand to other commodities and justify control of their prices.

8. *The possibility that particular, exceptional cases may arise justifying allocations or other emergency action should not be met by the advance delegation of blanket authority.*—Such cases, if and when they occur, should be presented to the Congress individually on their merits. If the emergency is real and clear, Congress will provide necessary authority promptly. The authority should be limited to the specific case, should contain specific standards, and should expire after a short period unless renewed by Congress. If the need for control in the particular case is not so clear that Congress will act, the President should not be exercising control under a blanket authority.

9. *We are not at war.*—Although we may not be at peace, we do not have the economic, political, and psychological conditions that made extensive direct controls tolerable in wartime. There is not the one specific overriding objective that serves as a standard by which to make decisions. There is not the focusing of patriotism that induces busy citizens to accept the task of administering controls and leads individuals to accept vexatious regulations. Moreover, war comes to an end, usually after a short period. With its end the controls are reconsidered and generally abandoned. But today's conditions may go on for a long time, perhaps shading gradually into "peace." If we need the full panoply of controls now, when, if ever, shall we remove them?

I am not one who views with alarm Government's acceptance of its proper responsibilities in our economy. I have consistently favored affirmative Government action that would effectively serve the ends we all seek—greater stability, greater progress, and greater equality of opportunity in a free society.

This bill would not serve these ends. Continuous use of powers, such as granted by this bill, would radically transform the character of the American society. The actions contemplated would slow down if not arrest the economic progress upon which improvement of our living standards depends. Should the controls provided in this bill become permanent, they would frustrate democratic processes of government and jeopardize our liberty.

AMERICAN RETAIL FEDERATION,
Washington 6, D. C., February 23, 1949.

The Honorable JOSEPH C. O'MAHONEY.

MY DEAR SENATOR O'MAHONEY: On behalf of the federation I wish to express appreciation for your invitation to the retail industry to participate in the round-table discussion of the President's economic report.

Unfortunately, your invitation was not reported to me until midafternoon of Friday, February 18, the final session of the round table, which provided no time to participate.

However, our president, Rowland Jones, Jr., will take this opportunity to present his views in the record on this important subject in the hope that they may prove helpful to the committee.

My request for retail participation at the time the round table was announced was in the belief that the Joint Committee on the Economic Report would welcome the retail viewpoint in any analysis of economic problems because of the essential role of distribution in our economy.

Respectfully yours,

PRESTON B. BERGIN,
Assistant to the President.

STATEMENT OF ROWLAND JONES, JR., PRESIDENT, AMERICAN RETAIL FEDERATION

As the name implies, the American Retail Federation is a federation of 18 national and 33 State retail associations which comprise upwards of 500,000 retail stores in all segments of retailing and in all parts of the country. In addition to its association members, the federation also consists of several hundred key subscribing member stores, large and small, in all branches and types of retailing.

The President's economic report is a lengthy document which contains many recommendations on a number of subjects. It would be impossible, within the confines of this paper, to comment intelligently upon all of the recommendations made in the report. Furthermore, many of the recommendations are of interest to retailers as citizens, but not as retailers, while others which interest them more or less directly as retailers, are of such a technical nature that brief comment is almost meaningless. For example, retailers are certainly interested in the proper management of the public debt, they are directly interested in export controls, and, in some sections at least they are interested in the preservation of natural resources and their development. The limitations of this paper, however, make it difficult to make intelligent comment on these and other subjects.

This paper, therefore, is limited to a few of the recommendations in which retailers are directly and primarily interested.

Fiscal recommendations

The report makes several fiscal recommendations. Briefly summarized they are (1) to raise $4,000,000,000 of additional revenue through an increase in the corporate income tax, increases in the rates of estate and gift taxes, and in the higher and middle individual income tax brackets; (2) repeal or modify some excise taxes; (3) raise additional anti-inflationary revenue through increases in present social security taxes, and taxes for new social security programs, and (4) operate the Federal Government on as economical a basis as possible.

In order to discuss these recommendations it is necessary to state briefly the long-range tax program of the American Retail Federation. It is—

1. The individual income tax should be the primary source of revenue.
2. Double taxation of corporations should be eliminated as rapidly as possible, with corporate income taxes serving simply as a form of first bracket withholding for individual tax payers.
3. Excise taxes, except the traditional Federal excises, such as those of alcohol and tobacco, should be eliminated. This field is properly one for the several States.
4. The social security program should be operated entirely apart from other tax measures, and changes in the amounts raised for social security purposes should not be made for fiscal purposes.

Thus the federation cannot agree that there should be increased taxes as proposed in the report. If $4,000,000,000 additional revenue is needed, which is open to honest doubt, this money should be raised by strict Government economy and by a complete overhaul of the entire revenue system, not by selective increases in isolated types of taxes.

In addition there are other reasons for disagreement. First, retail corporate profits are not of such magnitude that they deserve to be singled out for special treatment taxwise. Even the stated profits of retail corporations are not a true reflection of their real nature, since much of these stated profits exist only in inventory. Only a comparatively few retail corporations are eligible to use the Lifo method of inventory and thus present a true profit picture.

Second, there is no logical reason for adjusting the tax rates in the middle and upper brackets for individual taxpayers. During the defense period and during the war increases were made in the progression solely for the purpose of obtaining larger amounts of revenue, and without real regard for ability to pay. Thus before additional revenue is sought from individual taxpayers the whole progression should be examined and revised.

Third, as already stated, the federation does not believe in using social security taxes for anti-inflationary purposes. If the economic situation is such that a deflationary effect is needed it should be accomplished through outright taxation, and not by what amounts to borrowing forcibly money which must later be repaid with interest.

