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JANUARY 1950 ECONOMIC REPORT OF THE PRESIDENT

HEARINGS

BEFORE THE

JOINT COMMITTEE ON THE ECONOMIC REPORT
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JOINT COMMITTEE ON THE ECONOMIC REPORT

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[The following hearings were held in executive session of the committee but are made a part of the printed record by mutual consent]

TUESDAY, JANUARY 17, 1950

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

The joint committee met, pursuant to call, at 10:10 a. m., in room 224, Senate Office Building, Washington, D. C., Senator Joseph C. O'Mahoney (chairman) presiding.

Present: Senators O'Mahoney (chairman), Taft, Flanders, and Watkins; Representative Rich.

Also present: Theodore J. Kreps, staff director; Grover W. Ensley, associate staff director; Fred E. Berquist, economist for the minority, Joint Committee on the Economic Report; Leon H. Keyserling, acting chairman; John D. Clark, member; Gerhard Colm and F. V. Waugh, staff, Council of Economic Advisers.

The CHAIRMAN. This is the first session of the joint committee at this session of Congress to consider the economic report of the President. It was felt that it would be desirable first to have members of the Council of Economic Advisers discuss the report with the committee informally. I assume, Dr. Keyserling, that you will take the lead.

Mr. KEYSERLING. Senator O'Mahoney and members of the committee, we have not prepared a detailed statement for the reason that we stand upon the Annual Economic Review by the Council, which was submitted to the Congress on January 6, along with the President's Economic Report.

The CHAIRMAN. I am frank to say that I find such apparent unanimity of opinion among economists with respect to the rosy character of the economic outlook that I am a little bit alarmed lest something is wrong somewhere along the line. Have you considered the effect of this unanimity?

Mr. KEYSERLING. Well, I think something might be said, Mr. Chairman, about how far the unanimity extends and how far the analysis goes. Perhaps it might be helpful if I attempted, very briefly, to hit the high spots in the Annual Economic Review, in about 5 minutes or so, because I really would like to rely primarily in this presentation upon questions reflecting the high points of interest of the committee itself.

The CHAIRMAN. Suppose you do that and outline what you conceive to be the high spots.

Mr. KEYSERLING. Broadly speaking, the year 1949 was characterized by two phases: A downturn and then an upturn. The downturn, broadly speaking, began at the end of 1948 and continued somewhere until a little beyond the middle of 1949—I say "somewhere," because the exact termination of the downturn depends upon which indicators are used. Then, broadly speaking, in the latter part of the year there was an upturn of substantial proportions.

In summary, taking first the matter of employment and unemployment for the year 1949 as a whole, we had an average employment about 700,000 below 1948. That is, the average was around 58.7 million as against 59.4 million.

Looking at those over-all figures, 1949 was a good year because 700,000 less employment than the highest peak that had ever been reached in peacetime was still a high level of employment. However, the very significant thing about those figures from our point of analysis is that one cannot look only at the employment figures, because, with a growing population and growing labor force, an economy that stands still as to employment is really falling behind, and an economy that is falling slightly behind in employment is really falling behind more than the employment figures indicate. This is shown by the unemployment figures. Although, as I have said, the employment in 1949 was only 700,000 less than in 1948, the average of unemployment for the year was 3,400,000, contrasted with 2,100,000 in 1948. The average of unemployment was about 5 percent of the labor force, contrasted with 3 percent in 1948.

Now, we place a good deal of emphasis upon this because, as we look to the future, as we examine the economic outlook, we have to stress not only holding our ground, but also whether the economy can expand enough to take up the slack created in 1949 and also take up the further improvements in technology, and the further increases in the labor force, which are occurring in our economy as in any dynamic economy. So, on balance, we would say that from the employment point of view the record in 1949 was good but not gratifying.

The CHAIRMAN. When you spoke of holding our ground, precisely what do you mean? Were you talking only of employment there?

Mr. KEYSERLING. No, and I shall come to other sectors of the economy. I merely took the indicator of employment first because it is a primary measure of the level of economic activity. We also have the question of production, we also have the question of levels of business activity, we also have the question of levels of investment, and I would like to come to those shortly, Senator.

In reality, however we may define maximum employment and production and purchasing power under the Employment Act, holding our ground does not consist in attaining the same levels in each succeeding year. In other words, if we achieved in 1950 or 1951 the same levels of employment or production or business activity that were extremely high for 1948, they would be progressively less satisfactory for each succeeding year because of a larger population, a larger labor force, and improved technology which enables us per man to turn out more goods in each succeeding year. I think that productivity is again on the increase.

Now, coming from employment to the composition of the economy, the down-turn in 1949 was pronounced in certain sectors. On the income side, it was pronounced with respect to profits, particularly corporate profits, as well as farm income. On the activity side, the downturn was most pronounced with respect to business investment.

Now, there are certain conclusions to be drawn from this, but these conclusions should not be carried too far and it is easy to carry them too far. It is almost always true that an economy which moves from what we would call maximum employment and production, or even from inflation, to a rather sharp downturn—and there was a sharp downturn in the first half of 1949—it is almost always true that such movement is characterized by the sharpest downturn with respect to profits and with respect to business investment because these represent the most volatile parts of the structure of the economy.

For example, if you had, just to illustrate by way of an extremity, a serious depression, your profits might go from a very high level to zero or even to minus, but obviously your wage payments could not go to minus nor could your employment; so that profits are the most volatile part of the structure, and it is, in a sense, natural that in a downturn those volatile parts should waver the most.

It is perfectly true that if the general economic upturn which has been going forward in the last quarter of 1949 is to be maintained throughout 1950 and in succeeding years, the downturn in business investment, which has set in particularly during the last quarter of 1949 (and which is projected according to most of the estimates into the first half of 1950) must be reversed.

However, one of the most important points that the Council wants to make is this: It does not follow, just because the business investment factor and the profit factor are the most volatile and show the greatest reaction to a downturn, that economic policy directed toward continuing the upturn and achieving stable growth can concentrate entirely upon the business investment and profit structure.

Such policy should not concentrate entirely upon those actions which may directly stimulate business investment and directly affect the level of business earnings, although we believe these to be important. Successful policy must also concentrate upon the consumption factor. In our analysis, we see a very close relationship between the level of consumption, as it evolved in late 1948 and 1949, and the downturn in business investment and the downturn in the rate of profits.

It is true that during 1949 there was an amazingly stable level of consumption and expenditures in absolute terms. The total variation, as I recall, was within a very small percentage figure, and even the variations from quarter to quarter were very small. Thus the question arises: Why is the consumption factor important in view of the fact that it remained stable while the economy turned down? We find the answer to lie in the fact that a stable level of consumption was not in itself adequate to take the product of full employment in 1949.

In consequence of this analysis, we turn away from what might be called a panacea or doctrinaire approach, focusing solely upon the consumption problem, the investment problem, the tax or profit problem. We say that the very essence of an effective full-employment program, private and public, which we take it to be our function to suggest under the Employment Act, must be a rounded program which pays attention to the investment factor, consumption factor, tax factor, and other factors entering into the economy. Any effort to identify one solitary solution, such as the handling of taxation, or the handling of treatment of business investors, or the handling of consumers, is far too simple for an economy as complex as our economy is.

Therefore, on the basis of our analysis, we have suggested a rounded program which breaks down into these parts: First, it identifies the importance of the price-wage mechanism because, after all, that is where, even with a Government budget of more than forty-odd billion, most income in our kind of economy is generated, transmitted, and spent.

The CHAIRMAN. Now, before you begin to outline the details of such a program, I would like to ask you a question or two. As I understand your statement, it is generally to the effect that while business investment and profits—because they represent the top of the system—have been reduced or, to use the metaphor that you used, are volatile and have gone off into the air, so to speak, the consumption factor has not been great enough to maintain a market for the productivity of the system. Is that right?

Mr. KEYSERLING. That is correct. We do not say this to minimize the importance of the decline in investment. We think that this decline is serious, we think it needs to be reversed, we think specific policies need to be directed toward that end.

The CHAIRMAN. We came out of a war economy in which we were producing tremendous quantities of goods for destruction in the war. Then we moved, after the shooting stopped, into an area in which the economy was producing to meet a backlog of unsatisfied demand, and that backlog of demand was filled up and we found that the machine which had been built up was capable of producing more things than could be consumed in a normal or approximately normal domestic economy and in an economy which was affected by the cold war and by the Marshall plan, both of which created markets for these goods. Is that right?

Mr. KEYSERLING. Yes, sir.

The CHAIRMAN. So that seems to lead me to the question as to whether our economic policy is to be designed to maintain a continuous market for the capacity production of our machine, and if so, whether that can be done in a normal economy after these extraordinary consumption factors have been removed, as we hope they will be removed—the end of the Marshall plan, the pacification of the world, and so forth.

Are we not facing a problem of a capacity for surplus production and don't we eventually have to adjust ourselves to that fact?

Mr. RICH. May I ask a question there, Senator? Are you trying to figure that when we speak of "we" trying to furnish the capacity for consumption, are you figuring that by having the Federal Government do it or are you thinking of private initiative and private industry?

The CHAIRMAN. Mr. Rich, I will say to you again I am all for the private system.

Mr. RICH. I want to know that.

The CHAIRMAN. So when I say "we," I mean we as a whole, the people as a whole.

Mr. RICH. I want to get that straight.

The CHAIRMAN. Is it straight?

Mr. RICH. Well, you say it is, and I take your word for it.

The CHAIRMAN. Good.

Mr. RICH. But I want to be perfectly sure on that score. May I ask a question?

The CHAIRMAN. Suppose he answers my question first.

Mr. RICH. Very well.

Mr. KEYSERLING. Senator O'Mahoney, I think it undoubtedly true that in the long run in peacetime what distinguishes the American economy from almost every economy in the world is that there are other economies which were decimated by war, or which were never industrialized, where the fundamental problem is the production of a high enough level of goods and services to meet even the basic and crudest needs of the people. The chronic problem of the American economy, and I am not using the word "chronic" in the critical sense, in the long run in peacetime is the challenge to distribute—I do not mean "share"—the wealth we can produce. We live in a market economy. We have to market the output we can achieve with our technology. A postwar period of inflation tends for a little time to obscure this long-range problem, but the long-range problem ultimately comes upon us.

To clarify this problem, something should be said about inflation. There are two kinds of inflation: One is what might be called galloping inflation or traditional inflation, the kind of inflation people talked about in France or Germany or other countries when there was a break-down in the monetary system, a weakening of the currency, a failure of the banking system, and a gradual acceleration of printing-press money. The measures for dealing with that kind of inflation are drastic and specific—rapid contraction of the currency and other heroic measures.

But the Council never looked upon the inflation we had in 1946, 1947, and 1948 as of that kind. As a matter of fact, in 1948, when inflation was progressing, the money supply decreased. Ours was what might be called a structural inflation within the price-wage-profit system, with prices and wages and profits finding new relationships under a high level of demand.

Mr. RICH. Right there, are we not doing the same thing today that we did in 1945 and 1946 in that respect?

Mr. KEYSERLING. I do not think so, Congressman Rich, and I would like to cover that more in detail later on. The danger that we saw in the postwar inflation was that, with diminution of these temporary demands that Senator O'Mahoney referred to, and with the increase in output which we foresaw as technology improved, there would not be the buying power within the economy as a whole to take the full output of goods. And if one traces the structure of the changes from 1948 to 1949 and then to 1950, one sees that the first weakening occurred on the demand side.

Mr. RICH. May I ask right there—in that respect, the reason I asked the Senator the question is because we were talking about the Marshall plan in giving away $6,000,000,000 worth of materials, and I was figuring: Are we giving away $6,000,000,000 worth of stuff in order to keep up our economy? That is the question that was in my mind.

Now, do we as a Government, in order to keep our consumption up, have to be compelled to give away merchandise to the extent of one billion or any more billions?

Mr. KEYSERLING. The Council has never taken that position, Congressman Rich. We have always taken the position that we had to find ways within our domestic economy to keep production and demand in balance.

Mr. RICH. That is the reason I asked that question. I want to be sure that we are not arguing that our Government has to continually give away any number of billions of dollars in order to have our consumption equal our production.

Mr. KEYSERLING. You are right about that, Congressman. The Council at no time has rested the foreign aid program in whole or in part upon the need of supporting the domestic economy. It has rested it on broad grounds of international or world policy. In other words, it is best for us in the long run to extend that kind of aid to certain of our allies, or to free peoples or whatever you may want to call them.

Mr. RICH. I was under the impression we were doing that for the purpose of helping them and not for the purpose of helping our economy.

The CHAIRMAN. There is no question about that at all.

Senator FLANDERS. But still in our ultimate self-interest or else there is no sense in doing it.

Mr. RICH. I am trying to get that clear, that we do that primarily because we want to help the other fellow, not with the idea that it is necessary for us to do that in order to keep our own economy balanced by our production and our consumption.

Mr. KEYSERLING. I would very strongly accept Senator Flanders' amendment to that, as I understand it. We take the position that certainly during the period when this foreign aid was generated, it was not needed to support our own economy. In fact, when it was generated, it added to inflationary pressures. The aid program was undertaken, rather, on the ground that in the short run it was needed to help these countries. It was also designed to help us, in the broader view that in the final analysis we cannot defend any national policy unless it is beneficial to us in the long run. It is felt that helping these countries to get back on their feet, helping them to produce, will help us in the long run.

Mr. RICH. When you come down to analyze it and get the specific things, it is easy to make a broad statement, but when you come down to analyze the specific instances, a lot of us disagree on the things we do in that respect.

Mr. KEYSERLING. I realize that, and I think there is always room for disagreement and for threshing out of disagreements, but we of the Council are not here primarily to go into all the ramifications of our international economic policies.

The CHAIRMAN. Of course, it is important to make clear what Congressman Rich is trying to make clear—namely, that a policy of loaning money abroad or exporting materials abroad for the specific purpose only of providing a market for our own goods would be futile, because we would be giving up both the goods and the credit to buy the goods.

Mr. KEYSERLING. It would be futile and self-defeating because as productivity was restored in those countries——

The CHAIRMAN. We wipe that out. You are not advocating it.

Mr. KEYSERLING. Not at all.

The CHAIRMAN. And I do not know of anybody who is advocating it, except occasionally in the Congress we find the demand that Marshall plan funds shall be used to purchase surplus commodities in the United States instead of the commodities which are needed to rehabilitate the economy of the western European nations.

Senator WATKINS. That has to do, does it not, with, for instance, the farm-price-support program?

The CHAIRMAN. Yes.

Senator WATKINS. We have enormous quantities of foodstuffs we are producing, and naturally, if we are going to pay support prices to keep them up, we would like to sell them to the people we are feeding. In other words, instead of sending money to go out and buy it, send them the food.

Mr. RICH. When we gave cash to Britain to buy Canadian wheat when we ourselves had a big surplus, that was doing the very thing the Senator does not want us to do.

The CHAIRMAN. My point is that it is an issue which is, I think, a little bit irrelevant to what we are trying to determine here, as I see it: What is the sort of economic policy that the Government of the United States should follow to serve the best interests of our producers, our workers, our capitalists, the owners of the property?

Mr. RICH. But I take exception to the statement made by you, Mr. Keyserling, the fact that you did not think we were here to discuss those things. I think it is necessary for us to bring those questions out. We do not want to listen to you talk all day. We did that last February, and you told us certain things that were going to happen, that we ought to build steel mills, and we ought to regulate the commodities, and you found out afterwards that you were entirely wrong. I do not want to spend all my day listening to you ramify without the privilege of asking questions about this, because when I read your report in December that you gave the President, it was entirely different from the report that you wrote in February. There was no comparison between the two reports, no more than between day and night. One was as wrong as the other one was right, and I could not understand it, so I do not want to spend my time listening to you all day unless we have a chance to ask you questions.

Mr. KEYSERLING. Congressman Rich, our whole purpose in being here is to answer any and all questions. My remark about the international program was simply a confession of the limited degree of our involvement in that situation.

Mr. RICH. I think we should ask you questions as we go along, and we ought to be privileged to stop and ask you questions. I told Senator O'Mahoney I was not going to sit here all day and listen to you talk, but I think you can hit it once in a while. Whether your report in December was a good one or not, your report in February was just as wrong as anything any man ever wrote.

Senator WATKINS. Which December?

Mr. RICH. The one he gave to the President.

Mr. KEYSERLING. This blue book, "Business and Government," December 1949?

Mr. RICH. Yes. I just want to get this straight. We asked you a lot of questions last February, and you said you would answer them pretty soon, but you did not do it, and I think if we are going to sit here, Mr. Senator, he ought to be able to answer a lot of questions we want to ask.

The CHAIRMAN. As chairman, let me say we will expect Mr. Keyserling to answer all the questions that may be propounded by any member of the committee.

Mr. RICH. I have no animosity, but I am spending my time here, and I think my time is just as valuable as yours is to the committee or to somebody else.

The CHAIRMAN. Of course. Suppose we let him develop the 50 percent of his view which you say has been good.

Mr. RICH. I took exception to the fact that he said he was not supposed to be here to answer these questions. He thought he was going to spend all day talking, and I do not want him to talk all day.

The CHAIRMAN. That is not precisely what he said. You may proceed now, Mr. Keyserling.

Senator FLANDERS. Do you remember where you quit?

Senator WATKINS. Mr. Chairman, I am not in exactly the same position Mr. Rich is. However, as Mr. Keyserling goes along, questions come to me and after he goes on for 20 minutes, I forget my questions.

Mr. KEYSERLING. Let me say two things: In the first place, I had about concluded. In view of the fact that we so recently submitted this Annual Economic Review, which is our report, and which is before the committee, I just wanted to hit a few of the very high spots of our analysis for the purpose of generating a set of questions.

Second, I would certainly like to answer questions, or have Dr. Clark make a statement and answer any questions. That is what we want to do.

The CHAIRMAN. I had asked the question as to how we may develop, in your opinion, the consumption market in the United States and abroad, based upon a sound trade of goods for goods, or goods for exchange, which is not supported by our own loaning. We are in a world economy as well as in a domestic economy.