Fourth, $4,000,000,000 are not needed to keep the Government from operating at a deficit. An anticipated deficit for 1949 was eliminated by transferring a sum from the 1948 surplus, and the anticipated deficit for 1950 is less than $1,000,000,000. Surely this amount can be met without tax increases, simply by operating the Federal Government more economically and efficiently. In this respect the federation is in hearty accord with the recommendation in the President's economic report, and sincerely hopes that the recommendations to this effect which are now being made by the Hoover Commission are given the most sympathetic attention by the Congress.

The federation also agrees with the recommendation on excise taxes, as elimination of most excises is a part of its long-time tax program. The present retail excise taxes are particularly burdensome, not only to retailers but also to their customers, and are a strong deterrent to trade. Their elimination would not by any means cause a loss in revenue equal to the amount they now bring in. Rather the stimulation in sales would to some substantial degree make up the loss in revenue through increased amounts received in income taxes.

Anti-inflationary measures not connected with fiscal affairs

The report recommends, among other things, stand-by powers for allocations and priorities, and for wage and price controls. These powers are intended to be used when needed to prevent further inflation.

It is not easy to take a stand on recommendations of this type. Logically it would seem to be the part of wisdom to be ready for any economic crisis which might conceivably occur. We do not know what lies ahead. Our foreign commitments are not definite, for example, and their effect when fulfilled may be such as to create serious disturbances within our domestic economy. Thus it seems advisable to have a plan which can be put into operation at once when the time is ripe, although it would seem proper to allow the Congress, rather than the President, the right to say when the plan, whatever it is, should begin to work.

Retailers, however, have more than a little fear that the proposed methods may not be the right ones. In the case of price controls, with which they are most familiar, they feel that price controls can only succeed in times when there is a great national emergency which is coupled with a strong patriotic fervor. Otherwise there will be evasions, and black markets, which will destroy the effects which the plan was intended to achieve. No one will deny that a period of inflation is not a great national emergency, but without war, or the immediate threat of way, retailers doubt whether the people of this country would calmly accept price controls and the restrictions on individual liberties and desires necessary to make them effective.

A similar statement can be made for wage controls. However, retailers strongly believe that if price controls become necessary they must be supplemented by controls on wages. The experience of the recent war period illustrates the impossibility of effectively controlling prices without similar restraints on wages and the other components which together make up our price system.

Furthermore, as retailers see it, the immediate danger is not inflation. The long-term trend, as evidenced by the behavior of commodity prices, points to a downward movement in prices. If the movement is gradual, as all indications seem to indicate that it will be, no particular danger can be feared, and no plan is needed. If the movement should accelerate in speed, however, something other than the proposed controls would be needed to keep the country from a disastrous deflation and depression.

Social-security recommendations

Retailers are definitely interested in social-security programs. Their interest lies in two directions. First, as merchants they are interested in all proposals which have a favorable effect on purchasing power, now or in the future. Second, as taxpayers, they are concerned as to the financial impact of any particular program upon the economy generally and upon their own business.

A committee of the federation has been at work studying the various proposals for expanding and improving the social-security program, and has submitted recommendations on most of the proposals. These recommendations have not, as yet, been adopted by the membership, but they may be taken as the tentative views of the federation.

In the field of old-age and survivors insurance the recommendations of the Advisory Council on Social Security to the Senate Committee on Finance are generally followed. These include increased minimum and maximum benefits, increased coverage, an increased tax rate, and a lower retirement age for women.

Some reservations, however, were made, the most important being a retention of the present $3,000 base, and a recommendation that specific incentives be devised to encourage the growth and development of private retirement arrangements.

Under permanent and total disability insurance the view is that this subject should not be included in a Federal contributory insurance program, but should be covered by a State-assistance program supplemented by Federal grants-in-aid.

Temporary disability insurance is also held to be a matter for State legislation. It is recommended that when public opinion favors the adoption of a cash sickness benefit plan retailers take a positive interest in the proposal and actively participate in drafting the law.

Finally, in connection with health insurance, the recommendation is that an impartial study be made of the Nation's health, medical care and training facilities by a congressional committee or private research agency. If this survey reveals areas in which Government assistance is needed the further recommendation is that a program of Federal grants-in-aid be adopted so that the several States might set up a program for medical, dental, surgical, and hospital services for individuals who do not have sufficient income to meet such expenses. In the meantime active encouragement should be given to the development and growth of voluntary insurance plans in the same field.

Changes in the Fair Labor Standards Act

The federation has already expressed itself to the Congress in a formal statement to the House Education and Labor Committee as to changes in coverage in the Fair Labor Standards Act intended to bring under the act retail employees now excluded. The position of the federation is that retailing is a local, intrastate industry governed entirely by local conditions and local competition. A national standard of wages or hours cannot be successfully applied to local retailers scattered all over the country. To attempt to do so would result in confusion, unemployment and much higher prices to the consumer in many localities. It is considered that the regulation of retail wages and hours is best left to the States where local conditions can better be appraised and regulations conforming to the local needs and living costs and patterns can be more successfully adopted.

(The following annotated summaries were prepared by the staff of the committee and distributed for the convenience of witnesses during the round table:)

RECOMMENDATIONS BY PRESIDENT TRUMAN AND SUPPORTING STATEMENTS BY WITNESSES BEFORE THE JOINT COMMITTEE ON THE ECONOMIC REPORT, FEBRUARY 8–15, 1949

A. POLICIES TO COMBAT INFLATION

Mr. Clark: "The program now proposed by the President in his annual economic report is based upon the judgment that the postwar inflationary forces are still strong and will probably become more active in the near future, requiring the provision of measures now to curb spiraling prices"

"The program proposed by the President includes certain policies to reduce inflationary pressures by reducing general demand, and others to hold specific points of pressure by direct action. In the first category are the recommendations that taxes be increased $4,000,000,000 and that the credit-control powers of the Federal Reserve System be strengthened"

1. *Fiscal policy:* "to have a budget surplus now."