Now, we had these shortages, which produced high prices; we had the extraordinary market of war, and we have the extraordinary market of the attempt to bring peace to the world and economic rehabilitation.

How do we shade off and at what level do we shade off?

Mr. KEYSERLING. First, as to the international situation. In the long run, the fact that goods or services are being sent abroad does not dissolve the problem of the domestic economy having to consume approximately what it produces. If we send certain products abroad, presumably in the long run it is on the assumption that we are going to take something in exchange in payment, and that what we are sending abroad is what we can produce more efficiently than somebody else and what we intend to accept in exchange is something they can produce more efficiently than we can. So, in the long run, whatever the pattern of international economic relations is, unless we just give goods away—and, of course, if we give goods away, we are simply reducing our own standard of living for the benefit of some others on a temporary basis—in the long run and broadly speaking in our kind of economy we must be able to take off the market at home the equivalent of what we produce. If we send some things across the ocean, that does not change the basic picture.

Coming now to the second part of the question; at what levels do we want to maintain the economy? There is no constant level, because whether minimum unemployment is defined at 3,000,000, or as we prefer, at about 2 or 2½ million, we must have a growing economy to remain stable, because labor force grows, population grows, technology is increasing, and we roughly compute that an annual increase of about 3 percent in output must be absorbed by the domestic economy to maintain maximum production and employment.

The CHAIRMAN. What percent?

Mr. KEYSERLING. Three percent annual increase in output. That is a compound of two factors. Part of it is simply the average of our productivity increase over the past decades, including both years of prosperity and years of depression. That accounts for 2 to 2½ percent.

Senator FLANDERS. Can you analyze the war years on that basis at all?

Mr. KEYSERLING. No; it is very hard to do that.

Senator FLANDERS. You almost have to cut those out?

Mr. KEYSERLING. — You almost have to do that; they are so unnatural in all respects. Then, when you add your population increase, that brings the 2 to 2½ percent up to 3. So, broadly speaking, if we are at a 260-billion-dollar economy, it was 258, I believe, in 1949, say 260, a 3-percent increase on that, roughly speaking, would be 7.8 billion as the increase in all kinds of effective demand on a yearly basis necessary to maintain full employment, however you start defining it.

Now, of course, that compounds as the economy becomes larger, so, if we talk about the next 5 years, we might say somewhere between an $8,000,000,000 and a $9,000,000,000 increase a year was the size of the problem.

Now, coming to the question that you asked about how to maintain effective demand——

Mr. RICH. May I ask a question before he explains that? Mr. Keyserling, in reference to getting this production distributed, knowing that in our country our scale of wages and our scale of production is so much higher than it is in practically all foreign countries, do you think it is more appropriate for the Government to try to watch out for and assist in the sale of our merchandise abroad or do you think it could be done as it had been previous to the last 15 or 20 years, when business enterprises, in order to get rid of their surplus, sold in this country all they could at the price that was necessary for them to make a profit, and then they distributed their surplus to foreign countries even way below what they sold in this country, and that created a great deal of discontent among the people when they knew that certain merchandise was being sold abroad for so much less than what it was sold for in this country.

Many people condemned manufacturers and business people for doing that. Now, the object there was for them to get rid of their surplus production. But they kept their plants in operation and tried to keep their people busy.

Now, do we as a Government expect to get in now—it seems to me we are doing all this by Government, and that is the thing that is worrying me—to take care of all of this distribution of our surplus? If it is the natural thing to do and the right thing to do, then I am probably wrong in my contention that the reason we do not have more investment in business is fear, fear, fear of the Government doing those things, and as we create the fear in the minds of business people, they stop investing in their business because they do not know just how far to go.

I think that if we had a policy established whereby we left more to private enterprise and gave them help, aid, and assistance in a certain way—not too much, with the idea that the Government is going to do it—I think there is where we made a mistake, and I wonder about your ideas on that. You can just get to a point, but when you go too far and you let the public know that the Government is going to do it, then they will fall down and private initiative will not exercise. I am telling you I do not think we in Government as Members of Congress can handle that business situation. I think it is too big for us. I think it has to be handled by the business people of this country, if we are going to keep our production up, our people busy, and our merchandise disposed of.

What is your idea on that?

Mr. KEYSERLING. Congressman Rich, you said you like this blue book we got out in December, Business and Government. The criticism we got of that book was that it was written in language a little too complicated for some people. I think you have stated in much simpler language exactly the idea we have tried to convey in that book. As we get beyond the immediate war situation—a war always calls for the invocation of powers of Government in an extraordinary degree, and likewise during an immediate postwar period—our philosophy and our approach has been to stress as great a reliance as possible upon our free enterprise system doing as much of this job as it possibly can.

Senator FLANDERS. Mr. Chairman, at an appropriate point I want to get a clearer picture than I now have of the problems involved in this undisposable surplus. That is, just what it is and how it comes about, and so on.

The CHAIRMAN. That, of course, is another aspect of the question that I asked at the beginning. It is the same thing Congressman Rich has been asking. Let me state it again in more simple language, as I see it. During the war we were shooting away our production. In the effort to rehabilitate Europe and to carry on the war, we have been giving a large part of our production away.

Now, what I am concerned about, and I think what the county is concerned about, is how we are to provide the market, the free private-enterprise market, that will absorb the productivity which we have constructed without either shooting it away or giving it away.

Senator WATKINS. Mr. Chairman, shouldn't we find out just what is causing the lack of buying in this country?

The CHAIRMAN. That is part of the same thing. If we let Mr. Keyserling answer this question which I have laid before him——

Senator WATKINS. I want to call his attention to one phase of it in connection with your question. I noted you said consumption was weak and you also stated, of course, we are still supplying large quantities under the Marshall plan to foreign countries.

The CHAIRMAN. I did not understand him to say consumption was weak, but rather, consumption declined.

Senator WATKINS. Weaker than production.

Mr. KEYSERLING. Let me attempt to answer these two questions together. I will answer them first by talking about the idea of a surplus.

It is conceivable that at some future time, with the development of atomic energy, we might have in this country what I call genuine surpluses—in other words, a situation where we would really be producing so much that we would have to translate more and more of our productive capacity into leisure rather than into the consumption of goods. Mankind will have a real problem then.

However, we in the Council do not feel that we are anywhere near that situation now. We feel that there is so much room in the United States, putting aside foreign countries entirely, for the lifting of standards of living among the people generally, and for the lifting particularly of the standard of living among those who according to the investigations of this committee are abysmally low for our kind of country, that there is plenty of room for our economy to absorb what we can produce in the foreseeable future—if we get the right market arrangements.

Senator WATKINS. Here in the United States?

Mr. KEYSERLING. Here in the United States. I am talking entirely aside from the foreign situation. We have given some rather dramatic illustrations of that in the Annual Economic Review. Take as one illustration the problem of farm production. We commonly hear about farm surpluses. But we reach the conclusion that, while we need certain changes in the composition of agricultural output from certain types of crops to other kinds to get a peacetime pattern, yet in the aggregate to furnish the people in our country with the nutritious and varied diet, what might be called the American standard of diet, for a growing population and to furnish our industrial plants with the fibers and other materials needed for production at full employment, we shall need an increase in over-all agricultural output over the next 5 years running at least about 1 percent a year. That is dramatic in the case of agriculture, because this is where there is the most talk about surpluses; but it is also illustrated in other areas.

Senator WATKINS. Don't you think we have a genuine surplus there?

Mr. KEYSERLING. Certain commodities, but not over-all.

Senator FLANDERS. Would you say there was a greater potential demand for feed and meat than is being currently satisfied?

Mr. KEYSERLING. Very definitely. That was illustrated by the really phenomenal improvement in that phase of consumption during the war years and immediate postwar years, and then it fell downward partly because of income shifts and partly because of shortages. The main point I am making, without giving too many illustrations or more than the committee might want, is that the talk about surpluses in general in the American economy is what I would call a sort of rationalization of the downturn of the business cycle. In other words, when the general economy moves downward, there are surpluses. There were surpluses in 1932. The problem confronting us is to absorb, as Senator O'Mahoney says, the increasing output potential of our economy, and we think it can be absorbed domestically. Of course, we have certain foreign obligations.

Senator WATKINS. In connection with that, I am afraid I will forget the point; but, as I get it, your idea is we ought to develop the home market more rather than rely on possibly the development of the foreign markets.

Mr. KEYSERLING. I am making a distinction between foreign trade as a carrying out of a world-wide obligation, which I believe we have, and foreign trade to supply us——

Senator WATKINS. Our first obligation is at home; isn't it?

Mr. KEYSERLING. Exactly. That is true of any country. Now, coming to Senator O'Mahoney's question as to why from time to time we seem to have surpluses in the sense of not having a take for our product. We find the most suggestive answers mainly in an analysis of how the income structure behaves and operates in a period of inflation. It is a matter of price-cost-wage relationships.

In a period of inflation there is a tendency for investment to become very highly bunched, particularly when it comes immediately after a war period. In 1948, 1947, 1946, particularly 1948, there was an extremely high bunching of business investment.

Now, when there is a 10- or 15- or 25-percent improvement in plant and equipment, our business system being as good as it is, our output when the thing really gets running increases faster than that, so that, after you get your capital improvements made and retooling and reconversion and the increase in technology, then you have to rely upon a situation where the consumption factor grows fast enough to take the output.

We say that in 1949, due to a fairly stable wage policy, and due to the fact that unemployment did not increase extremely, although it increased a good deal, and due to certain Government support practices, consumption remained on a fairly stable absolute level. But the fairly stable absolute level of consumption was perfectly consistent with an increase in unemployment and a declining opportunity for business investment, because technology advance, and the increase in the labor force required an expanding level of consumption to take the output.

Mr. RICH. In that respect, Mr. Keyserling, yesterday one of the Members of Congress from Texas gave quite a talk on the floor of the House relative to the amount of oil that was coming into this country and the fact that the oil industry here was closing down, was stopping their development, because there was so much coming in that they could not afford to keep on with their production. What should the Government do in a case of that kind? Should they give consideration to the fact that when we start to close down our oil-producing industries we should give recognition to the fact that too much oil is coming in here?

Mr. KEYSERLING. I think what the Government does in a situation like that must be based upon a balance of national interests. If domestic producers were being hurt without any compensating national gain, I think the answer would be simple.

Mr. RICH. What do you mean by compensating national gain?

Mr. KEYSERLING. You could have a situation where the country needed more oil than domestic producers could turn out, where at the same time domestic producers would be better off with a shortage.

Mr. RICH. That is what he claims.

Mr. KEYSERLING. That would be a factual situation; we have not investigated that.

The CHAIRMAN. You were about to say there was a simple answer to the question propounded on the assumption that, as a matter of fact, the foreign oil is coming in in such quantities that it is pushing the domestic oil out of the market. You said there was a simple answer. What is it?

Mr. KEYSERLING. I say that there is a simple answer, that the national interest should be transcendent. In other words, if you balance all the factors, the effect upon domestic producers and consumers, the effect upon the domestic economy, and if you reach a net conclusion that on balance the domestic economy is being hurt by this inflow, then it should be reduced.

Mr. RICH. Whose responsibility should that be?

Mr. KEYSERLING. It is not the Council's.

The CHAIRMAN. It is the responsibility of Congress.

Mr. RICH. Don't you watch these things and make your recommendations to the President?

Mr. KEYSERLING. Yes, except that our limitations of staff and assignment cannot carry us into every specific thing.

Mr. RICH. We are telling you now, and you could find out what is happening by Members of Congress on the floor, and you could take these things up immediately and check back and give them an answer, couldn't you? You do not have to have as big a staff as all the Members of Congress would have to have on specific instances, because there are a lot of them related to that oil situation.

Senator WATKINS. And also there is the matter of zinc and lead receiving foreign imports. I notice you said that where foreigners could produce the product more efficiently we ought to get it from them. On this matter of efficiency I do not know whether they are more efficient or whether they have such lower standards of living that they can bring it over at lower cost.

Mr. KEYSERLING. In the final analysis we must look to our own national interest. By "more efficiently" I mean where it is more economical for us in the broadest sense to purchase abroad than to produce at home.

Senator WATKINS. Oil, zinc, and lead, for instance, you might say the over-all national interest would be that more people would like cheaper oil and cheaper zinc and cheaper lead and the things manufactured from those articles, but what are you going to do with those who are put out of work by reason of that?

Senator FLANDERS. I want to make a confession, that when the Thomas amendment restricting the import of oil was discussed last fall, I—and I think most of the other New England Senators—voted against it because we are interested primarily in lower priced gasoline and fuel oil. So we voted against it. That is one section of the national interest.

The CHAIRMAN. And I voted for it.

Senator WATKINS. And I voted for it.

Mr. RICH. You were more interested in putting the oil industry out of business than you were——

Senator FLANDERS. We were interested in low-cost oil and, of course, the amount of employment in the oil industry is probably lower compared to the value of the finished product than in any other industry.

Mr. RICH. He does not have any oil in his district.

Senator FLANDERS. I think it is a typical example of the way in which we under our Constitution arrive at what is the national interest, by the presentation of the interests of separate groups on the floors of the House and the Senate.

Mr. RICH. If you depended altogether on that, Senator, how would you in times of emergencies, when you probably could not get imported oil and you have our oil interests here down and out, how would you take care of yourself in a case of national emergency? Did you ever think of that?

Senator FLANDERS. The industry is subject to quick revival.

Mr. RICH. Not after you have your oil wells closed up. I will refer that question to Senator O'Mahoney.

The CHAIRMAN. May I claim the indulgence of the members of the committee for just a moment? I am still really struggling manfully to get an answer to the original question, and in order to do that I am going to ask you all to turn to the pamphlet entitled "Economic Indicators" at page 10. Now, this chart on page 10 shows production and business activity. In the lower part of the chart we have the graph that shows the manufacture of durable goods, the next segment shows the manufacture of nondurable goods, the top segment shows the production of minerals, and it will be observed that at the end of 1949 there was an upturn after a general fall during the first 7 months of 1949, that we are now or were at the end of 1949 at a level which was above the low level of 1947, but not quite equal to the low level of 1948.

This graph must be the composite result of the production for all purposes in the economy, production for the Army and the Navy, for the Berlin lift, for the Marshall plan, and for the domestic economy.

The budget which comes before us now contains a reduction, as I recall, of some billion dollars in the Marshall plan recommendation, and already there are protests from those American manufacturers whose export market will be to some extent affected by that reduction, but the time is inevitably coming when if we do succeed in reestablishing peace, production for purposes of war and purposes of rehabilitation will be vastly reduced.

Now, when that time comes, are we going to be able to stabilize a domestic economy at anything like the level that is presented in this chart and, if so, how? Are we going to maintain an expanding economy and, if so, how?

That seems to me to be the heart of the whole question that is before us, because you say, and I think everybody agrees, that the maintenance of the American economy comes first. Certainly, we could not do any of the things we are trying to do if we allowed the domestic economy to fall into a tailspin.

Now, do you care to comment on that?

Mr. KEYSERLING. Yes. First of all, I would like to say that we must maintain an expanding economy. It is an imperative because, if the economy does not expand, the level of unemployment constantly rises and the level of nonutilization of plant and equipment and business resources constantly rises.

The CHAIRMAN. That is because the population rises.

Mr. KEYSERLING. The population increases and technology improves. That is the law of life of the United States economy. It has to expand in order to stand still, in one sense, if you see what I mean.

Secondly, there are two broad avenues along which demand and supply, or consumption and production, or business opportunity and buying, can be kept in balance. These two avenues involve private policies and public policies.

We, of course, believe that some public policies will be necessary in our kind of economy: resource development, social security, some phases of housing, and various other things of that kind. As the economy moves progressively into a stage where the basic needs of the people—food, clothing, shelter—are met, it gets into an area where a larger part of the resources have to be devoted to the things some other countries might call luxuries, but which we call necessities—better health services, better protection against old age, more leisure and travel and communication. These areas do involve a certain amount of Government activity, though we do not mean the Government should take over.

So we do need a well-ordered and a progressive, in the best sense, program of Government action to stabilize the American economy and assist in its growth.

At the same time, we feel that the greater task is in the private sector. In the private sector, the challenging task is to maintain a relationship between prices and incomes which, on the one hand, provides enough funds and enough incentive to business to invest and reinvest and build up its plant and equipment and, on the other hand, provides a supply of funds to the consumer large enough to take the output.

I say again, as I have said before, that the long-range and chronic problem of the American economy has been to prevent ultimate demand from falling behind productive capacity.

The Council has set up for 4 or 5 years what we think would be a roughly workable composition of business investment, on the one side, which is fundamental, and consumer buyer on the other side, which is very fundamental, and we have set this up in very broad ranges so as not to seem doctrinaire or arbitrary, on page 85 of the Annual Economic Review.

Senator WATKINS. You would call it a 5-year plan?

Mr. KEYSERLING. We do not call it a 5-year plan.

Senator WATKINS. That is in effect what it is, isn't it?

Mr. KEYSERLING. It is not a national plan, because we do not undertake through Government to put it into effect. I think a good term would be market analysis, in other words, an extension of the idea of market analysis, which business has found very helpful in the past.

Senator WATKINS. Market analyses just reveal things as they are, but as I understand it, you are working out production and consumption so they will be in balance. That implies a plan.

Senator FLANDERS. In business a market analysis is to indicate the possibilities of expansion of a market; is that not right? It is not just simply past history. It is undertaken to increase the volume of business. That is what the term means in general in business parlance.

Senator WATKINS. Not as it is in the dictionary.

Senator FLANDERS. Then the dictionary is behindhand.

Senator WATKINS. Possibly it is.

Mr. KEYSERLING. Some of the most interesting business market analyses are getting into these kinds of questions as to what kind of consumption and what kind of income structure and what kind of demand at different points in the economy are needed to maintain an expansion of product. The Council's effort is designed toward the same end.