Mr. Snyder: "We must have a surplus during times of prosperity with which to reduce the debt; for if we do not we shall never be able to reduce the debt in the manner which I feel is necessary and desirable"

(*a*) "I recommend legislation to increase the Government revenue from taxation by $4,000,000,000 a year."

"The objective of the administration is to increase revenues by $4,000,000,000, and the need for these additional revenues for the Federal Government is imperative."

(1) "Principal source * * * corporate profits."

Mr. Clark: "That is the first point in the President's anti-inflation program, to put the pressure upon profits in order to reduce to some extent the demand of business for goods and services to be used in capital investment. He has recommended a $4,000,000,000 increase in taxes imposed principally upon business profits."

"The proposal of the President would leave corporate profits after taxes at a level at least as high as the profit figures in 1947 and far above those of 1946."

(2) "Additional source * * * estates and gifts."

(3) "Careful study to increase rates in the upper and middle brackets."

(*b*) "Some additional excise taxes may be desirable, but some excise taxes, particularly on oleomargarine, should be repealed."

(*c*) "I also recommend an increase in social-security contribution under existing and extended social-insurance programs."

Mr. EWING: "When the effects of all Federal security programs—limited construction, the social insurances, public assistance, education, and health—are combined, the upshot is that pay-roll-tax intake exceeds all expenditures for these purposes by approximately $1,000,000,000. If the programs were expanded as we recommend this excess would approximate $1,500,000,000. Thus, the net economic effect of these programs during the coming year will be counter-inflationary as long as economic activity continues at a high level."

(*d*) "Careful limitation of Federal expenditures."

2. *Debt management*

"The policy of supporting the price of long-term Government bonds at the 2½-percent yield level has been eminently successful."

Mr. SNYDER: "In cooperation with the Federal Reserve System, the Treasury has sought to maintain the stability of the bond market in both directions. It has been our objective to keep bond prices from going up too rapidly or going down too sharply." "Our debt management activities since the end of the war have been directed toward the objective of increasing nonbank holdings of the public debt."

Mr. McCabe: "One of the most important objectives is the maintenance of stability in the Government securities market. To accomplish this the Federal open market stands ready to buy such securities when there are no other buyers at established prices and also to sell securities when demand is heavy."

Mr. Clark: "The policy of supporting the price of long-term Government bonds at not less than par must be maintained; the President has said in such vigorous terms that it will be maintained that the financial world seems to have accepted the fact. The result has been that the effort of the past year to overturn the policy has subsided, the market is taking care of itself above the peg point, and the difficulties which arose because holders of bonds were disturbed by constant speculation whether the policy would be abandoned have disappeared."

3. Credit policy

Mr. Clark: "The President's program recommends that there be authority given to the Federal Reserve System to exercise that power of credit control which it has been able to use very imperfectly on account of the need to support the Government bond market."

(*a*) "Authorize Federal Reserve System to require all FDIC insured and Reserve System banks to hold supplemental reserves up to 10 percent against demand deposits and 4 percent against time deposits."

Mr. McCabe: "We are again asking for authorization to require supplemental reserves up to a maximum of 10 percent against demand deposits and 4 percent against time deposits. Congress granted authority up to 4 percent on demand deposits and 1½ percent of time deposits, applicable to member banks only, and expiring June 30, 1949. The present request would replace this temporary authority * * * It is vitally important that the requirements be made applicable to all insured banks, and not exclusively to member banks of the Federal Reserve System * * * Failure to include all insured banks would seriously impair the effectiveness of national monetary policy * * * The pending proposal * * * would equip our monetary mechanism with authority to cope with over-expansion of the money supply in case that danger again threatens us."

Mr. Clark: "The tightening of bank credit is the oldest of the recognized measures to reduce overexuberant business activity. The use of this traditional policy is not related to any condition of overexpansion of bank credit itself, but arises from the fact that the commercial banks, perhaps to their misfortune, happen to be the important cogs in a machine which is easily subjected to social control for this purpose."

(*b*) "Continue regulation of consumer installment credit."

Mr. McCabe: "We urge you to continue consumer installment-credit regulation * * * Regulation of installment credit is designed to help maintain stability without preventing sustainable long-term growth in such credit. Consumer installment credit has risen since the end of the war from 2 billion to 8 billion dollars at present. Were these rates of increase in consumer debt continued, we might eventually, and perhaps in not too long a period, exhaust our cushion of consumer borrowing power and thus endanger our economic stability * * * Smaller business enterprises in the affected areas can compete more equitably and safely when competitive credit factors are limited to reasonable standards."

Mr. Clark: "One selective control of credit which the President recommends is that of installment credit, and the authority of the Board of Governors in this respect should be permanent. Installment credit creates an especially precarious situation because it increases the demand for goods in periods of great prosperity and then by largely drying up in periods of recession when contract debtors are straining their resources to liquidate their indebtedness this contributes a double push to the deflation."

4. Promotion of supply and production

Mr. Krug: "To achieve these objectives [of the Employment Act of 1946] requires most importantly, an increase in supply and capacity in those critical areas which are impeding maximum production in an expanding economy."

"Careful surveys of future supply needs and productive capacity."

Mr. Sawyer: "I believe that the ability of the Government to assist industry in forming its plans would be greatly increased if we were in a position to collect and analyze for the use of industry and the public generally complete, accurate, and current information about industrial operations and trends."

Mr. Foley: "There are significant current gaps in our statistical knowledge as it relates to housing. This is particularly true in the field of building costs

* * * This is one of the many gaps in our body of housing statistics to which we devote our attention under the research program requested in the legislation now before the Congress."

Mr. Krug: "In order to insure increasing national output and economic expansion we must determine what our needs and potentials are in terms of natural resources and gear our natural resources programs to those needs and potentials."

5. Allocation powers

Mr. Krug: [To achieve the objectives of the Employment Act of 1946] also "requires limited controls where necessary to help increase supply and capacity and to maintain economic balance until the maladjustments in our economy are corrected."

(*a*) "Extension of voluntary agreements."

Mr. Foley: "Voluntary allocation programs under Public Law 395 * * * will continue to be needed for some time for the more critical items."

(*b*) "Use of mandatory allocations powers be authorized."

Mr. Krug: "Allocations of steel will have to be continued and extended. For some needs, I am frankly of the opinion that voluntary allocations may not do the job and that mandatory allocations may be necessary."

(*c*) "Continue priorities and allocation authority in the field of railroad transportation."

6. Selective price and related wage controls

Mr. Clark: "Consumers' prices have been receding slightly but the prices of many commodities which are important in determining the costs of production of manufactured articles have continued to rise. It is because there is a chain reaction when these prices move upward that direct action against price increases is necessary in order to break the circle of spiraling inflation * * * The recommendation for authority to control the prices of essential commodities of prime importance in determining the cost of living or the costs of production of goods * * * relates to a situation which is now developing to a climax. If wage increases are again secured in the steel and coal industries and the prices of those commodities are again raised, the inflationary cycle will be given another twist which will carry the economy we know not where. If the Government is unwilling to take any action to halt price increases, the workers will have no reason to withhold their wage demands in the expectation that prices will not continue to rise, and the Government will have no excuse for asking the workers to make a sacrifice which the owners of business will not make.

"If action is taken to prevent price increases, the Government will be justified in taking action to discourage wage increases and the President has already accepted that responsibility. A part of his proposal is that in order to prevent an established price ceiling from being broken through as the result of wage increases, there shall be a determination by a board that wage advances are justified before those wage advances shall be accepted as a reason for permitting a price increase."

Mr. Keyserling: "My summary was that we had a situation where we were having continued price increases, continued high margins of profits in certain industrial sectors of the economy which represented an administered price or a partly monopolistic situation; that that seemed to me to be draining excessively from the economy. And that partly in consequence of that we are having what is beginning to be an excessive lowering of the fair take from the economy on the part of the farmer, the basic producer, and that in addition to that we were having the same problem on the distributive side, namely, the margin between what the farmer gets and what the consumer pays, which was increasing * * * I am here trying to develop an argument that very many important prices are too high, are rising too fast, and should be restrained rather than kept up * * * I think we need a rounded and balanced stabilization program. I think that stabilization program includes many elements of restraint, but also includes some elements of support, because we have a mixed economy."

(*a*) "Selective price control authority."

Mr. Clark: "There is a recommendation that the Congress authorize the President, if the occasion arises, to regulate specific prices because there are certain commodities of key importance which have such an influence upon economic developments that if prices are rising in those commodities it brings about chain reaction throughout the whole business world. Steel, of course, is the most important of those commodities."

[The President's program recommends] "Finally that there be authority to actually impose specific price controls at certain critical points, accompanied by a proposal that there also be authority to require the suspension of price advances, applying to price advances exactly the same principle which the Congress has applied to labor in connection with its effort to advance its price."

(b) "Encourage voluntary adjustments."

(c) "Normal processes of collective bargaining will result in sound wage adjustments."

7. Rent control

"Continue rent control for at least 2 years."

Mr. Woods: "Rent controls should be extended for a 2-year period beyond the expiration date of the present act. It is my judgment that the demand for rental housing will not have been reasonably met within this period and that inflationary pressures which would be exerted if controls were removed from the estimated 14,350,000 rental dwelling units now under control would be a serious blow to our economy."

Mr. Clark: "Among the recommendations of the President for policies which directly attack points of particular inflationary pressure, that for rent control requires only the comment that the housing situation clearly proves that the economy has not yet entered the phase where Government intervention in the making of business decisions is not needed. If rents were freed from control, the inflationary forces underlying our deceptively quiet economy would become too clear to be discounted."

8. Export controls

"Strengthen machinery for enforcement of existing export controls."

Mr. Thorp: "The record is to the effect that the commodity structure has not been seriously deranged, thanks in large part to the operation of export controls over the critical uses of so-called scarce commodities."

Mr. Clark: "The case for export controls is generally accepted. Some support such controls upon the ground that they are needed in order to channel goods in such manner as to accomplish the purpose of the foreign-aid program, but there is inherent in this argument a recognition that the supply of certain commodities required for that program is too small in relation to total demand to permit the allocation of those goods to be made by the operation of the free-market mechanism."

9. Commodity exchanges

"Specific and more adequate authority to prevent excessive speculation or the manipulation of prices."

Mr. Clark: "The recommendation of the President that permanent authority be granted to regulate trading in futures on the commodity exchanges grew out of our experience a year ago when we were most fortunate to avoid a disastrous collapse of business following a crash of grain prices which had been carried by speculative trading far above any level supported by conditions of demand and supply for grain itself. We have now had a second experience with the widespread impact of the wild gyrations which can take place only in a speculative market and could not occur in a market dealing with actual commodities. The legislation recommended by the administration would control the purely speculative trading while leaving true hedging sales and purchases free from control."