Senator WATKINS. Why not be honest and call it what it is—a program or a plan? I know that word is in disrepute.

Senator FLANDERS. If you want to see examples of market analyses, you can turn to Business Week which is purely a business paper, and see its continuous reporting on prospects for business in each one of the 12 Federal Reserve districts and its analysis as to what kind of goods those districts——

Senator WATKINS. It shows what is needed, but it does not tell you how to get it.

Senator FLANDERS. That is left to private business.

Senator WATKINS. That comes with programing. As I understand Mr. Keyserling, we ought to work out a program to keep in balance consumption and production. That is what I want to know. How are we going to do it?

Mr. RICH. The only way to do that is to let the people of this country have confidence, so that they can go ahead without having the Government destroy the confidence that they would naturally want to have in order to go ahead and do business. That is the way I see it.

Mr. KEYSERLING. Congressman Rich, the Council places enormous stress upon just that kind of confidence. One of the main purposes for which we use this market analysis, or whatever you want to call it, is to show that in the long run the pattern of the American economy there are these huge opportunities for business and investment, rather than having attention diverted by fear of a short-range outlook which may lead businessmen to cut spending and investment excessively.

Senator WATKINS. You stated very well the necessity of keeping production and consumption somewhat in balance. Now, what is the program? How are you going to do that? Can we do anything about it?

Mr. KEYSERLING. First of all there is the task of economic analysis. In the ultimate, almost every economic problem of basic significance comes down to the question of the relationship between investment and buying which will keep the economy fairly stable and growing. Most economists, whether they be private economists or public economists, whether they be talking about tax policy or credit policy or spending policy, generally get back to one of two things: Either they say, "We think the whole composite of national policies represses investment," which means produces too low a level of investment as against buying ability or they say that the economy is out of balance on the other side because consumption is relatively too low.

Now, we admit it is very hard to find what this balance is, and that there is no exact, precise balance in dollars. Yet most economic analysts are in search for that balance, and I believe at least are getting closer to discerning it.

All we have tried to do here——

Senator WATKINS. What is the answer?

Mr. KEYSERLING. There is no exact precision answer to the problems of our economy in the sense that there is an answer to the question: How do you get from here to Dupont Circle?

Senator WATKINS. I thought that is what this committee was set up for, to find out how to keep full employment.

Mr. RICH. Here is the point I made to the Senator when I asked why we should permit the President's economic advisers to advise the President and then let them come down here and advise us, so we are all on the same road going to Dupont Circle. It seems to me we ought to have an opportunity to go anywhere we want to and get the ideas of somebody else. If we want to advise the country, you cannot let Mr. Clark and Mr. Keyserling advise the President as to the road to follow and then come here and advise us to travel the same road. I think we are doing wrong.

I am firmly of the opinion that we ought to get different views and counsel if we want to be of service to the country, not that I am trying to belittle them in any sense.

The CHAIRMAN. That is what the committee is going to do. No attempt is being made here to make any members of the committee listen to only one side. The committee will be very glad to hear the testimony of all sides, and the arrangements which we have are precisely for that purpose. So far as I am concernend, I am not frightened by the word "plan."

Mr. RICH. I am not trying to belittle anything they are doing. Let them advise the President, but he is only one branch, and we ought to get advice from others.

The CHAIRMAN. We are going to do it. All I am trying to do this morning is to get these gentlemen to tell us in simple terms what they have advised the President, and nobody is committed to anything that either they or the President may have to say.

Senator WATKINS. I am very much interested in getting their point of view. I do not quite agree with Mr. Rich on this. I am interested in these various theories. I do not claim to be an economist. I have heard economists various times. I think Mr. Keyserling stated that they finally come to the crux of the whole thing: How are you going to do it?

It reminds me of an incident in one of our meetings during the depression. One of the ladies said, "We know we are sick. We don't want to be told there is something wrong with us. We know we are sick. What we want to know is how to get out of it."

That is what we come down to. In our State, we have had several thousand miners out of employment because apparently on the surface—it may not be the answer—the Marshall plan and some other programs bring in ore at a lower price. But that is being done. We also find it in the case of the apple growers of our State, with apples coming in from British Columbia. That is happening while we are pulling up trees in my State.

We have to balance the good, on the one hand, as against the damages on the other hand. How do we determine the balance? That is the kind of advice I would like to get. I do not care where we get it.

Mr. RICH. I do not want to miss the opportunity of getting information. However, we can read the report these gentlemen have given.

Senator WATKINS. We should cross-examine to see what they mean. Some of the language is over my head.

Mr. RICH. We talk about things that affect you and the Senator from Wyoming. Talk about wool. They raise wool in your States. They took the tariff off of wool, 8¼ cents a pound, thinking that they would bring in wool from foreign countries and we would get the benefit of a lower price. As soon as we took the tariff off, wool went up 8½ to 10 cents a pound, and the countries put on an export duty of 15 cents a pound, and we are paying more for wool, and you fellows are not raising as much as you did 2 years ago.

Senator WATKINS. You should put that in the past tense. We did raise wool.

Mr. RICH. Instead of coming down, we are going up.

Senator WATKINS. I want to make it clear I would like to hear all Mr. Keyserling has to say.

The CHAIRMAN. Suppose we let him tell us from his point of view what ought to happen in the economy in order to produce these results. Were you referring to page 85?

Mr. KEYSERLING. Under the Employment Act we are, first of all, asked to define needed levels of employment, production, and purchasing power. The Congress thought that was the first measuring rod of where we want to go as an economy. We have attempted to do that for two periods, first for 1950 and second for 1954. Taking 1954, which is a reasonably short period of time, we reached the conclusion that if we want to have maximum employment—that is, if we want to keep unemployment down to 2 or 2½ million—we will have to have approximately 64 million jobs by 1954, based upon the natural growth of the population and the labor force.

Then we look at the figures relating to productivity, relating to plant and equipment and employment, and come up with the conclusion, which is based simply upon a conservative use of certain past patterns, that by 1954 the real output of the economy, if it is reasonably fully employed, will be somewhere in the neighborhood of 300 to 310 billion dollars, measured against 258 billion in 1949.

Senator WATKINS. What kind of a dollar are you using?

Mr. KEYSERLING. The same price level.

Senator WATKINS. As of today?

Mr. KEYSERLING. It is the real measure of output, about an 18-percent increase in output and about a 12½-percent increase in productivity.

The CHAIRMAN. You speak of the same price level. One has only to pick up the newspapers now to know that in some fields manufacturers' prices are going down. If we are to have an expanding economy, will it not be necessary for the producers of goods to drop prices in order to make purchasing power more all-inclusive than it now is, in order to maintain the market, the consumption market, and therefore, the maximum employment?

Mr. KEYSERLING. In our report, getting to means, we stated that in some areas we thought there would need to be still further price adjustments. But we also felt that generally, in looking at the situation as a whole, we were somewhere near a reasonably stable and sustainable price level, and that most of the gain in buying which would be needed over the years would have to come in the form of income gains rather than price reductions. We do not say that this is theoretically a better way, but, observing the functioning of the American economy, we cannot see a reconciliation of a constantly falling price level in general with a rising level of production and employment because a constantly falling price level is a dampening influence.

Senator WATKINS. Doesn't it increase consumption? All those so-called surpluses we have could be moved now if the price were right, couldn't they?

Mr. KEYSERLING. Except that the American economy does not operate in just that way in the long pull.

Senator WATKINS. Because we have interfered with it so much. That is the principal reason, is it not? We have never given the American economy a real chance. We have so many restrictions on it, it is a matter of putting a restriction on here and it throws it out somewhere else.

Mr. KEYSERLING. Taking the areas where a price decline would be beneficial, the automobile area, for instance, it is not due to Government restrictions that automobile prices are not reduced.

Senator WATKINS. We freeze the labor, we freeze a lot of costs, raw materials, by having ironclad contracts running for certain periods of time.

Mr. KEYSERLING. But the net margin of return is more than satisfactory, and therefore there is room for price reductions.

Senator WATKINS. I am not worried by the profit end, but rather, the man who wants to buy, keeping everybody buying so people can work.

Mr. KEYSERLING. I wish that the man who wants to buy an auto could buy for less.

Senator WATKINS. I think we could buy cars if we did not have these artificial things thrown in.

Mr. RICH. Don't you know if you let the RFC give Mr. Kaiser more money and get that cheap car of his, you will get cheaper cars, but the Government is going to have to pay the bill.

Senator WATKINS. I am talking about this on a broad scale. It seems to me if we are going to get consumption, we have to let the economy work so that we will get lower prices. We cannot get big consumption at the present prices unless we try to force everything else up and the prices outrun purchasing power.

Senator FLANDERS. I would like to ask a question on this table 13 on page 85, to which you referred. Nineteen hundred and thirty-nine, gross private domestic investment is given as $37,200,000,000. Then over here the corporate profits before taxes and inventory valuation adjustment are given as about $26,600,000,000. How do we get the difference? It is not shown as to what the profits would be after taxes. Have you any rough estimate?

Mr. KEYSERLING. Our report contains figures on the profits after taxes. May I find that in the appendix?

Senator FLANDERS. Yes, if you will.

Mr. KEYSERLING. Beginning on page 177, there are various tables on profits before and after taxes. The first one is for all private corporations.

Senator FLANDERS. That is a little less than your 27.6, but substantially the same. Well, the annual rates for each quarter bring it to 27.6, and the corporate tax liability seems to average somewhere around a little less than 11. You might call it 11.6, something of that sort. It would bring it down to perhaps $16,000,000,000 roughly after taxes.

Mr. KEYSERLING. The figure for the year as a whole is here.

Senator FLANDERS. Sixteen and seven-tenths and twenty-seven and six-tenths. That roughly leaves $11,000,000,000 after taxes.

Mr. KEYSERLING. Sixteen and seven-tenths is the corporate profits after taxes.

Senator FLANDERS. Corporate profits after taxes, $16,700,000,000, and we have, nevertheless, an investment during that period of 37.2. So that there were $21,000,000,000 of investment which did not come out of corporate profits. Where did it come from?

Mr. KEYSERLING. There is in the report an analysis of the sources and uses of corporate funds.

Mr. KREPS. Page 182.

Mr. RICH. In reference to this corporate profits on the table on page 85, you say the gross private domestic investment was 37.2 billion and the profit, as given on page 177, was 27.6 billion. Do you mean to say that the profits of the corporations were within 10 percent of the value of the capital invested in private corporations?

Mr. KREPS. Dr. Keyserling, isn't the answer partly that the domestic private investment includes much more than corporate investment?

Mr. RICH. It seems so large to me that I know I would like to be interested in some business that would be able to have an earning like that. The question I asked was whether the statement made here that gross private domestic investment is 37.2 billion and corporate profits were 27.6 billion—I wondered what that meant. I wondered whether that meant profits of corporations of this country as a whole, that their earnings were within 10 percent of their capital investment for the year. It does not sound reasonable to me.

Mr. KREPS. The two figures are not comparable, sir. The one refers to the total investment of the whole economy, not only by corporations, but by unincorporated enterprises and construction and all the the rest; whereas, the corporate investment picture is given on page 182.

Mr. RICH. I did not understand that.

I have one other question I was interested in. The question that the Senator asked: If this gross national product was to be $300,000,000,000 by 1954, does that mean that the increase in our population will require us to have an increased production of commodities to that extent? And if that is so, do we then maintain the same percentage of importation of foreigners into this country that we have now? Were they figured on the same importation of people coming into this country?

Mr. KEYSERLING. You mean what allowance for immigration is made in the estimates of population increase?

Mr. RICH. Yes. Did you allow any increase in that?

Mr. KEYSERLING. I believe that the allowance is based upon the current pattern. Do you happen to know, Fred?

Mr. WAUGH. I do not remember what the figure was, but you are correct. It is based on recent immigration.

Mr. KEYSERLING. The immigration factor in the increase is very small.

Mr. RICH. It could be very small, it could be very large. It would throw out of gear your figures if we increased our immigration.

Senator FLANDERS. If we change our immigration policy, but we are not sure that we are going to change our immigration policy.

Mr. RICH. I hope we do not change it.

The CHAIRMAN. You have made no assumption of a change?

Mr. KEYSERLING. No. This is based on a continuation of the present policy, and, therefore, the immigration factor is very small in this computation.

Senator FLANDERS. A certain part, at least, of these figures for gross private domestic investment is in the form of credit and in the form of debt, a considerable part of it. Do you see anything dangerous in the amount of it that is in debt and the amount of it that is in direct borrowing?

Mr. KEYSERLING. Mr. Clark might want to talk about that.

Mr. CLARK. The only debt element that requires constant concern is that in extension of consumer credit, particularly installment credit, which has been mounting continually, and a projection of that rate of increase would before long bring it to a point that would make it precarious.

At this time the relationship of installment credit to consumer income and to other possibly relevant factors is not high on the standard established before the war. At this time, therefore, we do not think that it is necessary to consider provisions to limit the installment credit.

Senator WATKINS. How does that compare with before the crash of 1929?

Mr. CLARK. I think it is below that figure.

Senator WATKINS. That was too high, was it not?

Mr. CLARK. Perhaps so. It is hard to assign responsibility to the 1929 break.

Senator WATKINS. That may have been a contributing factor. You say it may be precarious if it goes too far. We are interested in finding out how far too far is.

Mr. CLARK. We refer to the figures before the war as perhaps the standard to think of in determining what percentage of consumer disposable income might be represented in installment credit or what the relationship might be, and on that basis it is not yet in the danger point. The real danger of high installment credit is not perhaps found in the possibility that it of itself would create some crisis. It is found in the fact that if some crisis develops and a downturn begins, the very rapid liquidation of installment credit multiplies the deflationary forces.

Senator FLANDERS. What you are saying about installment credit relates (table 13, page 85) to personal consumption expenditures. It has its effect in raising those beyond what they would be in a balanced situation. I do not see that it applies particularly to the question of how this gross private domestic investment was financed, which was the question I was addressing myself to.

Mr. CLARK. No.

Mr. RICH. Your idea, Mr. Clark, is that we should be careful in permitting credit extension for fear it will get a lot of people in trouble by purchasing much more than they can afford to pay for.

Mr. CLARK. Get the economy in trouble by people having purchased——

Mr. RICH. Get the economy in trouble and the individual in trouble.

Mr. CLARK. They will, of course, suffer, and for that reason we have recommended the renewal of the authority of the Federal Reserve Board to control installment credit.

Senator FLANDERS. We have two things which go into consumption expenditure and gross private domestic investment expenditure for 1949. These expenditures were a little higher than they ought to be in a balanced economy. Only to a very small degree (page 182, table C–34) were investment expenditures deprived from equities, 1.3 billion. But it looks to me as though we had to have recourse to other things than corporate profits such as debt expansion to get this 37.2 billion. It looks to me as though there are weaknesses both in the total of private investment and in the personal consumption expenditures. It looks as if the weakness is in both of them, the weakness in expenditures being the increasing dependence on consumer credit. In fact, that does not look too healthy to me, and I am wondering about the extent to which the 1954 suggestion will be erased by similar undesirable and weak means. That is what troubles me a little bit.

Senator WATKINS. In other words, let's pile it up by going into debt.

Senator FLANDERS. Both by going into debt for investment and going into debt for consumption. It does not look too good. I was wondering what the composition of consumption was going to be in 1954 and what the means for expansion in investment in 1954 would be.

Senator WATKINS. The analysis you have been talking about—what does that show? Does it contain the answer? I want to put it to the test.

Senator FLANDERS. Based on present experiences, both of those things look weak and have to be buttressed by borrowing rather than by financing from current production.

Mr. KEYSERLING. We are in agreement, first of all, with regard to the rapid expansion of installment credit. Now, installment credit is a proper part of our economy in proper proportion, but the rapid expansion of installment credit as a substitute for current income addressed to current expenditures is unhealthy and undesirable. Now, different people will disagree as to just how many billion dollars of this kind of credit expansion is too much in our kind of economy. Our report indicates that we think it is now on the high side. But nonetheless, it is in a sense a life preserver, maintaining demand in the absence of other factors. I think, as Senator Flanders has said, that if you remove that life preserver, or even if it gets soggy, you have to have something to take its place. All we are suggesting in the report is that this adjustment rests mainly in the area of the private economy and that in the long pull, through a combination of price adjustments and income adjustments, we have to find within a 5-year period an outlet for a national product at full employment about 50 to 60 billion dollars higher than in 1948 or 1949.

Senator FLANDERS. What troubles me is if we say in regard to income adjustment that we will get it out of reduced profits, the profits themselves seem inadequate for the investment expansion, which is required, and we have had to go to borrowing in order to get the required investment. So the thing that puzzles me is: Where do we get it?

Mr. RICH. As I see the situation, the Federal Government now is trying to get all these other countries to produce certain things that are going to come into this country, and if we aid and assist them to the extent that some of our people believe we ought to, eventually they are going to furnish all the materials, and our people are not going to be able to do it. They are going to do it because they have cheaper manufacturing costs, and they will be able to bring their merchandise in here, and our people will not be able to have jobs, nor will our manufacturers be able to run.

Senator FLANDERS. I was addressing myself, Congressman Rich, to the internal problem. The external problem, I think, we must assume by some means of a balanced foreign trade, and if we assume a balanced foreign trade, then where do we get the needed increases in investments, aside from increase in debt, and where do we get the needed consumption funds, aside from increase in consumer credit? Those are the two things that trouble me a little bit.

Mr. RICH. Who is going to be the one to judge that increased production from abroad and the amount that we are to produce here in this country, the State Department? Are you going to put your faith in the State Department and the Reciprocal Trade Agreement Act?

Senator FLANDERS. I was not addressing myself to that particular problem, which is a problem.

Mr. RICH. It is a problem.

The CHAIRMAN. May I make this comment on what you have just said? Several years ago we had a special committee to look into petroleum, and we had the oil companies, the big and the little oil companies, appear. There was as complete a story told by the industry itself as we could get. That indicated to my mind, at least, that if the people in Europe, in Asia, and elsewhere had a higher consuming ability, they would take much more of the oil that is produced abroad than they have been taking.

Now, one of the reasons why Middle East oil, oil produced by Standard Oil of New Jersey, by Texas, California, Aramco, and so forth, is coming into the United States is because this is the best consuming market in the whole world, and the capacity of the people of Europe to use that oil is retarded by the conditions which exist there. So I have sort of entertained the belief that accompanying increased production abroad would be an increased ability to consume, and those foreign countries might consume much more of their own production than they do now.

Mr. RICH. That is right. I agree with you on that. Of course, you and Senator Flanders cannot agree, because you voted to exclude a lot of this oil and Senator Flanders voted to let it in.

The CHAIRMAN. I think at heart he agrees with me.

Senator FLANDERS. And at heart you agree with me.

Senator TAFT. May I ask a question?

The CHAIRMAN. Pardon me. Senator Watkins was asking a question.

Senator TAFT. Excuse me.

Senator WATKINS. When they get into a tight place, economists usually dive into charts. We have got a long way off and I have not yet heard the answer to this question: How do we do it?

Mr. KEYSERLING. Let's dive out of the charts and get back to——

Senator WATKINS. We have practical legislation coming along here every day. This is a committee supposed to recommend to the Congress ways and means of providing for full employment. I am just pointing out we have some unemployment sectors in my section of the country, and the Senator from Wyoming and others have the same situation. What is the recommendation of the doctors of economy on how to get that going again?

Mr. KEYSERLING. If you will bear with me for just a minute, Senator Watkins, I want to make one thing clear, which I think has been a cause of misunderstanding in this discussion.

On the one hand, it is said to us that we cannot rely upon the Government wholly or mainly to stabilize the economy and to promote its growth. We agree with that. We think that it is mainly a task for the enterprise system.

Therefore, in our analysis of the economic situation we concentrate upon two types of things: Private policies and public policies. Now, it may be asked, since the Congress has no control over private policies and since the Council has no control over private policies, and since the President hasn't, why do we analyze the private sector of the economy at all and why do we even try to identify policies in the private sector?

I think there is a very valid reason for that. The valid reason for that is that we as a Council are joining with other groups under the statute in trying to analyze the whole economy, although the Government can only deal with part of it. We try to identify those things which may occur in the private sector as well as those things which may be done in the public sector. In short, there is a difference between what we analyze and what the Congress has power to deal with. In making an over-all analysis of the over-all problems, we must deal with problems of prices and problems of wages and problems of income flow, although we are not claiming that these are matters which can be handled solely or mainly by the Government.

Mr. RICH. You were not able to agree on that phase of it because you had such a difference in your own organization. You and Mr. Clark agreed on one thing in the last year and Mr. Nourse took an entirely different view of it, according to the reports, and when you have that in your own organization, you have a pretty difficult time in trying to analyze these things, because it depends altogether, in my judgment, from the report you fellows gave out, on the ideas and the thoughts in your own minds.

Senator FLANDERS. Mr. Chairman, I am not particularly interested in post mortems, except for lessons that may be derived from them, and my interest is in this report.

Mr. RICH. The whole interest here is the way a man looks at things. You and I look at things differently, just the same as Mr. Keyserling and Mr. Nourse look at things differently.

Senator FLANDERS. I am suggesting that we look at the way the present Council looks at things by looking at their report.

Senator WATKINS. I do not want to be unduly stubborn, but I would like an answer, if there is one. I have that question in my office right now.

The CHAIRMAN. May I say just for the record that I am personally not conscious of ever having received or seen a minority report from the Council of Economic Advisers.

Mr. RICH. You got it in the papers.

The CHAIRMAN. Yes, but I do not believe all I read in the papers.

Senator WATKINS. The minority is not allowed to report any more.

The CHAIRMAN. Will you now please undertake to answer Senator Watkins' question?

Mr. KEYSERLING. I am trying to answer these questions conscientiously. In trying to answer Senator Watkins' question, I had to make the preliminary point that our analysis of the economy goes beyond what the Government can or should do, because, no matter how little the Government does, what the Government does should be superimposed upon an analysis of the whole situation. In other words, the Government ought to look at the whole economy before it decides on any tax policy, although the tax policy does not cover the whole economy. This may be a seeming dilemma—but I do not think it is a real dilemma when one understands that the range of analysis in our report is broader than the Government policies we recommend. We do think it is useful and in accordance with the intent of the statutes that we should do three things: First, try to analyze as objectively as we can the functioning of the whole economy, this being our basic responsibility; second, probe whether this analysis may help private groups as they try voluntarily to adjust their wage policies, their price policies, and their investment plans; third, we also trust that this analysis may help the Congress as it seeks to evolve national economic policy through legislation.

Now, our conclusion in our Annual Economy Review, based upon this analysis, is that both of those lines of activity have to go forward on an improved basis if the economy is going to be reasonably stable and grow.

We think private enterprise, including business, including labor, including farmers, has got to do a better job than in the prewar period if we are going to have more stability. We think that Government also has to do a better job.

Specifically, to try to answer your question, Senator O'Mahoney, we have reached the conclusion that, for the economy to maintain reasonably stable employment over the next few years at maximum levels, there would be involved an increase in output that would carry us 50 or 60 billion dollars higher per annum than we are now within 5 years.

Now, how can a sufficiency of demand to take this increase in goods and services be brought about? There is nothing in our report which says that it be brought about by an increase in the level of governmental outlays. In fact, we urge a decrease where it can be effectuated.

We say that, as the international situation improves and as the need for defense declines, the Government budget should represent a declining proportion of the total Nation's economic budget. Therefore, we say that most of the adjustment has to come in the private sector of the economy, and we analyze the question whether it can come mainly in the form of price decreases or mainly in the form of income increases, and we reach the conclusion—on which some economists will differ—that, broadly speaking, it is not possible for our economy to grow and expand at a constant pace with a constant and sharply declining level of prices. When prices get too high to be sure they have to fall before they reach a basis of stability, but before the economy starts moving upward again, you have to have a reasonably stable price level established. We say there should be allowances for some price decreases in some areas where the price structure is much too high, and in some places where there is a particularly rapid increase in technology and in productivity. Automobiles sold for less in 1918 than they did in 1908. Broadly speaking, however, we say that the economy can start moving upward only when you have a reasonably stable price level and, therefore, from year to year you need income changes which are not so large as to be inflationary and not so small as to be deflationary, but represent roughly the increase in productivity on an annual basis. This depends upon how well the business system, on the one hand, and labor in its collective bargaining, on the other hand, succeed in relating that increase in productivity to funds for business investment and funds for consumption, so that there is neither the deflation which results from an excessive investment over demand nor the inflation which results in an excess of demand over production.

Senator WATKINS. Also you do not get a price structure that prices a product out of the market.

Mr. KEYSERLING. That is absolutely right. Let me answer Senator Flanders' question.

Senator FLANDERS. The Senator is waiting for an answer to his question. I wonder if you may not want to disavow in your frame of reference the examination of specific situations and specific industries. I do not see any other way for you to get out from under Senator Watkins' question.

Mr. KEYSERLING. Your question was about——

Senator WATKINS. I said this committee is set up and I understand your Council is set up to advise the President how to keep full production in the country, and that is the job of this committee. As one member of this committee, representing a certain section of the United States, I find unemployment in the mining industry and in the fruit-growing industry. I name those two particular ones, just to be specific about it. Now, you say it is a matter of balance for the good of the country or this particular section. I would like to know how can I tell what the balance should be? Shall I tell my miners, for instance, that it is a good time to go out of business now—as a matter of fact, that it would be better for the interests of the country if you would go somewhere else? Shall I tell the fruit growers that it is time for them to pull up their trees, when I know that all over the United States people need the products that come from those trees? In some sections we are paying 17 cents a pound for apples while we cannot sell them at home.

Mr. KEYSERLING. The only basis on which those charged with national economic policies, whether on the legislative side or on the executive side, the only basis on which they can act is on the assumption that our economy is strong enough not to require at the national level the detailed processing of every single facet of the economy. It must be on the assumption that there are a few broad policies which are of great enough national significance to have our economy work reasonably well if they are well analyzed and well conducted.

I am not showing any insensitivity to your particular problems, but if we say that the only way the Federal Government can arrive at a better tax policy or better farm policy or the only way that industry can move toward better wage and price policies is if the Government gets into minute examination and minute advice and minute treatment of fruits and mining and all the other details, then we are saying in effect that we need an extremely highly managed economy.

Now, maybe—I do not know sufficient about other economies—maybe other economies are in such bad shape that they need that kind of minute planning in order to work. I do not think our economy does. I think the Council of Economic Advisers, if its analysis contributes anything on such matters as tax policy, budgetary policy, credit policy, general price-wage policy, farm policy, resource development, is doing about all we can be asked to do, as against being either sufficiently informed or sufficiently wise to be able to know at a given cross section in time just what ought to be done by the fruit industry or by the mining industry.

Senator WATKINS. Maybe it will be steel tomorrow. We have the price of apples, and so on, because of freight rates and other things, the cost of processing, picking, packaging, all being so high that the people cannot buy them. They would buy them if we could get them to them. It may be steel tomorrow. Will you say we cannot talk about that? We have to keep on general principles and not talk about any product? That is what the legislator is up against, not only this over-all picture, but constantly he is up against the matter of keeping people employed in these specific industries, and the whole economy is made up of the total of these specific industries.

So if we cannot apply it to any one of them, how can we apply the remedy to all of them?

Mr. KEYSERLING. Only on the ground that we do know that when there is maximum employment generally, there is not very much unemployment anywhere. When we begin to have considerably less than maximum employment, when the general economy runs downhill, it hits certain sectors and certain parts much harder than others.

Senator WATKINS. It hits some first.

Mr. KEYSERLING. It hits some first and hardest. Therefore, the general solution from the national point of view is to try to devise those policies which will help the economy as a whole toward a maximum level of employment and production and business activity. If that goal is accomplished or nearly accomplished, you will not have such serious and such acute and such prolonged difficulties in particular sectors.

It is certainly true of our economy, being an uneven economy, that when it starts running downhill, some sectors get hit first and hardest. I think they have to be attended to, but I think the main approach is along the line of the general approach that relates to the whole economy. In the meantime, we have always recognized that several things have to be done about specific areas, and that was the reason why in the mid-year 1949 report and in this report we recommend, pending restoration of maximum employment, that there be spot attention on a highly individualized ad hoc basis to the problems of particular areas. But this is a very hard thing to do from the point of view of national policy when you have a generally high level of employment.

It is very hard as a matter of national policy, as you know as Members of Congress, to expand works on an ad hoc basis in particular counties or in particular regions or in particular States and contract them elsewhere.

Senator WATKINS. That is a matter of putting Government spending into those areas.

Mr. KEYSERLING. That is an important problem, but it is very hard for the National Government to move in different directions in individual parts of the country, and that is why I think the most fruitful policies from the point of view of our frame of reference are those general policies which have broad significance as they affect the whole economy.

Senator WATKINS. It seems to me it is the general policies that are having the effect of causing our difficulties and that that will spread just like the one small decayed spot on an apple soon spreads to the whole apple.

Senator FLANDERS. Mr. Chairman, Mr. Taft had a question.

Senator TAFT. The problem that presents itself to me on that business of building this income up to $300,000,000,000, is that you have certain soft spots. You have certain things that cannot go on indefinitely. One of them you have referred to and that is consumer credit; it is increasing, has increased at the rate of $3,000,000,000 a year for 2 years. It cannot go on increasing at that rate without getting to a dangerous situation. It may not be a dangerous situation today.

In any event, there is an item of increase which is abnormal. You have got exports financed up to about $5.7 billion, total surplus exports. No doubt there will be a surplus of a billion or 2 billion permanently, but certainly there is a soft spot there of $4,000,000,000 of exports that cannot go on indefinitely.

You have a Federal deficit of 5 billion that cannot go on indefinitely. There is 12 billion that is going to disappear. How are we going to make that up? How can we get it? How can you hope to increase it? What are you going to substitute for these abnormal stimuli to spending and operation? What has occurred to me is that you have primarily a job of selling to the American people, not just the passing out of income; after all, there is 20 billion in savings, there is plenty of money to buy more stuff if we can sell it to them.

It seems to me progress in the past has been through increasing the manufacture of stuff and then selling it to somebody. If you can do that, you may cut down their savings, but you pay somebody else at the production end, which increases correspondingly income and replaces the savings.

In a way it is a business of selling the American people on buying more stuff and educating them up to a higher standard of living as much as you can. Of course, it is helped if you can get the lower incomes up some, where there is less saving today probably and where there is more demand. But the thing that puzzles me is how we are going to do it.

There is another thing. The way you get ahead here is more production, greater productivity, and the greater the productivity you have the more plant you have to have. That is doing pretty well, although we have a long-range problem to keep that up.

The other way is to increase production itself by selling to somebody so you can go ahead and make the things. We have one policy that absolutely is against that. That is the limitation, for instance, on wheat and corn acreage. We cannot go on increasing the total product of this country if we cut down total agricultural production. That is an element. Maybe that is abnormal. Maybe that is another thing you have to add to the 12 billion of abnormal stuff to make up. We cannot go on producing agricultural products as we have. I do not know.

In the past, for some reason, in this cycle in the thirties it always seemed to me that it looked as if you could not do it by pouring the stuff in at the consumption level from the Government. The way you built things up was at the production end, new people going out building a new factory, making new products, putting people to work, making products, selling them to somebody. Then you have a lot of people permanently at work who were not at work before.

How you will do that I do not know, but I want to say it seems to me there is still too much emphasis on increasing consumer income. Maybe that is one step in the process, but it does seem to me it is a question of increasing production and then selling it to somebody.

The CHAIRMAN. Doesn't that mean increasing the market for those things?

Senator TAFT. But how do you increase it? By going out, advertising, selling stuff, putting the salesmen on the road, getting people to buy things they would not otherwise buy.

The CHAIRMAN. They have to go to people who have the income to purchase the things.

Senator TAFT. There must be that income because people have saved $15,000,000,000, in the last 2 years. Somebody has the $15,000,000,000.

Mr. CLARK. That is not cash. That includes investment in homes.

Senator TAFT. Somebody sold them the homes.

Mr. CLARK. And also inventories and equipment of unincorporated businesses. The liquid assets available for purchasing are very much smaller.

Senator TAFT. If you can get people to spend that money, sell them something. Then you pay somebody at the production end, and he has the income; and when you have paid it to the fellow at the production end, you have paid him the income that you have taken away from this fellow over here. Maybe he saves it and maybe he does not, but at least he has the additional income. It is theory. I am talking in the air.

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Mr. KEYSERLING. A large part of what you have said, Senator Taft, is very much in line with the framework and analysis of our report, and we certainly believe there is an educational process in the sense of getting voluntary acceptance of what needs to be done. That is why we do not think the area of governmental policies alone provides the solution of the problem.

On the income analysis I think our analysis runs like this: That in the first instance, starting at a high level of production and employment, the total buying power or the total money generated by the productive process itself is always equal to the amount of goods produced. That is classical economic doctrine. So that theoretically there should always be enough buying power to take the goods off the market. I think that is called Say's law.

The trouble is that the amount of that generated purchasing power which is spent depends in part on where it flows. If too much of it flows to the investor and too little to the consumer, you reach the point where demand does not absorb all of the output because the market does not exist. If too much of it flows to the consumer and not enough to the investor, either you have inflation, on the one hand, or you have a situation depending on the composition of that income flow among the different consumers, where so much of it is concentrated in certain areas that they save rather than spend and that saving is not equaled by investment.

Getting back to the questions of Senator Flanders and Senator O'Mahoney, we find the important economic problem to reside in what kind of income flows to these different groups that will maintain both incentives, on the one hand, and the buying power, on the other hand, to keep the economy moving at high levels.

Now, Senator Flanders raised the question of how, with a growing economy you could, on the one hand, get enough profits to stimulate a high enough business level and enough buying power to take the goods off the market. We do not say that the absolute level of profits should fall. In fact, we say they should increase above the 1948 level. We say the level of buying should increase. But we say that with regard to the question Senator Flanders raised about sources of financing, that you had a very peculiar situation in 1947 and 1948 involving in it the fact that a very large part of the business income or the profits, or whatever you want to call it, were absorbed in inventory accumulation, which was a phenomenal thing.

You had a shift in the last part of 1949 from an inventory accumulation of something like plus 10 billion to minus 1.6 billion, and over the next few years you will not have anywhere near that amount of funds involved in that process if we have any kind of stability. Therefore, a slightly rising level of profits as the economy moves upward will provide a larger amount of the internal financing than the amount you have had in the recent past. We are for that.

Our only purpose in analyzing the structure of the economy, as to profits, investment, consumption, is to point the way to those who make the decisions as to how they may, insofar as they agree and insofar as they perfect it by their own analyses, better solve this problem of balance. We do think that the way the business system operated in the face of the recession in 1949 was much better than the way it operated in 1920, in many respects. Also, that this had a great deal to do with shortening and circumscribing the extent of the recession.

Senator TAFT. It had something to do with it. It is hard to measure the proportion.

Mr. KEYSERLING. Therefore, since that was the consequence of economic analysis and economic study and popularization and gradual acceptance, there may be more gains in the same direction through this type of enterprise. We get a little more specific than that. We do try to chart out the broad outlines of investment and consumption patterns that we think will have to develop for a $300,000,000,000 output.

Senator TAFT. I think you are shooting high because I think you have 12 or 13 billion in the present thing that does not belong there. Consequently, I think you are moving up, I think you have to replace that, and that is a more difficult job than just to go forward. That is why I suggest the 300 billion is really going to be a very difficult goal to reach.

I have one other point. What seems to increase your total production is new things and people learning to like things they have not had before. In Cincinnati we have just had a tremendous boom in television. They moved in the coaxial cable in October; they have three television stations; and they sold, I think 10,000 sets in Cincinnati alone in November, and I have not seen the December figures.