B. POLICIES TO PROTECT THE VICTIMS OF INFLATION

1. Increase benefits under old-age and survivors insurance.
2. Seventy-five cents an hour minimum wage.
3. Improve public-assistance program.

C. POLICIES TO PROMOTE BALANCED ECONOMIC GROWTH

1. Natural resources

(a) Expand public power programs.

Secretary Krug: "Current shortages of raw material in energy are seriously limiting economic expansion and output. An outstanding example is a shortage of electric power. Continued neglect of these shortages will impose absolute physical limitations upon our economy, with all of the economic maladjustments that such limitations imply."

"We have approximately 77,000,000 kilowatts of undeveloped water power, now wasting annually into the oceans, about two-thirds of this in States west of the Mississippi and about one-third is in the Eastern States. Controversy over the development of Federal hydro projects has obscured this tragic waste of undeveloped water power. Certainly in the next 15 years, at least 30,000,000 kilowatts of this hydro ought to be developed by the Federal Government, leaving another 10,000,000 to be developed by private utilities and other power systems. This is the kind of target which the country needs to sustain an expanding economy operating at maximum employment, maximum production, and maximum purchasing power."

(*b*) Start St. Lawrence Waterway project.

(*c*) Provide improved coordinated development plans for important river basins.

2. Agriculture

(*a*) Adjust composition of farm output realistically to domestic and export needs.

(*b*) Provide adequate storage facilities.

(*c*) Provide adequate credit facilities.

(*d*) Assure level of consumption consistent with real food needs.

(*e*) A new international wheat agreement.

3. International economic relations

(*a*) Continue European recovery program.

(*b*) Ratify International Trade Organization charter.

(*c*) Restore Trade Agreements Act, 3 years.

4. Housing

(*a*) Enact comprehensive housing bills providing 1,000,000 units in 7 years.

Mr. Foley: "In spite of its great size and importance to our economy, home building has never achieved economic maturity. There is a large segment of the American people to whose income the housing product has never been adjusted. This in turn has led to violent cyclical fluctuations in production. Hence, instead of being one of the important stabilizing elements in our national economy, home building has actually fluctuated more violently than any other major segment of economic activity. This instability has contributed significantly to the instability of our economy as a whole."

"There is some evidence that construction costs may be stabilizing and that a turning point may have been reached. Reflecting primarily a small drop in the price of lumber, construction cost indexes declined in both October and November."

(*b*) Allocation authority to channel building materials into home building.

Mr. Foley: "* * * despite this general improvement in production and supply, the Department of Commerce anticipates that cement and some iron and steel items, particularly pipe, may continue in tight supply during 1949 in some localities.

"Production of pressure pipe, soil pipe, cast-iron boilers, cast-iron radiation, plumbing and drainage equipment, and warm-air furnaces was assisted in 1948 by voluntary allocation programs under Public Law 395, and it is quite apparent that this type of assistance will continue to be needed for some time for the more critical items."

Mr. Woods: "* * * In the entire United States during 1948, only about 17 percent, or less than 160,000, of the 930,000 nonfarm dwelling units started were rental-type units."

"If our total supply of manpower and building materials cannot be expanded rapidly enough to produce more than 1,000,000 units a year, then I would recommend temporarily the deliberate discouragement of the construction of single family units for sale. A multiple-unit apartment building can be built faster, cheaper, and with less material than the same number of single-family homes. This necessary switch from single-family units to multiple-unit buildings could be brought about by a deliberate tightening of credit and risk insurance requirements for homes and by giving additional incentives to builders of multiple-unit structures."

5. Urban redevelopment

(*a*) Aid communities in slum clearance.

Mr. Foley: "That legislation would enunciate a national housing policy, and in that way would, for the first time, provide a frame of reference within which we could define our objectives and measure our progress in reaching them. It would authorize Federal aid to our cities so that they might make a start in the long-overdue job of slum clearance. It would reactivate and expand the low-rent public-housing programs. * * *."

6. Education

(*a*) Federal aid to primary and secondary education.
(*b*) Aid higher education by a system of general scholarships and fellowships.

7. Health

(*a*) National health insurance.
(*b*) Federal grants in support of hospital construction.

8. Old age, disability, and unemployment insurance

(*a*) Widen coverage and increase the benefits.
(*b*) Disability insurance.

9. Develop natural resources

(*a*) Regulate timber cutting.
(*b*) Protect public range lands.
(*c*) Develop tidelands oil resources.
(*d*) Press forward basic research and exploration.

Legislative Proposals to Meet Maladjustments

The legislative recommendations contained in the President's economic report fall into two broad groups: (1) Those designed for specific and immediate attack upon maladjustments in the economic situation; and (2) those long-run proposals which look toward the maintenance of stability and a continuance of growth.

I

Taken individually and collectively, the first group of proposals provide a rounded program aimed at correcting the current maladjustments in the economic situation. Unity of the program as a whole is apparent (and its discussion aided) by separating proposals in the first group according to the maladjustment against which it is specifically directed.

Mr. Keyserling (pp. 28–30, prepared statement): "* * * But if we delay about taking action, the maladjustments that are now present might throw the economy more seriously off balance within 1949 * * *."

These current maladjustments may be listed as follows:

(1) The first maladjustment in the current economic situation results partly from the fact that the cost of living has risen 74 percent since the middle of 1939, and 29 percent since the middle of 1946. * * * Aside from the social ills resulting from this situation, it is a heavy economic liability because it increases tensions, adds to public costs, and threatens eventually to unsettle the general balance between production and consumption * * *.

Legislative proposals

Increase the Government revenue from taxation by $4,000,000,000 a year.

Provide continuing authority to the Board of Governors of the Federal Reserve System to require banks to hold supplemental reserves up to 10 percent against demand deposits, and 4 percent against time deposits; such authority to be applicable to all banks insured by the FDIC.

Continue authority for the regulation of consumer installment credit beyond June 30, 1949.

Continue rent control for at least 2 years, and strengthen its enforcement.

Increase minimum wage from present 40 cents per hour to at least 75 cents an hour.

Immediate passage of the unenacted portions of the comprehensive housing bill with the quota of low-rent housing increased to provide for 1,000,000 units within 7 years, and including substantial Federal aid to the States and localities to enable more rapid progress in clearing slums and in assembling land for balanced redevelopment.

(2) The second maladjustment in the current economic situation involves the relationship between industrial prices and farm prices.

Legislative proposals

Grant more specific and more adequate authority to prevent excessive speculation or the manipulation of prices of agricultural commodities.

Reexamine existing and proposed farm legislation in the light of the objective—

(*a*) To provide adequate storage facilities, the improvement of distribution, and adequate credit facilities.

(*b*) To more abundant farm production to supply the industrial and consumer needs of a full employment economy.

(*c*) To fit a prosperous and equitably treated agriculture consistently into an economy seeking to operate continuously at maximum levels.

(3) The third maladjustment in the current economic situation is the sharp and continued increases in prices of certain vital industrial products. * * * These continuing price increases, although selective, are at vital spots where they influence the whole economy. An unchecked upward trend of these prices, when farm prices have been falling and other prices softening, may lead to even more serious maladjustments than when almost all prices were rising together. * * *

Legislative proposals

Selective price-control authority should be promptly made available to the Government.

Price-control authority should be supplemented with a provision permitting the Government to order the withholding of price advances while public inquiry into their justification is being made.

Authority (as requested in July 1948) to limit wage adjustments which would force a break in a price ceiling, except where wage adjustments are essential to remedy hardship, to correct inequities, or to prevent an actual lowering of living standards.

(4) The fourth maladjustment in the current economic situation is that consumer expenditures or demand have dropped from 76 percent of total output in 1929, and 75 percent in 1939, to only 70 percent in 1948. In contrast, gross private domestic investment has risen from 10 percent of total output in 1939 to 15.4 percent in 1948, the latter percentage being even higher than in 1929. Correspondingly, compensation of employees as a share of total national income has dropped from 65.9 percent in 1939 to 61.5 percent in 1948, thus moving close to the undesirably low 58.1 percent of 1929. * * *

Legislative proposals

Temporary extension of the law under which voluntary agreements for allocation of materials in short supply are now permitted, and authorize the use of mandatory allocation powers which may be employed on a selective basis where they prove needed.

Continue the priorities and allocation authority in the field of transportation.

Extend existing powers of control over exports, and strengthen the machinery for enforcement.

Restore the Trade Agreement Act to full effectiveness, and extend it for 3 years.

(5) The fifth maladjustment in the current economic situation is that the aggregate of corporate profits has been running higher than needed to maintain levels of business investment.

Legislative proposals

Increase the Government revenue from taxation by $4,000,000,000 a year, the principal source of which should be through additional taxes on corporate profits.

(6) The sixth maladjustment of the current economic situation is that some basic industries are not increasing their capacities sufficiently to attain production levels required for the steady growth of a maximum employment economy.

Legislative proposals

Provide the funds to make a careful survey of future supply and productive capacity in certain critical areas.

It is essential that public power programs be expanded this year, even where this requires use of scarce materials for construction of dams and generators.

A start on the St. Lawrence River waterway and power project should be made immediately.

II

The legislative recommendations made by the President's economic report concerned primarily with long-term stability and growth, although each would contribute in significant degree to the solution of the current maladjustment, may be listed as follows:

Legislative proposals

Increase in social-security contributions under existing and extended social-insurance programs.

Increase benefits under the old-age and survivors' insurance substantially.

Broaden the coverage of the Fair Labor Standards Act.

Improve public-assistance program for relief.

Programs in the improvement of river basins should be examined and action taken where needed to provide coordinated development plans.

Continue European recovery program.

Initiate Federal program for aid to elementary and secondary education.

Make plans to expand opportunities for higher education through cooperation between the Federal Government and public agencies and private institutions, including a system of general scholarships and fellowships.

Initiate a study to determine authoritatively our national needs for educational facilities and the most feasible methods of providing them.

Enactment of a program of national health insurance with Federal grants in support of hospital construction, and take steps to overcome the present serious national shortage of medical personnel.

Widen the coverage and make benefits more adequate under old-age and unemployment-insurance systems.

Inaugurate a system of insurance against loss of income through temporary or permanent disability.

Suggested Topics for Discussion on President's Economic Report

A. WHAT IS THE CURRENT ECONOMIC SITUATION?

1. "Will inflation be a major problem in the next 18 months? Has the postwar boom run its course?" Or is the country facing a situation similar to 1926 when raw-material prices especially of those imported went down while the prices of finished and manufactured goods failed to fall commensurately? Corporate profits rose steadily from 1927 to 1929 because of decreases in raw material costs and increases in labor efficiency. Is that the story in 1949?

2. Is business investment in 1949 going to be as high as last year in the aggregate? In particular industries? Home building? General construction? Public utilities? Manufacturing? What backlog of demand still exists in producers' goods? Which? Will farmers buy as much farm equipment as in 1948? What backlog of demand still exists in durable consumers goods? How much is it for automobiles? Furnaces? Washing machines?