But here were a lot of people sold something they had never had or wanted before. They found the money somewhere to get it. Maybe they borrowed it. At any rate, you have increased permanently the production of television sets, it seems to me, and the whole television industry is built up. You have a new net addition to the whole national economy.

Now, it is that kind of thing we need, it seems to me. The automobile industry came in and certainly was a tremendous factor in a big increase in total production in this country. It does seem to me there ought to be more emphasis on how can we persuade people who have not wanted something to want it, how can we persuade people to want new things? That is the point I was trying to emphasize—the emphasis in the past reports of the Council have been rather on the increase of consumer income. I am not at all sure that is the key to it. I think the key is getting them to buy the stuff somehow and increase consumer expenditures.

The CHAIRMAN. Do you mean there ought to be something done to stimulate more spending by individuals?

Senator TAFT. I think that is the only way you are going to increase; if you are going to take up the buying power of $4,000,000,000 of stuff abroad, if you are going to take up the buying of $4,000,000,000 excess Government stuff—perhaps they duplicate each other—if you are going to take up this increase in consumer credit, the only way I know of is to get people to buy the stuff themselves.

The CHAIRMAN. If they do not have the income to buy, they cannot buy.

Senator TAFT. That is true, but somehow they seem to be able to buy them. You go through the workingmen's districts, and there you see television sets in houses everywhere, in homes of people who probably did not save a cent last year, but there they are.

The CHAIRMAN. It is like going by any construction project in Washington or any big city. You find hundreds of motorcars driven there by the workmen on the job. In other words, it is their capacity to use their income to buy these things that the industry produces that keeps the wheels of the economy running.

Senator TAFT. It seems to be the stimulation of activity. The thing that adds net headway is the fact that a man invents something and puts people to work and sells those things to somebody. Whether you have income to buy it, that is another question, but that seems to be the way you make net headway in the United States, through more production and more selling of that production.

The CHAIRMAN. I should like to ask the members of the Council, Dr. Keyserling and Dr. Clark, whether it would be agreeable to you if we would suggest to the members of the committee that they put in writing any questions they may desire to ask about the report or the review and then have those questions gathered together by the staff and submitted to you as one questionnaire for your consideration and answer.

Mr. KEYSERLING. Any procedure that is helpful to the committee is agreeable to us.

The CHAIRMAN. We have been here now for more than 2 hours and we have not even begun to cover the report. It occurs to me that we might gain a much better understanding of the report if that were done. If you have no objection to it, I am going to suggest it to the members of the committee.

Mr. KEYSERLING. In addition to that, Mr. Chairman, we would certainly like it, when you members of the committee are not so pressed, to really have more time to sit around the table with members of the committee and exchange views as to what we are trying to do, maybe shape some parts of our program to the things the committee thinks are important, because we are all working on this together.

The CHAIRMAN. I should like very much to have you give us a summary of the manner in which you go about gathering your information, of conferences with representatives of business and representatives of government, so that the committee as a whole will know how you gather your basic information. It is my understanding you have done that ever since the Council was established and that you do not pull these reports out of a hat like a magician.

Mr. KEYSERLING. We have regular meetings with the various groups, and sometime we would like to tell the committee about the increasing interest they are showing in that and some of the new modes and ideas we have for working a good deal more closely and more specifically with some of the groups. They are very much interested in it.

Mr. CLARK. May I answer a couple of your questions, Senator Taft?

Senator TAFT. They are just theories.

Mr. CLARK. May I say that your view is exactly the same as mine. I am sorry Senator Flanders has left, because he is in the machine-tool business, and I think that there we have a very fine example of the fact that what we need is salesmanship. In my own estimate of the future, I rely very much upon the prospective continuance on an even larger basis of the reequipping of American industry with modern tools and that the machine-tool industry has not done a very good job. Mr. Terborgh, I think, agrees with that and he has written a book on the subject. He is secretary of the association. They have not done a very good job in bringing about the modernization of the industrial plant. There is a tremendous field for new capital investment there and for the employment of people.

The second area where I look to see a very large extension of investment, although it is now running at record rates, is in housing and in the modernization of homes. I think we have way underestimated the desire of American families for better housing accommodations and that all of them, to the extent their financial ability will permit, are eager to improve their living accommodations and the household equipment that lightens the work of the housewife.

Those are two places I look to.

Senator TAFT. I agree fully in housing. Nearly everybody could use a somewhat larger house and would use it if they could get it.

Mr. CLARK. Not so much a larger house, but a better house. There are so many things that improve living conditions that involve new expenditure on housing.

Senator TAFT. I am only commenting in theory.

Mr. BERQUIST. You have stated that most can be done on the personal-income side rather than the price side in the moving of goods.

Mr. KEYSERLING. That is a debated question among economists and others. Yes; we do say, broadly speaking, that our kind of economy is not able to absorb the increasing labor force, the new investments, on a generally declining price level, because a generally declining price level creates maladjustments, fear, and so forth.

Mr. BERQUIST. The pattern since the war of round after round of wage increases results in inequities not necessarily in accord with the increased rate of productivity. Often it may go a long way toward pricing goods out of a market. It is true in coal, where substitutes are taking the place of coal.

Mr. KEYSERLING. We are advocating income changes based upon relationship to productivity.

Mr. BERQUIST. Have you stressed that in your report, that they ought to be related to that rather than 15 or 20 percent, or 10 percent, or anything like that, in the way of increase in wages?

Mr. KEYSERLING. Very definitely.

The CHAIRMAN. We are very, very appreciative of your presentation here this morning, sorry only that it seems to be utterly impossible in such a discussion to cover all of the questions that arise. If you have no objection, I shall suggest to the members of the committee the preparation of a list of questions upon which they desire information. They will be received by the staff, the questions coordinated, and then sent to you for such answers as you feel at liberty to give.

We are under a tremendous problem of fitting the task to the time at our disposal.

Senator TAFT. What is the date for our report?

The CHAIRMAN. March 1. Tomorrow, Mr. Pace, the Director of the Budget, is to appear before the committee, again in executive session, to tell us about the budget. The first presentation of the budgetary problem should be to the Appropriations Committee in the House—therefore, it was felt that it should not be a public discussion here. But it does have its place in the study of the economic report, so Mr. Pace will discuss it with us here tomorrow. Then we will proceed the following 2 days with a general round-table discussion.

The list of those who have been invited to participate and who have accepted will be distributed to members of the committee as soon as the acceptances are all in.

We will recess until 10 o'clock tomorrow.

(Whereupon, at 12:20 p. m., the committee stood in recess until 10 a. m. Wednesday, January 18, 1950.)

COMMENT BY THE COUNCIL OF ECONOMIC ADVISERS ON QUESTIONS SUBMITTED BY THE JOINT COMMITTEE ON THE ECONOMIC REPORT RELATIVE TO THE PRESIDENT'S ECONOMIC REPORT AND THE COUNCIL'S ANNUAL ECONOMIC REVIEW

A. General Questions

I. THE ECONOMIC OUTLOOK—SHORT-RUN

Question 1

The optimistic outlook for the first half of this year is based mainly on the expected effect of the veterans' national life insurance dividend payment (p. 69). This is clearly a temporary factor. What is the basis for your optimism for middle and longer run? How is this optimism reconciled with the statements that business expenditures for plant and equipment are declining, that there is a possibility of decline in residential construction and in automobile sales (p. 71)?

Question 5

In view of consistent declines during 1949 in G. N. P. and many of its components, what specific factors in the situation for 1950 constitute elements of strength? Of weakness? On net balance, what is the probable trend?

Comment.—The Council's optimistic view of the economic outlook for the first half of this year was not based mainly upon the payment of the veterans' dividend but rather upon the strength of basic factors. The coal strike now changes the outlook. Specific favorable conditions listed in the Annual Economic Review (p. 69) are (1) the slackening in the rate of liquidation of inventories; (2) the large rate of construction contracts currently let which insure a high rate of activity for the coming months; (3) the continuing high demand for automobiles; (4) the high rate of consumer disposable income, even though down somewhat from its peak level; and (5) the estimated increase in cash payments by Federal, State, and local governments amounting to between 4 and 4½ billion dollars, of which 2.6 billion represents the veterans' insurance dividend to be disbursed mainly in the first half of 1950. Offsetting these factors to some extent is the decline in business investment, which, however, still continues at high levels. The increase in Government expenditures was the only factor for which the Council is able to give a definite estimate of approximate magnitude. This does not make any less real the significance of the other factors. The particular importance of the veterans' dividend lies in the fact that a large part of it will be paid in the early months of 1950 and will counterbalance the deflationary effect of the Treasury surplus accumulated in the first quarter.

With respect to the middle and longer run, the Annual Economic Review discussed (p. 71) the question of whether the factors of strength noted at the beginning of 1950 will prove to be temporary and will not be replaced by other additional sources of demand. It was pointed out that the markets for automobiles may not continue at present levels if present prices are maintained; that rental construction, although very strong, is still mainly geared to the limited higher-rental market; that the diminution of the foreign aid program, together with the devaluation of foreign currencies, may not be offset by an increase in foreign investment; and that the present declining trend in business investment, if continued, could act as a downward drag on the level of economic activity. Hence, there are many who foresee a moderate business decline in the latter part of 1950. The Council stated that—

> This could happen, but it is not necessary. The Council believes that affirmative action can and should be taken by business and government to prevent it from happening.

It is, of course, difficult to specify how long the momentum of the factors of strength discernible at the beginning of 1950 will continue. But if any weakening develops affirmative measures can counteract it. Thus, if residential construction at present price and rental levels should begin to weaken, a shift to production of lower-cost projects can maintain the level of output. The housing shortage still continues acute, particularly for the middle and lower-income groups. The Government has proposed a program to stimulate the construction of housing for these groups. The industry, including the building-material industry, can take action to make available lower-cost housing. It made one such adjustment in 1948.

In the case of automobiles, any slackening in demand at present prices can be offset to some extent by the industry's price policy. Since present prices of automobiles are at, or close to, peak levels and since profits are high, there is ample elbow room for price reductions.

Business investment presents the most difficult problem of all. Different surveys agree that the field for modernization is tremendous. If business takes the long view of the growth of the economy and the size of the potential market, there appears no reason for business investment to continue declining. The fact that consumer markets continue at or close to peak levels should reinforce the longer view of the potential size of the market.

Looking to the longer run, a stable or somewhat rising level of business investment coupled with price and wage policies which continually add to the purchasing power of the community will keep our economy growing. Whether in fact this will occur cannot be determined. But, if business acts in accord with its long-run interest, it should occur.

The recommendations for a Government program which the Council made assumes that there is a reasonable opportunity that such demand-strengthening adjustments will be made by the market. If it develops that such is not the case, the Council will make further recommendations for Government programs which will serve to strengthen demand.

Question 2

The Council's Review states that the level of activity in 1949 was not satisfactory and that we need 2,000,000 additional job opportunities and a 7 percent increase in production (p. 80). The President's Report states, "we should strive to reduce unemployment from 3½ million to 2 million or 2½ million at most" (p. 7). What is the maximum percentage of unemployment of the labor force which is compatible with the maximum employment objective and which can be reasonably attained without resulting in a continuing inflation of prices?

Comment.—One specific requirement of the Employment Act of 1946 is that a determination be made of the "needed levels" of employment. If the objectives of the act are to be achieved in the field of employment, there must be "afforded useful employment opportunities, including self-employment, for those able, willing, and seeking to work." Standing alone, this might imply a goal of complete, 100-percent employment for the total labor force. But, since some frictional unemployment in a free and dynamic economy where there must be frequent job changes is necessary, the employment level that represents "maximum" employment is clearly somewhat below this 100-percent level.

On various occasions the Economic Reports of the President and the Economic Reviews by the Council have defined quantitatively what constitutes "maximum employment." When the level of unemployment was somewhat below 2 million, it was stated that this was consistent with "maximum employment." The reports of January 1950 set a target for that year of 61 million jobs, with unemployment not in excess of 2 or 2½ million. We do not attempt to set the standard within a narrower range. If unemployment is not below 2 million, we do not believe the labor market will be tight enough to produce general difficulties in labor supply. If unemployment does not rise above 2½ million, we do not believe positive Government action to bring about a reduction in unemployment will be called for, even though our effort should continue to be to create conditions under which more jobs will be available.

We do not agree with those economists or others who maintain that a considerably higher level of unemployment would better serve the interests of the economy, and on many occasions we have developed at length our reasons for dissent from this viewpoint. In the first place, employment of those able and willing to work is just as important an economic objective in itself as other economic objectives, and no telling case can be made that the sacrifice of this economic objective would result in other gains that would more than outweigh it. The contrary seems to us to be the case. For example, there is no support in experience for the view that a somewhat higher level of unemployment contributes toward a more stable economy. There is no way of demonstrating that, with 4,000,000 unemployed, for example, further unemployment is not just as likely to result as when there are 2,000,000 unemployed.

It is sometimes argued that a level of employment as high and a level of unemployment as low as those involved in the objectives set by the Council create inflationary problems. However, there are many factors other than unemployment levels which play a major part in determining whether a situation is inflationary or deflationary. In 1929, unemployment was at a level of 1.5 million, representing only 3 percent of the labor force, but prices declined.

In 1948, very high employment and very low unemployment were accompanied by inflationary developments. But the main danger in these inflationary developments, as repeatedly stressed by the Council, was that relationships in the price-income-cost structure were being developed which produced maladjustments which in turn threatened a downturn of employment and production. In a period of high prosperity, ways must be found to remove or reduce these maladjustments without reducing employment or production. This is the real task of stabilizing prosperity, rather than to attempt to get rid of inflation by voluntarily surrendering the prosperity which inflation jeopardizes.

In fact, the central task of achieving the purposes of the Employment Act may be defined as maintaining maximum employment and production without inflation. Only by facing this problem directly can the purposes of the Employment Act be achieved. The removal of inflationary dangers by reducing employment or production creates even greater dangers and cannot be regarded as a satisfactory solution.

During the inflationary period, great stress was placed upon achieving more production as a partial remedy, and this would certainly not be consistent with trying at the same time to reduce inflationary pressures by reducing employment, which would mean less production. The problem during a period of prosperity is to achieve a balanced relationship between investment and consumption expenditures so that further absorption of a growing labor force and further utilization of improved technology may result. This is the meaning of stability and growth, and there is no sizable evidence that a reduction of employment in itself promotes better balance within the economy or in itself creates a surer foundation for either stability or growth.

Question 3

The President states in the Economic Report (p. 2):

> Additional steps should now be taken to complete the process of recovery. We must not again make the mistake of failing to adopt affirmative policies necessary for continued economic stability and growth.

The Council's Review stated (p. 71):

> The Council believes that affirmative action can and should be taken by business and Government to prevent a moderate business decline in the latter part of 1950.

What precisely are the appropriate activities recommended for (*a*) business, and (*b*) Government?

Question 4

Using the list on page 16 as a check list, would you explain which of these recommendations is designed to lift production by 7 percent above the level of 1949?

Comment.—Basically, major reliance at this time is placed upon the forces of the market to produce the needed increase in employment and production. The President's current Economic Report and the Council's Annual Review emphasize the decisive role which business decisions with respect to investment and price and wage policies can play in bringing about the necessary expansion. As the President says (p. 10 of the Economic Report):

> The enterprise and imagination of private businessmen will be a crucial factor in achieving the upward growth of which our economy is capable.

The President's Economic Report and the Council's Review point out the way in which business could aid in promoting the further process of recovery. For instance, the President says in the Economic Report, page 7:

Businessmen should base their investment policies on confidence in growth, shape their price policies to the needs of larger markets, and proceed with vigor and ingenuity to develop new and better products of all kinds.

The same thought is dealt with at greater length on page 73 under No. (2) of the Council's Review. On page 86 and following pages of the Review, the section under the heading "High business investment needs" deals in some detail with the opportunities for business investment over the next few years.

Both documents also emphasize the role that a proper price and wage policy can play in supporting economic expansion. While the reports emphasize that prices in general seem to be at or near a stable level consistent with expansion of business activities, they also emphasize the fact that "in some outstanding areas price cuts are feasible and needed to maintain and expand sales" (p. 9). (For further detail see comments under question I-1.)

Government policies are designed to give support to the economic forces of expansion. "Federal programs for resource development, transportation, education, and health are just beginning to adjust to the needs of an expanding national economy" (p. 12, President's Economic Report). The Economic Review again analyzes in greater detail (p. 112 f.) how each of these policies contributes to economic expansion. These policies, it is true, are largely long-run policies rather than policies which will have their full impact during the next few months. It is believed, however, that policies which assure expansion over the years are the best support which can be given to business confidence, and thereby to the continuance of high business investment at the present time. Besides, using the checklist on page 16 of the Economic Report, a number of policy recommendations are made to strengthen business investment immediately and thereby directly contribute to business expansion:

1. Make some revision in the tax structure to reduce present inequities, stimulate business activity, and yield a moderate amount of net additional revenue.

In the President's tax message of January 23, this general recommendation has been implemented by proposing some reduction in excise taxes, a more liberal carry-over of losses, and some reduction in the rates applicable to corporate income between $25,000 and $50,000.

2. Enact a new program to stimulate private investment in housing for middle-income families.

3. Substantially increase the maximum maturity period for business loans made by the Reconstruction Finance Corporation.

In addition, the check list includes measures to stimulate private foreign investment. The main purpose is to aid foreign countries, but foreign investments will also contribute indirectly to the expansion of domestic business.

The President also refers to studies of "new devices for encouraging private financial institutions to furnish equity capital to small and medium-sized concerns" (p. 10, Economic Report). He hopes that recommendations will be made to the Congress on this subject during the present session.

Whether the recommendations in support of long-range growth and for immediate adjustments will be sufficient to reach the targets only the future can tell. The reports present only "some of the measures which are significant for economic growth and stability under current and foreseeable circumstances. This treatment does not attempt to be all-inclusive" (p. 99). The Council continues by saying that other measures "may need to be developed if deficiencies in market adjustments unfold." In other words, the economic target is such that there is reason to hope that the forces of the market, supported by the programs that have been mentioned, will bring us within reach of our objectives. If they do not, obviously additional recommendations will be needed.