3. What is happening to inventories? Page 19: "* * * inventories could become burdensome." In what lines? How widespread? Will "sloughing off of excess inventories" bring on the same results as it did in 1920–21?

4. Is there a lack of balance between output and buying power? Several passages taken from the report of the Council of Economic Advisers to the President are in point and are quoted. Thus, for example, the Council speaks of "a growing discrepancy between continuing need and declining ability to buy. In short, we are moving into a period where much more highly selective efforts will be needed to achieve workable price relationships for the maintenance of economic stability" (p. 8).

Three developments in 1948 receive particular emphasis: "(1) a substantial fulfillment of backlog demands for many goods that consumers had not been able to get during the war; (2) a limitation of consumption by those for whom investment in homes and private businesses has become a more urgent use of funds; and (3) the using up of past savings and feasible credit resources by people who have been unable to make ends meet during inflation" (p. 17).

"Such a picture reinforces the concern expressed in previous reports that we are still far from obtaining the amount and distribution of consumer income in relation to the other component parts of the economy which seem essential for balanced economic growth" (p. 17).

"In fact, it is an outstanding characteristic of the recent economy that business income and expenditures have increased more than consumer income and expenditures since the prewar year 1939" (p. 30).

"The foregoing analysis suggests that the proportion of resources currently being devoted to productive facilities as a whole is somewhat higher than the level that will be required on a sustained basis over the next few years to meet maximum production objectives in a self-sustaining and steadily growing economy. Additions to capital equipment in the past were accomplished in spurts, and periods in which they exceeded long-run requirements were followed by periods in which they fell far short. These violent fluctuations in private capital outlays have been a major factor in generating booms and depressions.

"In an economy of steady growth moving from postwar to peacetime conditions, the output of consumer goods and services should increase not only in absolute amounts but also in ratio to total production. In 1948 consumers were receiving about 70 percent of gross output, compared with 76 percent in 1929 and 75 percent in 1939. Even allowing for the contingency that Government expenditures and net exports may hereafter account for a larger portion of the Nation's Economic Budget than in previous periods of high employment, it is felt that final consumers should absorb at least 75 percent of all goods and services within a few years. Coupling this with the growth of the economy as a whole, the result would increase total consumption per year by about 4 percent and per capita consumption by about 3 percent above present levels.

"This higher consumption pattern must be brought about by a substantially equivalent increase in total consumer income. It will require improvements in the distribution of that income not only to avoid areas of want in a land of plenty, but also to avoid higher saving than is necessary to permit the expansion of investment needed for stable growth" (p. 61).

"* * * Our analysis shows that over the ensuing years consumer income and expenditure should be increased both absolutely and relatively.

"The fundamental issue is: Will this increase result automatically through the interplay of prices and costs in the marketplace? Or will a depression appear when the gap between potential output and effective demand of consumers and business becomes unmanageable as has happened in the past? Or can affirmative policies, as envisaged in the Employment Act, close or bridge this gap before it becomes a chasm?" (p. 74)

5. How much should consumer income be increased "absolutely and relatively"? What affirmative industry policies are there for closing or bridging "this gap before it becomes a chasm"? Will equity capital investment fluctuate in sufficient volume and at the right time to ensure an even course of business? On this problem the Council of Economic Advisers states in its report:

"* * * While it is true that outside equity capital is difficult to obtain on terms as favorable as those available for loan capital, it does not appear that, so long as profits remain large, there will be any general lack of sufficient total equity capital for desirable level of business investment. Although detailed figures for the 1920's are not available, preliminary investigations show that a markedly smaller percentage of business capital needs has been financed by debt in the postwar period than was the case in the 1920's" (p. 20).

Does this statement mean that there is not a crying need for equity capital? Does it make any difference whether such capital is being raised from consumers rather than outside investors? If not, does this process create a danger to the 75 percent consumption figure mentioned on page 61?

"* * * Abundant profits during the past 2 years have stimulated and permitted business investment so large in proportion to total national income that it is probable that investment of a lower proportion in the future will meet our long-term peacetime needs * * *" (p. 65).

"* * * Economic policy should recognize that the bulk of saving will come from people in the middle income brackets, who are rightly more concerned with the safety of their investment than with gains that involve high risks. This calls for financial institutions that transform these savings into venture capital. Study should be made of the experience of Nation-wide or local investment companies which can extend venture capital with diversification of risks. The possibilities of developing other types of organization which could effectively channel private savings into venturesome fields of investment and the extent to which the Government can promote them require thorough exploration. Also, the legal and economic problems of investment of insurance reserves require continuing study in the light of the change in saving habits of the people and the changing demand for industry financing * * *" (p. 65).

What evidence is there that the present proportion of national income going into business investment is above that normally needed? What are the legal and economic problems of investment of insurance reserves? What are the techniques for getting the "right" amount of capital into the "right" industries and businesses?

6. In how far will what has been called "administered prices" aggravate the problem of price dispersion, unbalance, and resultant unemployment and underproduction? Are there industries in which competition is now sufficiently effective? What standards are there for measuring whether competition is effective? If business fails to keep competition effective, what remedies do you propose? Do you agree with the conclusion that—

"If the Government uses the fiscal and other powers at its disposal to moderate the swings in general business activity, effective competition should keep cost-price margins down to the levels of reasonable necessity and adjust capacities to the expectation of greater stability. The extent to which this effective competition in large-scale industry is forthcoming will do much to determine what kind and degree of Government action will be needed to promote economic stability and growth" (p. 66).