II. THE ECONOMIC OUTLOOK AND PROGRAM—LONG-TERM

Question 1

If it is recommended that business engage in a continued high and rising volume of business investment, the question might be asked: Are you sure that overinvestment or malinvestment, that is, additions to capital stock that exceed consumers' ability to buy have not already occurred? How do you know? Are you not afraid that such an extended investment boom may result in an even sharper contraction later on?

Comment.—The reference to "consumers' ability to buy" in the first part of the question is presumably to be interpreted as ability to buy under conditions of high-level employment. Serious unemployment in the labor force is, of course, associated with unemployment of productive facilities, and the presence of idle capacity.

As stated on page 86 of the Council's Review, we believe that productive capacity as a whole—with some exceptions—has been brought into a "fairly workable relationship with requirements for a maximum employment economy." Any margin of unused capacity now existing, over and above the minimum associated even with prosperity in a progressive economy, would disappear with a return to maximum employment conditions. This is an over-all statement, not intended to apply to each individual industry, area, or concern. Some types of capacity would be short even now under maximum employment conditions. Continued expansion of the economy, under maximum employment, would call for fairly general further expansion of productive capacity.

These statements can be supported by a considerable volume of evidence. In manufacturing, for example, surveys by the McGraw-Hill Co. indicate that total capacity now may be 50 to 60 percent higher than prewar, while output had already risen substantially more by 1948. During the first 3 years after the war, these surveys indicate that manufacturing capacity rose faster than production; but this is apparently no longer the case. In 1950, according to the same survey, manufacturers on the average expect to expand capacity only about 3 percent—i. e., at less than the annual average growth rate of manufacturing output according to historical trends. It would not appear, then, that current outlays for capacity expansion are excessive in relation to the long-run growth of the economy. The continued high volume of plant and equipment outlays during the past year or two has been sustained in part by devoting a larger part of those outlays to replacement and modernization rather than simple expansion.

Scattered evidence on many specific industries supports the view that manufacturing capacity was generally somewhat tight at the end of 1948 and is not excessive now. For a few important industries which regularly report utilization ratios, the latest available data from various Government and private sources are summarized below:

Industry	Percentage utilization of capacity	
	Latest available month (1949)	Corresponding month in 1948
Paperboard	[1] 83	84
Cotton spinning	[1] 125	104
Cement	[1] 78	84
Oil refining	[2] 84	97
Steel	[1] 95	98

[1] December.
[2] November.

Public-utility capacity has not yet fully overtaken demand. The reserve capacity margins of electric and gas utilities in most parts of the country are below those indicated as normal by past experience in prosperous peacetime periods or by future expansion plans in relation to expected loads. It is reported also that there is still a large backlog of requests for new or additional telephone installations.

Railroad rolling stock and motive power are not in excess of the demand under conditions of high-level employment of the present labor force. Hardly more than a year ago there was still a net shortage of freight cars; and the number of freight cars today is not significantly greater now than it was then.

In commercial structures, there is no evidence of general overbuilding. Occupancy ratios are in fact unusually high (98 percent as of October 1, 1949, as compared with 99 percent a year earlier and 88 percent in 1929). Hotels likewise show a high average occupancy ratio (80 percent in November 1949, as compared with 84 percent a year earlier and 64 percent in 1940). For housing there are no recent occupancy data, but the scattered information available reinforces the generally unchallenged view that housing is still none too plentiful.

The second part of the question suggests that "an extended investment boom may result in an even sharper contraction later on."

The projections of future plant and equipment outlays included in the total investment figure shown on page 85 of the Council's Economic Review, as noted on page 86, reflect a reasonably consistent historical relationship between such outlays and the growth of buying power. We feel that they are adequate to keep up with, but not run ahead of, the growth of related sectors of the economy. Although appropriate for sustained high-level business activity, they should not be referred to as boom levels of investment with any implication of similarity to the sporadic investment booms of our past history. In keeping with figures published in part III of the Council's Economic Review, nonfarm plant and equipment outlays as projected for a future $300,000,000,000 to $310,000,000,000 economy would run about $20,000,000,000 to $24,000,000,000 at present prices. This range embraces the 1949 level but is higher than current surveys anticipate for 1950. As a percentage of gross national product (7 to 8 percent), it is slightly below the proportion prevailing through the prosperous years of the 1920's.

The most rapid increase in business investment considered in the Economic Review is in private housing. Further discussion of this topic will be found in the answers to question II-4.

Question 2

While many commentators praise the Council for providing a longer range perspective for our immediate problems, others severely criticize the $300,000,000,000 figure. They point out that part of the increase in national income would have to be provided by inflationary wage increases and such inflationary rise in national income would have to be paid by the people with relatively fixed incomes. What assumptions with respect to prices and wages have you made in your $300,000,000,000 projections?

Comment.—In projecting a growth in the economy to a $300,000,000,000 level of output by 1954, no change in the over-all price level from 1949 was assumed. Relative price adjustments were assumed to be small.

The increase from a $260,000,000,000 gross national output to a gross national output exceeding $300,000,000,000 arises mainly from the steady rise in productivity and to a lesser extent from a growth in the labor force. It was assumed in the Economic Report that the rise in general productivity would be mainly reflected in an increase in personal incomes rather than in a decrease in prices. Such wage increases in accord with productivity increases cannot be regarded as inflationary, and with the assumed general stability in the price level no additional burden would be imposed on people with relatively fixed incomes. Some of the policy problems involved in economic growth with stable prices are discussed in the answers to questions III-1 and III-2.

Question 3

The Council's Review states, as it also did last year, that consumer buying must increase at a more rapid rate than the growth in business investment over the next 5 years (p. 85). Do you regard additional consumer buying as generated by additional investments? If not, why and how in your opinion can the rate of consumption be increased enough to safeguard high and steady levels of private capital investments? Has production capacity been brought into a fairly workable relationship with requirements for a maximum employment economy (p. 67)? How do you know?

Comment.—The questions relating to adequacy of productive capacity are answered under question II-1.

Increased investment outlays by business are one of several ways in which added consumer purchasing power may be provided. As suggested in the question, the Council does not feel that this source alone is likely to be adequate, and contemplates a somewhat more rapid rise in consumer income and spending than in business investment as a desirable transition development over the next few years. Any of the following adjustments could lead to a rise in consumer spending relative to business investment.:

1. An increase in the proportion of consumer income spent.

2. An increase in the proportion of Government expenditures made in the form of transfer payments to individuals.
3. Reduction in tax rates on individual income.
4. An increase in the proportion of business profits distributed.

The pattern outlined in the Council's Review involves the first two of these adjustments, and probably in the long run the third and fourth as well.

An over-all increase in the ratio of consumer spending to disposable income does not necessarily involve any shift in the savings behavior of any income group. But, as noted in the Council's Review, page 98:

> the proportion of saving to income decreases at the lower ends of the income structure. [See also pp. 46–47.] As the national income grows, a trend toward relatively greater increases in income for families in the lowest brackets of the income structure would therefore give an extra stimulus to demand for consumption goods.
>
> Thus greater relative gains by those groups who at present share least in the benefits of our economy not only serve fair social objectives, but also tend to improve the balance in the relationship between intended saving and intended investment. Such a development contributes to the stability and growth of the whole economy, and thus is beneficial to all groups, in the long run.

The second factor (increased relative importance of transfer payments in Government expenditures) follows from the expansion of social security on the basis of present and proposed programs.

In regard to the third factor mentioned (tax reduction on individual incomes), the Review (p. 86) indicates that Government expenditures would be somewhat smaller relative to national product in a maximum-production economy a few years hence, thus offering the opportunity for some reduction in tax rates by that time with a budget balance. However, the current budgetary situation and the immediate economic outlook do not make this the time for general tax reductions.

The fourth factor mentioned above (a possible increase in the proportion of business profits distributed) is discussed on page 90 of the Council's Review.

The whole question of the flow of purchasing power during the process of economic adjustment in the next few years is too comprehensive to explore here as fully as it was developed in the January 1950 Annual Economic Review. We should welcome an opportunity for full informal discussion of this subject with the committee.

Question 4

The largest increase between now and 1954 is that projected for private investment in residential housing and related improvement, an increase, to wit, from the 9 to 10 billion dollar present annual rate to 12 to 14 billion dollars (p. 93). Do you believe that the recommended improvements in private construction techniques plus the effects of present legislation and the recommendations for a middle-income housing program will lift residential construction by 20 to 40 percent above present levels? What is the public housing goal for 1950?

Comment.—The largest market for housing lies in the needs of the lower and middle income families. The research and slum clearance programs envisioned in titles 1 and 4 of the Housing Act of 1949 will make possible the replacement or elimination of over half a million substandard units a year. These programs also will make it possible for lower and middle income families to afford better housing thereby adding further to the market for corporations or individuals producing good housing. Making it possible to tap the mass market will obviously create a huge new demand for capital investment.

As a result of amendments to the Housing Act which were adopted by the Congress in 1949, the Government is now in a better position than ever before to aid private industry to improve its construction techniques. Private industry is more than ever aware of the need for improving its techniques, and is doing more than ever before in this direction. These developments should result in further cuts in housing costs, and therefore in further expanding the housing market. If the recommendations for a middle-income housing program are adopted promptly and administered liberally, private investment in "residential housing and related improvement" should under conditions of full employment average at least 12 to 14 billion dollars a year in the near future, as suggested on page 93 of the Economic Report.

The public housing goal for calendar 1950 is 85,000 new units to be put under construction by all governmental agencies with or without Federal assistance. This is only about 63 percent of the annual average of 135,000 public housing units for which Federal assistance has been authorized by the Congress.

It should be stressed that there is a distinction between a forecast and an objective or target. The Council has not forecast the high levels of investment in housing involved in the above figures. There is grave danger that these high levels may not eventuate. But if they do not eventuate, the task of maintaining maximum employment and production throughout the economy will be rendered a great deal more difficult. The Council has identified needed levels of investment in housing as one of the important components of the total levels of investment needed for maximum employment and production throughout the economy. Hard efforts, including new programs, will be needed to achieve this level of housing investment, and the outcome is by no means certain.

There has been a good deal of confusion resulting from the fact that many people have assumed that the Council was making a forecast when in fact it was fulfilling its obligation under the Employment Act to define needed levels and how they may be achieved. The function of national economic policy is not just to forecast what seems likely to happen automatically, but rather to define what course of economic developments will contribute most toward maximum employment, production and purchasing power, and then to propose such private and public programs of action as will facilitate these ends while maintaining our basic system of free, competitive enterprise.

Question 5

The Council's Review states (p. 68):

> While many producers are unwilling to reduce prices, preferring to reduce output and employment even in this respect there has been progress toward a long-range point of view.

What evidence can you cite (outside of agriculture)? Is it true in steel today as compared with 1921? Other building materials?

Comment.—The behavior of business with respect to the maintenance of output through price reductions, it appears to us, cannot be tested by comparing the degree of price decline which took place in 1949 with the degree of price decline in previous periods of generally falling demand, e. g., 1920–21, 1929–33, 1937–38. Thus, a sharp and precipitous decline in prices such as took place after World War I, through its unfavorable effect on anticipations, had the highly unfavorable consequence of making more drastic the decline in employment and production. The test, we believe, must be rather in terms of the situation which prevails at the time price reductions are called for. The decline in industrial wholesale prices during the first half of 1949 was moderate, amounting to 5 percent, and took place in orderly fashion. It, however, took place over a broad area of the economy.

The effect of these price declines was undoubtedly to stimulate to some extent renewed business buying. In the case of consumer buying, consumer expenditures were maintained at a stable rate throughout the year in dollar terms. Consumer buying was in fact stimulated by the effect of the price reductions and aggressive sales promotions of retailers.

Throughout 1949, there were repeated statements by businessmen which indicated that they were keenly aware of the need for shaping their price policies in terms of stimulating demand and a great consciousness of the need for reducing costs to facilitate such price reductions. The fact that the business decline in the first half of 1949 was arrested can be attributed in some degree to the effect of the price reductions.

The price reductions which took place did not, it is true, restore maximum employment, production, and purchasing power. The fluctuations in our economy, particularly those resulting from the flow of investment, are determined by a whole complex of factors of which price is only one factor.

There is, of course, an inherent dilemma in the dynamics of price reductions. On the one hand, the effect of a reduction in prices is to increase the buying power of money. On the other hand, it can create unfavorable anticipations which outweigh the favorable effects of the cut in prices in the short run. Had the decline in prices during the first half of 1949 been more drastic, it might have precipitated a much more serious decline. Looking to the longer run, the Council takes the position that whatever adjustments are called for in the price and income relationship should generally take the form of increases in income in response to increases in productivity rather than of further general reductions in prices, which would make difficult the course of business progress and perhaps cause recession.

Price reductions in some major areas are needed nonetheless. Steel is clearly one area where price reductions will be necessary. Steel prices, unlike most other prices, were very stable during the decline in the first half of 1949 even though steel output declined very substantially. Since then, the steel industry has raised prices. The steel industry, in our opinion, would qualify as one of the industries where producers preferred to reduce output and employment rather than reduce prices. Of course, the magnitude of the reduction in steel prices which would have been called for would not be of the drastic order of the fall in steel prices in 1921.

The picture with respect to building materials other than steel is mixed. Some building materials are much lower than they were a year earlier, notably paint and paint materials, and some grades of lumber. On the other hand, brick and tile, and cement are higher than they were a year earlier. The building materials where prices have been firm or have risen would qualify as areas where reductions in prices will be necessary in the future in order to maintain output.

Question 6

The Council's Review states, "There are some prices which are too high to permit continuance for a long period of the current volume of sales" (p. 100). Which prices do you have in mind? Do you have a program for dealing with administered prices?

Comment.—The major areas where we consider prices too high to permit continuance for a long period of the current volume of sales are: (1) steel; (2) automobiles; (3) many building materials; and (4) residential construction. These have been discussed under questions I-1 and II-5.

The Council has not proposed a program for the administered price problem but is cooperating with the Judiciary Committee of the House of Representatives in its investigation of this and other phases of the monopoly problem. The President has vigorously supported this investigation as a necessary procedure to discover the facts upon which a sound policy may be based. The Council is also participating in the work of the President's Committee on Business and Government Relations.

Question 7

Does the Council's objective of a $300,000,000,000 product in 1954 imply a continuing Government deficit in order to reach the goals?

Comment.—The Council's projection of a $300,000,000,000 product implies that a moderate Treasury surplus should and can be attained under conditions of maximum employment and production. This assumption is consistent with the projected targets for personal consumption expenditures and gross private domestic investment outlays that are presented on page 85 of the Review. This assumption also takes account of all expenditure programs presently recommended by the President and allows for moderate contingency expenditures for future programs. These projections do not assume that special emergency programs or deficit financing will be needed to maintain a high level of employment and production.

Question 8.

What actions on the part of the Government are necessary in order to achieve a wage-price balance conducive to the balance between consumption and investment set forth in the Council's objectives for 1954?

Comment.—Broadly speaking, the Government must keep the—

> channels of competition open, promote free collective bargaining, and encourage expanded opportunities for private initiative. (The Economic Report of the President, January 1950, p. 7.)

Specifically, the Council has stated that the current price level is now within a range where "stability should be feasible at workable levels" (p. 100). In addition, the Council has stated that "money wages should increase with productivity trends in the whole economy" (p. 101). These are guides to the most desirable wage and price developments.

Obviously, the Government has no authority under the act to require either employers or unions to accept the above recommendations. Whether wages and prices are maintained in a workable relationship depends upon countless decisions made by businessmen and union leaders. The Council does, however, state that a—

twofold program is called for. In the first place, increasing study of what constitutes a sound wage policy should bring larger conformity to it, because basically both management and labor are propelled by the desire to pursue a reasonable course. In the second place, we are exploring conference techniques, so that representatives of management, labor, and agriculture may make further progress on joint study of the conditions and actions underlying a stable and growing economy (p. 101). (See also comment on question 2, pt. III, below.)

Question 9.

What is the basis for the productivity figures on chart 15, p. 76 of the Council's report? These do not seem consistent with other previously published productivity series.

Comment.—The productivity estimates appearing in chart 15 of the Council's report are estimates of output per man-hour for the economy as a whole. They were obtained by dividing the gross national product in constant dollars by the estimated number of hours worked throughout the economy during the given year. The increase in productivity from 1948 to 1949 is indicated by the fact that employment dropped relatively more than output.

Errors in estimating productivity may arise because of faulty estimates of national output, imperfect adjustments for the effect of price changes, errors in the estimate of the average number of workers employed throughout the year, or errors in estimating the length of the workweek. However, systematic errors common to successive years should not invalidate year-to-year comparisons.

Most of the published series regarding productivity relate to segments of productive activity, manufacturing, mining, or subgroups of these. However, an estimate of the increase in national income per man-hour of 1.8 percent per year for the period 1850 to 1940 was published by the Twentieth Century Fund in the volume America's Needs and Resources (1947). This is not strictly comparable with the estimate of 2 to 2½ percent increase in output per man-hour published by the Council of Economic Advisers in its Annual Economic Review, since the latter was an estimate of the increase in gross national product per man-hour rather than national income. More important, however, the Council's estimates of output per man-hour for the period following 1919 are based on revised series for national product and income in current dollars and on what are believed to be improved methods of deflating the current dollar series. (The employment estimates are also somewhat different from the Twentieth Century Fund study, but this probably has less significance.) For earlier years the degree of uncertainty in all estimates is great. However, there does not appear to be a significant change in trend between the period 1890 to 1919 and the period following 1919.

Question 10.

How much will the Government programs cost under the Council's recommendations? In particular, what level of Government expenditures is implied in table 13, page 85, of the report?

Comment.—The general nature of the assumptions concerning the trend of Government expenditures implied in table 13 of the report was outlined on page 86, as follows:

Fifth, the estimates contemplate programs in the governmental sector based upon the assumption that some programs, such as those for veterans, will decline.