7. Do you think that there are offsetting factors of sufficient strength to continue the inflation spiral? What are these factors? How long will they postpone a recession? Indefinitely?

B. WHAT POLICIES WILL CURRENTLY MEET THE REQUIREMENTS OF MAINTAINING HIGH LEVEL NATIONAL INCOME?

1. Which of the policies advocated in the President's report to combat inflation do you think should be dropped? Why?

2. What changes are necessary in the legislative priority of certain parts of the President's program?

3. If, as some feel, a recession is imminent, is it necessary to initiate quickly and vigorously some of the policies advocated to promote balanced economic growth? Why? Why not? Which ones?

4. What new programs or policies ought to be considered? What should be the new legislative timetable?

The following correspondence in connection with the exchange of letters on pp. 284–287 was received from Representative Rich for inclusion in the record:

CONGRESS OF THE UNITED STATES,
HOUSE OF REPRESENTATIVES,
Washington, D. C., April 15, 1949.

Hon. JOSEPH C. O'MAHONEY,
Chairman, Joint Committee on the Economic Report.

DEAR MR. CHAIRMAN: After receiving Secretary Krug's letter of March 30, 6 weeks after we filed all correspondence showing him that we could furnish him 100,000-kilowatt power, I take this occasion to hand you for insertion in the record a letter I received from Mr. L. W. Heath, vice president, Pennsylvania Power & Light Co., Allentown, Pa., dated April 13, 1949.

Secretary Krug saw fit to obscure the main issue as to where he could secure 100,000-kilowatt power and it was irrelevant to the question at issue. To me as a Member of Congress it seems as if the department heads of the Government are bent on trying to wreck private enterprise and will go to almost any means to do it.

When private enterprise furnishes the Federal Government with the taxes to keep the Government in operation and the Government-controlled corporations pay no taxes but are a drain on the resources of the Federal Government it is about time to do something about it and protect private enterprise all we can.

I herewith insert Mr. Heath's letter as a part of the record.

Sincerely yours,

ROBERT F. RICH.

PENNSYLVANIA POWER & LIGHT CO.,
Allentown, Pa., April 13, 1949.

Hon. ROBERT F. RICH,
House of Representatives Office Building, Washington, D. C.

DEAR BOB: Reply to your letter of April 1 has been delayed by absence from the city. Thank you for sending us a copy of Secretary Krug's letter to you of March 30.

In our letter of February 15 we attached a tabulation referring to the reserve capacity situation of the interconnected Pennsylvania-New Jersey system, which is a term we use for interconnected systems of—

The Luzerne County Gas & Electric Corp.
The Scranton Electric Co.
Pennsylvania Power & Light Co.
Philadelphia Electric Co.
Public Service Electric & Gas Co. (New Jersey).

Secretary Krug in his letter of March 30, on page 2, listed 14 companies and stated that the figures that the writer had used referred to the capacity owned or controlled by those 14 companies. The Secretary's letter then proceeded to contrast the installed capacity figure that we had used for the 5 companies with Federal Power Commission load figure referring to the 14 companies. It is apparent that whoever prepared the figures for him fell into the common error of comparing unlike things, in this case the capacity of one group of companies with the load of a different group. To keep the record straight, we list below the loads and capacities of these groups, (*a*) as of February 15, 1949, the date of our letter, and (*b*) as estimated for the reasonably near future.

	5 companies, Pennsylvania-New Jersey interconnection	14 companies, Philadelphia war material area
(*a*) As of Feb. 15, 1949:		
Installed capacity .... kilowatts..	[1] 3, 826, 000	4, 572, 000
Highest load to date .... do....	3, 456, 000	[1] 4, 201, 000
Capacity above load .... do....	370, 000	371, 000
Do .... percent..	10. 71	8. 83
(*b*) Estimated for Jan. 1, 1950:		
Installed capacity .... kilowatts..	4, 174, 000	5, 111, 000
Peak load .... do....	3, 620, 000	4, 393, 000
Capacity above load .... do....	554, 000	718, 000
Do .... percent..	15. 30	16. 34

[1] These 2 figures were compared in Mr. Krug's letter.

Reference is made in Mr. Krug's letter to the load-capacity situation of West Penn Power Co., which serves part of your congressional district. We do not speak for the West Penn Power Co., and the situation that may prevail with that company has no bearing on Pennsylvania Power & Light Co.'s ability to care for load since these two companies are not interconnected. The situation of the Pennsylvania-New Jersey interconnection definitely does have a bearing since this is a fully integrated power pool.

We stated in our letter of February 15 that we expect to place in operation 150,000 kilowatts of additional generating capacity this year in a new power plant now nearing completion. This is the Sunbury plant, with which you are familiar. This 150,000 kilowatts of capacity is included in the totals shown under the tabulation (*b*) on page 1 of this letter. In addition to the foregoing, construction has started on 100,000 kilowatts of additional capacity. This 100,000 kilowatts is not included in the figures referred to in (*b*) on page 1 of this letter.

The real point under discussion is the question asked you by Secretary Krug, as referred to in your letter of February 11: "Can they (Pennsylvania Power & Light Co.) take care of a plant to manufacture and furnish 100,000 kilowatts?" In our letter of February 15 we stated: "It takes some time of course, to design, and build a power plant. It likewise takes time to design and build the facilities of new customers having power requirements as great as 100,000 kilowatts. We can be ready when they are." In the fourth paragraph of Secretary Krug's letter of March 30 he states that our statement "is not true." We take decided exception to this statement on his part and reiterate our statement in our letter to you of February 15, "We can be ready when they are."

Yours sincerely,

L. W. Heath, *Vice President.*

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