They assume moderate extension of certain accepted programs, such as social security, upon foundations already established, and also allow for some new programs in the domestic and international fields. But they do not assume an intensification of international tensions, which would necessitate a considerably higher level of activity in the Government sector as a whole. *By 1954, this outline of peacetime growth would lead to the Government sector accounting for a smaller proportion of the total gross national product than in 1949.* [Italics supplied.]

This statement is based on the consolidated cash budget, and hence refers to the total of governmental cash payments to the public, rather than to budget expenditures as shown in the conventional budget. These projections assume a lower than 1949 ratio of Government outlays to total national output in periods characterized by maximum production, employment, and purchasing power.

III. NEEDED POLICIES

Question 1

The report suggests that stable price level plus gradual increase in income is better than a gradual price decline (p. 100). Explain.

Comment.—The Council believes that a generally stable price level and rising incomes is preferable to a falling price level with stable incomes for the following reasons:

First, rising incomes and stable price levels are far more stimulating to business activity and consumer spending than are stable incomes and falling price levels.

Second, stable price levels with rising incomes are preferable to falling prices and stable incomes on grounds of the impact on Government finance. Falling prices increase the burden of debt. While some Government costs fall with falling prices, the two major governmental expenditures do not—interest on the debt and salaries of personnel. On the other hand, if prices remain stable and incomes rise, Government costs—given constant service—would rise only slightly as salaries rose, but Government income from constant tax rates would rise progressively.

Third, in the absence of frequent adjustments in rates of exchange between various currencies in the world, international trade equilibrium would be aided by a wage-price policy which resulted in expanding money incomes and demand. If unit labor costs and prices fall significantly faster in the United States than abroad, our export surplus and the dollar shortage will tend to increase.

Fourth, increase in money income is the traditional American reward for improved effort, and is an established mark of progress. Psychologically, and this is of economic significance, the beneficial results of income gains when fairly earned cannot be set aside in favor of the more uncertain and in some ways less observable benefits which might result from general price decreases.

This problem can be seen in clearest form in those millions of instances in which labor is remunerated by piece rate and similar forms of incentive pay. In these cases, an increase in productivity would require, in order to enforce a proportionate decrease in unit labor costs, a cutting of the rate of pay. Aside from the adverse psychological impact on the worker of this practice, the simple matter of renegotiation of new piece rates with each change of productivity would be a serious complication in the wage picture.

Fifth, there is the practical consideration that the accepted institution of collective bargaining provides a specific method whereby employers and workers may deliberate together toward the end of translating improved productivity into increased purchasing power in the form of wage adjustments, while there is no similar machinery for the systematic translation of improved productivity into lower prices in view of the widespread existence of "imperfect competition" or administered prices.

This, of course, does not mean that the only function of collective bargaining is to grant wage increases. Since wage increases should generally be related to productivity, it should also be the function of collective bargaining between employers and workers, generally speaking, to avoid such wage increases as would be inflationary because they are not related to productivity; and it is also the function of such relationships to move both employers and workers toward broader understanding of one another's problems and of the operation of the economy as a whole.

Furthermore, the general position which the Council has taken should not be construed to imply insensitivity toward the problems of people on fixed incomes. But people on fixed incomes fall into several classifications. First, there are public employees, such as teachers, particularly in some of the poorer sections of the country, whose salaries have fallen far behind increases in the cost of living. Manifestly, there would be no way without a large depression to bring the whole price structure down to the point where these people would regain the ground that they have lost; and any such economic calamity would probably injure them also. The only relief for people in this category is improvement in their money incomes through broad public effort. In the second place, there are families of very low income, not publicly employed, who also earn so little that they cannot possibly look to changes in the price structure to bring them up to a satisfactory standard of living. Their progress must come through a wide range of measures, including improved educational opportunity and health services, further industrialization in some areas, better minimum-wage laws, and, above all, private and public policies designed to promote the stability and growth of the economy as a whole which will raise the general standard of living particularly in the lowest portions of the income structure. Where superannuated people are living on low fixed incomes in the form of inadequate retirement benefits or pensions, their situation must be dealt with through the liberalization of social security. There are also numerous people who live on fixed incomes derived from estates, insurance policies, and so forth. While many of these people have been hurt by the rise in the cost of living, there is no possible way of readjusting the whole economy to their particular needs.

Question 2

Explain the reference to "conference techniques, so that representatives of management, labor, and agriculture may make further progress on joint study of the conditions and actions underlying a stable and growing economy" (p. 101). This proposal is included in the section on wages. What role can representatives of agriculture play in this contest of wage policy?

Comment.—This recommendation is made because of interest displayed by management and labor in objective joint study of their specific problems in the framework of the whole economy, before specific negotiations make it difficult to consider general issues.

Such conferences would not attempt to work out specific wage agreements or price policies, but would concentrate upon an analysis of the short- and long-run economic outlook and the kind of developments that would make the greatest contribution to the stable growth of the economy. From this analysis it is believed that certain general principles could be developed that, while not binding, could serve as guides to specific voluntary action by units of management and labor. Such standards or principles could be improved after they had been tested by experience.

Such conferences should be quite different from the one held in the autumn of 1945. Discussion of existing labor legislation should have no place on the agenda. No effort should be made to develop specific agreements applicable to individual firms or labor unions. Instead, attention should be concentrated on the role that decisions by management and labor should play in the economy to perform their economic function most effectively. Attention should then be directed to the over-all developments that appear most desirable in order that the private segments of the economy make the greatest possible contribution to the attainment of the goals set forth in the Employment Act of 1946.

Such conferences should not necessarily be undertaken solely or mainly at the national level. There is much room for exploration of these techniques within particular industries, and at local, State, and regional levels. Nor is it necessary that such conferences should always include representatives of Government or of the "public interest," even in an advisory capacity. But we do believe that agencies such as the Council of Economic Advisers can stimulate the thinking which may lead to such conferences, and that our efforts at objective economic analysis may provide them with useful materials. We also believe that our contacts with representative groups of industry, agriculture, labor, and consumers make it worth while that we utilize these contacts to investigate further whether conferences among these representatives and ourselves on these types of economic questions may produce useful results.

Agricultural spokesmen should be included in such conferences not only because the problems discussed relate to national policies which vitally affect farmers together with all other economic groups, but also because farm organizations have repeatedly pressed the Council to sponsor joint meetings of the kind we now propose, and have recently asked and secured the concurrence of national labor leaders in renewed requests to us.

Question 3

The Council states that "new and small businesses are at a marked disadvantage in seeking to obtain equity capital * * * and find difficulties in obtaining long-term loans" (p. 102). What proposals are being considered for remedying these defects?

Comment.—The three general types of measures which are being considered to increase the availability of capital to new and small businesses include making the Reconstruction Finance Corporation's small-business lending program more effective; establishing, under Government sponsorship, new private investment institutions to provide these businesses with venture capital; and making tax changes which would increase the availability of internal funds to these firms, and somewhat lessen the risks attendant on investment.

Measures which would increase the effectiveness of the RFC small-business lending program are mentioned on page 102 of the Annual Economic Review:

> The commendable efforts of the Reconstruction Finance Corporation to mitigate the financial problems of small and medium-sized concerns would be aided if the maximum maturity period on loans were increased; and if the agency could expand its capacity to provide loan applicants with technical assistance, thereby increasing the effectiveness of its lending operation and improving the borrowers' ability to repay. Also, more expeditious and less costly means should be found to provide very small business concerns with loan assistance.

The basic idea in recommending the extension of the maximum maturity period was to permit the Corporation to extend its assistance to sound business enterprises which require lengthy periods of development before they can produce earnings that will permit amortization of debt. Such enterprises would have far more success in attracting equity capital if that part of the basic capital fund for which it had been necessary to resort to the RFC were known by prospective investors to be assured for the period of organization, improvement, and stabilization of the enterprise.

At the present time smaller business concerns seldom have access to such long-term capital, though it is a common means of financing large enterprises. Expansion of the RFC's capacity to provide technical assistance means that the agency's field offices would be more adequately staffed with cost accountants, marketing experts, and production advisers, who are prepared to analyze the problems confronting those small concerns requesting assistance. Almost invariably smaller business firms requesting financial assistance are confronted with management problems, and for the program to be most successful, technical assistance should be combined with the extension of credit. On the very small-business loans, loans in the under ten thousand dollar class, where the administrative expenses of providing such assistance might be prohibitive, various loan insurance schemes are being studied which would increase the availability of capital and minimize the need for governmental processing of loan applications.

In his Economic Report the President stated:

> New devices for encouraging private financial institutions to furnish equity capital to small- and medium-sized concerns are being studied in the executive branch, and I hope to make recommendations to the Congress on this subject during the present session.

Work along these lines is now in progress by the Council of Economic Advisers and other interested agencies, and recommendations should be forthcoming soon.

In his recent tax message to the Congress, the President made several recommendations to lessen the financial handicaps of small- and medium-sized concerns and to encourage their expansion. He recommended that the notch rate in the $25,000 to $50,000 bracket be reduced; that concerns making less than $25,000 a year be exempted from a general increase in corporate tax rates; and that the loss carry-forward provision be extended. Further measures to make the tax structure more favorable to smaller businesses are now being studied for recommendation when general fiscal and economic conditions permit.

Question 4

Explain the difference between the consolidated cash budget and the so-called conventional budget as it is mainly used in the budget. Is the consolidated cash budget as used by the Council the same as the cash budget used by the CED, the Princeton Conference of University Economists, and the Monetary, Credit, and Fiscal Policies Subcommittee of the Joint Economic Committee?

Comment.—The consolidated cash budget used by the Council is the same as that used by the groups listed in the question, and also the same as that used in the budget document itself. (See table 13, p. A–117 of the 1951 Budget.) The major differences between the consolidated cash budget and the conventional budget are as follows:

(*a*) The consolidated cash budget includes all Government payments to and receipts from the public, including the payments and receipts of trust accounts. The conventional budget excludes disbursements by trust accounts.

(*b*) The cash budget presents a consolidated account of all transactions between the Government on the one hand and the public on the other; it excludes all intragovernmental transactions. The conventional budget includes a number of intragovernmental transactions; for example, a transfer from a budget account to a trust account may be recorded as a budget expenditure.

(*c*) The cash budget presents transactions only on a cash basis, whereas the conventional budget presents a number of transactions on a liability basis. The issuance of terminal leave bonds, for example, was recorded as an expenditure in the conventional budget at the time the bonds were issued. It was recorded as a cash payment in the cash budget only at the time the bonds were redeemed.

Question 5.

In the farm policy discussion, emphasis is placed on "the more complex task of combining expansion in some areas with moderate or drastic contractions in others. New methods are needed for new times" (p. 109). What sort of new methods, presumably of agricultural policy, have you in mind?

Comment.—The adjustment of agricultural production to meet the needs of the war and reconstruction periods was accomplished chiefly through a program of commodity production goals backed up by positive price incentives. The production goals program itself combined exhortation with information on price-support guaranties and with education, technical aids, and other specific helps to farmers in achieving the desired production.

The postwar readjustment requires a correspondingly vigorous, but also a more selective, effort. Since farmers appear to be much less responsive to negative than to positive price incentives, price supports must play a smaller role, and a correspondingly greater burden must be placed upon other aids and inducements to production shifts.

This is not to say that price supports will be unimportant. They should contribute to a structure of prices that will encourage rather than discourage needed shifts. In particular, present price support programs should be modified to provide encouragement to livestock enterprise in comparison with the staple crops that are in surplus, and, since the production cycle for livestock is longer than for annual crops, favorable price relationships need to be assured for several years ahead.

At present it is necessary to make use of the negative measures of acreage and marketing restrictions to deal with temporary maladjustments; for example, keeping the output of feed grains in line with requirements over the next few years while livestock production is expanding. But by themselves restrictive measures will not induce and may indeed even hamper the achievement of needed permanent shifts in production patterns.

A sound agricultural adjustment policy requires instead a positive approach. But it involves not so much new programs as the coordination and intensification of existing programs. Additional emphasis should be given to credit programs designed to enable farmers to carry out sound plans for shifts in production that involve temporary loss of current income. Such additional current cash outlays by the Government as might be involved in this program would be substantially self-liquidating.

Farmers making desirable shifts might appropriately be aided also through some expansion of payments and other assistance in connection with conservation practices. In general, the shifts called for in a sound adjustment program represent socially desirable investments in conservation of soil and water resources, and society can properly contribute to the costs of making these shifts.

Conservation aids will be essential in cases where shifts are to a less intensive use of land, that will provide lower returns than farmers are currently realizing from cash crops.

Another problem arises where the needed shifts in production involve a less intensive use of labor. This applies to some areas in the cotton South. A program for shifting such land from cotton to livestock or other less intensive use must face up to the problem of labor displacement that will result. Here the need becomes acute for a much broader attack upon the problem of low-income farm people, as indicated in the Review (p. 111) and set forth in detail by the Secretary of Agriculture in his testimony before your subcommittee on low incomes.

Along with credit and conservation programs, and additional measures to help low-income farm people, increased emphasis should likewise be given to research and educational activities, to marketing programs, and to all other measures that can help resolve the problems involved in production adjustment. Work in all these lines should be coordinated into an aggressive, positive program.

Question 6

The review presents on page 118 a table showing the shelf of Federal, State, and local public works. Is this shelf sufficient in your judgment (a) for assuring a normal and smooth program of public works construction to meet the needs of the Nation, and (b) as a part of a preparedness program that may be needed in case of serious deflation? (P. 118.)

Comment.—(*a*) As shown in table 16 on page 118 of the Annual Review, the shelf of Federal, State, and local public works should be adequate in a general way to assure a reasonably normal and smooth program to meet the more urgent public works needs of the Nation. The distribution of advance plans among various programs and in the various States and localities may not be perfect for this purpose; there is always room for improvement in these matters. In addition, as noted on page 119, advance planning in a broader sense, such as in the Missouri Basin, should be reviewed and improved. But the actual project blueprints on hand and in process are probably adequate in most instances for normal rates of construction.

(*b*) The shelf represented by this advance planning, in our judgment, is insufficient for preparedness in case of serious deflation. This is particularly true of planning for urban highways and stream pollution abatement. A larger backlog of plans for urban redevelopment, airports, schools, hospitals, and sewer and water systems would also be desirable. Certain other programs, such as flood control projects and multiple-purpose dams and reservoirs, could be expanded in event of a recession. Their flexibility depends in part upon having enough well-engineered plans and specifications that can be translated as quickly as possible into construction, as well as upon adequate preparatory surveys. A major increase in such programs would require additional plans, although these slower-moving projects do not have to be planned in detail very far ahead of construction.

Question 7.

The Council's Review states (p. 121)—

> Only public and nearly universal social insurance programs can be financed in a manner adjusted to the over-all needs of the economy.

Explain the difference between the financing of private pension plans and public social insurance plans.

Comment.—A governmental social insurance plan has the full tax and credit resources of the Government behind it, and its obligations are secured by the continuing pledge of the Government to meet its obligations when they come due. A private plan, however, can fully assure meeting its obligations only to the extent that it accumulates and sets aside funds for that purpose. A private plan which is not thus fully "funded"—in an actuarial sense—is secure to the extent that the guaranteeing company or other agency will continue to exist and will have revenues and assets sufficient to meet obligations not covered by accumulated funds.

Thus the accumulation of trust funds represents an increase in the degree of security offered by private plans. Such accumulations do not increase the security of Government plans, which are already backed by the full resources of the Government; but trust funds may nonetheless be used in some degree for the purpose of distributing financial costs and levelling them out over a period of years, for meeting the requirements of equity, or for other purposes.

The Federal Government's old age and survivors' insurance plan was originally conceived as a fully funded pension plan. It was recognized, however, that the final assurance given the beneficiaries, current and future, rests in the taxing and credit resources of the Government rather than in the reserve being built up. As long as the coverage of social insurance was limited, there was good reason for financing the system exclusively through payments by and for those workers who would later be eligible for benefit payments. As coverage becomes more universal, increasingly strong arguments can be made for financing the insurance system in such a way that at a later time benefit payments may be financed partly by employers' and employees' contributions and partly by a general contribution by the Government out of other tax revenue, in acknowledgment of the general obligation of the Nation for the security of the aged. This also makes it possible gradually to adjust the financing in greater or lesser measure to a pay-as-you-go basis. As stated in the Council's Fourth Annual Report:

> The Council strongly favors the national system of social security which involves contributions from employers and from workers on a systematic basis, and which also involves contributions by Government. This is the best way to protect people in their old age as a matter of right, and not to leave what may happen to them later on subject to unforeseeable policy decisions in the future. Yet our discussion of the social security problem implies that gradual efforts should be made to improve the contributory system so that at least part of the contributions would be more nearly on a pay-as-you-go basis. By this, we mean the gradual development of a closer balance between social security receipts and payments from year to year.

A pension plan which relies heavily on reserve accumulation necessarily provides for contributions which exceed disbursement in the early years of the system, and thus can have a deflationary impact in those years. More purchasing power may be absorbed by the insurance fund than is distributed by payments to beneficiaries or by the uses to which the accumulated reserves are put. Such a deflationary potential in our social insurance system was very desirable at the time of inflationary pressures during the war and postwar period. It helped to counteract some of the inflationary pressures and contributed to the Federal cash surplus during the years 1946, 1947, and 1948.

Growing private pension plans, relying on actuarial reserves, can add to the potential deflationary impact of a public social insurance system based exclusively on pay-roll contributions and reserves. While the financing of a large-scale public social insurance plan can be adjusted to the over-all needs of the economy, private plans are much less flexible. It is often difficult to change the financing methods of individual private plans, and it would be virtually impossible to bring about a coordinated change in a large number of private plans to meet changing economic circumstances.

IV. PROCEDURAL QUESTIONS

Question 1

The first Economic Reports consisted only of a report by the President. In the last few years, in addition to the President's Economic Report, there has been published an Annual Review by the Council. The President's report is by and large a summary of the analysis and recommendations presented in the Council's Review. What are your reasons for presenting the material in such a division and has it worked out to your satisfaction?

Comment.—The decision to present the President's Economic Report separately from the Council's Annual Economic Review was determined by the consideration that the President's Economic Report should properly be a brief, succinct statement which gave the high-lights of the economic situation, the President's basic approach, a summary of the analysis, and the President's recommendations. Because of its brief character, the President's Economic Report would then need to be supplemented by a detailed factual and analytical review of the economic situation and by an examination of existing Government programs and requirements for needed policies. This arrangement has been working satisfactorily since there are many who are only interested in the summary statement and the President's recommendations. Many others, however, wish to obtain a detailed analysis of the economic situation and economic programs and that is provided by the Annual Economic Review.

Question 2

Do the various executive agencies cooperate freely with you in the supply of statistical information? Is there a difficulty resulting from the fact that sometimes the publication of statistics in the Economic Report may "scoop" the publications of various departments, such as the Survey of Current Business or the Federal Reserve Bulletin?

Comment.—The various executive agencies cooperate freely in supplying statistical information. The Employment Act specifically states that "the Council shall, to the fullest extent possible, utilize the services, facilities, and information (including statistical information) of other Government agencies, as well as private research agencies, in order that duplication of effort and expense may be avoided" (sec. 4 (e) (2)). Our methods and procedures of cooperation are stated in more detail in the answer to the next question. The Council receives many estimates or statistics as soon as they become available, before they have been published by the agencies concerned. Sometimes the Council receives early estimates prepared by the agencies on an incomplete basis, which are published later by the agency in revised version after more complete data have become available. Ordinarily such revisions are minor, and the publication of preliminary estimates by the Council has never resulted in any real difficulty.

The publication of preliminary estimates makes it possible for the Economic Reports of the President to be closely up to date. As a matter of fact, the committee will notice that the report which is transmitted to Congress during the first days of January covers, with preliminary estimates, the period through December of the previous year. Correspondingly, the Midyear Economic Report transmitted early in July covers the first half of the year with preliminary estimates relative to the major aspects of the economy.

The Economic Reports represent the most comprehensive official statement of the Chief Executive with respect to economic analysis and progress; they are transmitted to the Congress by the President in compliance with the statute; they are prepared, as stated in the letter of transmittal, "with the advice and assistance of the Council of Economic Advisers, members of the Cabinet, and heads of independent agencies." In other words, the Economic Reports are the result of the processing of the views of all executive agencies concerned with the various aspects of Government economic programs. All of the agencies share the responsibility with the Council in preparing material for the report under the Employment Act, and of course, no question of a scoop arises.

Question 3

Have the various interested agencies an opportunity to criticize your interpretation of the statistical data?

Question 4

Have the agencies an opportunity to propose policy recommendations for consideration in the Economic Report? Has a formalized procedure been developed for the coordination of an economic program parallel with the procedure for the preparation of the Budget of the U. S. Government?

Comment.—The interested agencies have full opportunity to criticize the Council's interpretation of the statistical data.

As a part of the Council's regular operations, the statistical agencies of the Government are consulted periodically in preparing the Economic Indicators. In preparing the preliminary drafts of Economic Reports the staff of the Council consults the economists and statisticians of the appropriate agencies and benefits fully from their technical advice and assistance. This includes the review of the adequacy and accuracy of the statistical measures that are used, and also includes an appraisal of our interpretation of current and prospective trends.

Some of the statistics are specially processed in the form in which they are used by the Council for the purpose of presenting an over-all view of economic developments. This is especially true of the Nation's economic budget tabulation which is based on a variety of statistical data and estimates supplied by the Department of Commerce and the Budget Bureau. These data require special processing in order to fit into an internally consistent over-all tabulation of this kind.

The Council cooperates particularly with the Division of Statistical Standards of the Budget Bureau in correlating statistical sources of various Government agencies which pertain to the same or interrelated economic facts. In its continuing attempt to bring the various statistical resources to bear upon the analysis of the economy as a whole, the Council is in a position to see some of the gaps in Government statistics which need to be filled to provide a more complete picture of the economy and a more adequate device for determining underlying trends. In this effort the Council and the Division of Statistical Standards also have the help and valuable cooperation of the staff of the Joint Committee on the Economic Report. One product of this cooperation was the joint committee's report on "Statistical Gaps" which has served as a guide in the effort gradually to improve our economic statistics. In this constant effort to improve the application of statistics to economic analysis the Council is benefiting from cooperation with the staff of the Joint Committee, the Budget Bureau, and the various operating agencies.

In the process of preparing material for the Economic Reports the Council has established an interagency committee of top statistical experts. This technical committee has worked with the Council staff actively during the past few months on the analysis and interpretation of all the statistical data that go into the report. Subcommittees were particularly active in the interpretation of estimates of current saving and on the development and interprtation of an index to measure the production of goods and services in the economy as a whole.

The publication of the Economic Indicators and the inclusion of a detailed statistical appendix in each of the Economic Reports has provided a convenient summary of economic statistics for the use of professional economists and statisticians outside the Government. The Council has received from time to time many criticisms and suggestions from students in universities and in various professional and technical associations. We are always glad to get comments, suggestions, and criticisms, and to discuss them with the agencies responsible for collecting and publishing basic statistics.

Also with respect to policy recommendations the various agencies concerned have full opportunity to make proposals of their own and to comment on proposals made by the Council. This consultation proceeds both on the informal, technical level and in a more formalized manner on the Cabinet level. The Council greatly benefits from recommendations which are usually submitted by November 1 by the various agencies in response to a special letter from the President that goes out in September of each year. These recommendations are made the basis of informal discussions between Council staff and staff members of the agencies concerned.

In the preparation of policy recommendations a long step forward has been taken in the development of a procedure that gives all agencies an opportunity to participate in program formulation. The procedure developed thus far is, however, not formalized to the extent of that in the preparation of the Budget.

The Council has created an economic policy committee (besides the economic analysis committee referred to in the answer to No. 3 above). On this committee are represented staff members of the several agencies concerned with various aspects of the economic program. This committee is primarily concerned with defining the areas in which interdepartmental work should be focused, with indications of the interested agencies. Task forces were formed for program areas such as farm policy, business investment, developmental programs, and international economic programs.

Each task force consisted of representatives of the agencies directly or indirectly interested in the fields, representatives of the Budget Bureau, and a member of the White House staff, under the chairmanship of a staff member of the Council. The members of these task forces expressed only their personal views and did not commit their agencies. The work of these task forces formed the basis for the staff work of the Council in the preparation of material for the Reports. As soon as drafts were available they were sent to the members of the policy committee, and were then officially examined by the various agencies.

As the members of the Council reach the stage where this preliminary work is reshaped into drafts of the Annual Economic Review and into materials to be considered by the President in connection with the Economic Report, the members of the Council themselves maintain extensive contact with various Cabinet officers and others who are concerned with various aspects of national economic policy. In the final stages of work preceding the reporting periods, the members of the Council meet with these other persons for full discussion of various important issues. Thus the ultimate reports reflect the benefit to be derived from many minds and much experience, although the Council must take ultimate responsibility for its Annual Economic Reviews and for the advice it is charged with giving to the President under the Employment Act of 1946.

Question 5

Your budget justification for fiscal 1951 contains an estimate of $12,800 (which) is required to enable the Council to discharge its responsibilities in connection with the "broad study of potential business investment, expansion, and market opportunities" called for by the President in his Midyear Report to the Congress (July 11, 1949). Could you explain your proposed study of investment?

Comment.—Business investment is not only the principal medium of our economic growth, but also a primary factor in the excessive fluctuations of business activity that have wasted so much of our productive potential in the past. In seeking ways to promote steady growth of the economy, as prescribed by the Employment Act, the Council sees as a key problem the determination of desirable levels and trends of business investment, and of conditions that will promote adequately high and stable investment activity.

The Council's study of investment is thus one important facet of its over-all exploration of conditions in the consumer, business, and Government sectors of the economy that will favor continuous maximum production and employment. Some preliminary results of this work have been used in preparation of the Economic Review and we hope to make substantial further progress during the current year. This work draws to an important extent on data and analyses from several Government agencies as well as private institutions and individuals.

As one phase of the investment study, determination of desirable levels and trends of business investment involves two complementary lines of inquiry relating to the twofold role of investment in the operation of the economy:

1. Investment is the means by which capital goods can be expanded, replaced, and modernized to meet the requirements of an expanding economy. The potential expansion of the economy can be gauged on the basis of trends of growth in the labor force, and the rising productivity resulting from exploitation of technological opportunities. Determination of the amount and character of investment outlays needed from this standpoint in order to support steady economic growth calls for an analysis of changes in consumer demand, technological opportunities, capacity needs and utilization, and the costs of construction and equipment. Rather detailed examination of statistical and other materials on specific industries is required for the improvement of the existing crude over-all results on this line of inquiry.

2. Investment is an important, and historically very volatile, source of income and market demand. Total purchasing power will be inadequate to support sustained economic growth unless the savings of individuals and business firms are channeled into productive use through investment. On the other hand, if investment claims too large a part of total output, inflation results with consequent maladjustment and recessionary reaction. It is therefore important that the growth of consumer, business, and Government outlays preserve a balanced relationship compatible with over-all stability and full use of savings. The Council is continuing its work toward further quantitative definition of these relationships.

As the second phase of the investment study, the results of inquiries (1) and (2) above are brought together to disclose possible inconsistencies, desirability of revision of initial basic assumptions, and possible obstacles to the attainment of a desirable relationship between business investment and other sectors of the economy. Under the heading of possible obstacles to the attainment of needed investment levels, we are studying the adequacy of investment incentives, the adequacy of financial sources, and the effect of business price and production policies.

From the study should emerge some estimates of the volume of capital formation required for the economy and for some specific sectors in order to maintain economic stability and growth; an appraisal of any obstacles which appear to hinder the attainment and maintenance of desirable investment levels; and an appraisal of types of private and public action designed to remove such obstacles.

The study as here outlined is a large undertaking. The Council, in accordance with procedures specified in the Employment Act, is relying on other agencies within and outside Government for much of the detailed work involved. For example, the Bureau of Labor Statistics has already been of much assistance in the analysis of the rates of output of specific industries implied by various levels and patterns of over-all demand, and this service will be utilized still more extensively during the present year. The smallness of the budget allowance requested by the Council in connection with the investment study reflects the Council's policy of relying mainly on outside assistance in such work.

B. Questions Relating to Agricultural Problems

Question 1

What is anticipated to be the delayed effects of devaluation on the agricultural sector of our economy? (P. 59.)

Comment.—The devaluation of foreign currencies has so far had no noticeable effect upon exports of our agricultural commodities nor upon imports of competing commodities from other countries. The Council doubts that it will have any readily discernible effects.

Under present conditions our exports of agricultural commodities depend mainly upon three factors: (1) our foreign-aid programs, (2) the recovery of agriculture in foreign countries, and (3) the general economic situation abroad. To the extent that devaluation reduces the prices of agricultural products of foreign production relative to our own United States agriculture may be disadvantaged. But to the extent that it enables foreign countries to increase their dollar earnings it may increase their demand for our farm products. In either event we believe that specific effects of devaluation will be overshadowed by effects of the other factors listed above.

Question 2

Has the world wheat agreement yet proven sufficiently workable to serve as an example? (Pp. 106–107.)

Comment.—The Council's Annual Economic Review discussed the need for giving increased attention to the maintenance and enlargement of markets for agricultural products. In this connection it called attention to the need for developing satisfactory techniques for maintaining a continuing flow of our products into international trade without demoralizing world markets.

The world wheat agreement does seem to us one positive step in this direction. It has not been in operation long enough to demonstrate fully its workability under all conditions. The agreement became effective on August 1, 1949, and implementing legislation in October authorized the Commodity Credit Corporation to finance this country's share of the exports. Since the program started we have moved about 45,000,000 bushels of wheat under the agreement. The Council understands that there have been no serious problems from an operational standpoint and that the program so far is working smoothly. We doubt whether a commodity agreement alone would be sufficient to overcome all economic difficulties that might threaten us in the future. We do believe, however, that such agreements can contribute significantly to greater stability in world markets.

Question 3

Specifically, what changes are proposed in the farm program? Please estimate probable costs.

Comment.—The President's Economic Report recommended certain changes in farm policy, including (1) greater emphasis on the support of farm incomes and less on the support of prices of particular commodities; (2) the authorization of production payments as a means of supporting farm income for perishable products; (3) special measures to aid low-income groups in agriculture, including credit and management aids, rural electricity, rural telephones, better farm housing, improved medical care, and more adequate education for farm youth with broader vocational training for nonagricultural as well as agricultural pursuits; (4) increased emphasis on programs to encourage needed shifts in types of farming.

The Council agrees fully with these recommendations. The Annual Economic Review of the Council presents material on the farm situation and discusses in some detail our views concerning agricultural policy. The Council's Review emphasizes the need for a strong farm program as an essential part of a general economic program to maintain stability and prosperity throughout the whole economy.

The wisdom and success of the whole national economic program will greatly affect the cost of the agricultural program. We have learned from past experience that the cost of the farm program is much less when the whole economy is prosperous. If our general economic policies are unsuccessful in maintaining maximum employment, production, and purchasing power, any agricultural program that will insure farmers even a minimum income will be expensive.

The cost of a farm program must, of course, be considered in relation to needs and to benefits. We believe the program should be designed to assure farmers of incomes that are comparable to those received by other groups. It is also important that the farm program be strong enough to prevent a collapse in farm prices and incomes that might again threaten depression throughout the economy.

From time to time we have discussed costs with the Department of Agriculture and with the Bureau of the Budget. The Secretary of Agriculture has discussed costs of his programs with various congressional committees, and in particular, on April 25, 1949, he presented the House Committee on Agriculture a statement on the

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comparative costs of different methods of price support. We are not prepared to make detailed estimates of the probable future costs of these programs, which obviously will depend greatly upon the volume of production of individual products as affected by weather and other uncontrollable factors. However, we do not believe that the above changes in emphasis would greatly affect the total cost of the agricultural program as a whole. We would emphasize that the comparison is not between the costs of the program here outlined and no program. The Government is firmly committed to a farm policy that may involve substantial costs under certain conditions. But general prosperity, successful production adjustments, and measures to maintain adequate markets should substantially reduce the future costs of price support.

Question 4

Was the farm sector of our economy in 1949, with assets of not more than $130,000,000,000 (a considerable part of that accounted for by inflated land values) and a residual net income of $14,000,000,000 adequately prosperous?

Comment.—This question implies that the $14,000,000,000 realized net income of farm operators represents a return of around 11 percent on the $130,000,000,000 of agricultural assets.

But this $14,000,000,000 is the return not only on capital investment but also for the labor of nearly 6,000,000 farm operators and their families. Thus it meant average net income from farming of less than $2,400 per farm-operator family. (This is not money income alone, but includes an allowance of around $700 per family for production for home consumption and rental value of farm homes.) Personal income for the country as a whole amounted to about $4,500 per family in 1949.

This comparison does not take account of the income of farm people from nonagricultural sources. Statistics on this are not available separately for farm-operator families. For all persons on farms, however, income per capita from both farm and nonfarm sources is preliminarily estimated at around $755 in 1949, compared with around $1,555 for the nonfarm population.

In 1949, admittedly, farmers as a group were relatively more prosperous than in most prewar years. But certainly it would be very undesirable for farm incomes to slip back again to such an unfavorable relationship as that which existed during most of the period between the two World Wars. The $14,000,000,000 of realized net income in 1949 was 15 percent lower than in 1948 and 20 percent lower than in 1947. It is essential that this downward trend be checked, both from the standpoint of maintaining general economic stability and to make possible renewed progress in overcoming the long-standing disparity of income that has adversely affected farmers in comparison with other groups in the economy.

Question 5

What is the basis for your estimate of a 25- to 30-percent increase in fruit requirements during the next 5 years (p. 108), particularly in view of the fact that in 1949 first-grade apples, under aggressive retailing, sold at least as low as $1.50 per bushel in one of our major industrial areas; yet an estimated 10,500,000 bushels in commercial orchards remained unharvested due to low prices and inadequate demand?

Comment.—The estimated increase in domestic demand for fruit 5 years hence is based on statistical relationships and takes account both of the level of consumer disposable income indicated in the Review and anticipated increase in population.

In comparing the situation regarding all fruit with that for apples, we must take into account that over the past 40 years the per capita consumption of all fruit has increased about 50 percent; but the per capita consumption of apples, marketed in fresh form, has decreased about 50 percent. Total domestic consumption of all fruit has increased about 140 percent since 1909; that of apples has decreased about 20 percent, in spite of a 60 percent population increase.

Commercial production of apples in 1949 was 50 percent greater than in 1948, and 20 percent above the 10-year (1938–47) average. This accounts for much of the marketing difficulties with the 1949 apple crop.

C. Questions Relating to Report of Subcommittee on Monetary, Credit, and Fiscal Policies (S. Doc. No. 129, 1950)

The views of the Council relating to monetary, credit, and fiscal policies were presented to the subcommittee (hearings, pp. 533–538), but not in the detailed manner in which we are now requested to comment upon the report of the subcommittee. There is no disagreement upon the point that these policies as a group have very great importance in determining the success of the Nation in attaining the objectives of the Employment Act of 1946. The Council is glad to express its full agreement with most of the conclusions reached by the subcommittee in the broad study which it has completed with such remarkable speed. They mark a very real advance in the recognition of the vital role which Government programs must play in our complex economy if it is to be maintained on a high level.

We shall discuss the several recommendations of the subcommittee, other than those which call only for a specific study, in the order in which they are presented in the report, under appropriate Roman numerals.

I, II, III. MONETARY, CREDIT, AND FISCAL POLICIES

The larger part of the report of the subcommittee is devoted to a general discussion of monetary, credit, and fiscal policies and to the relations of the Treasury and Federal Reserve Board, leading to recommendations I, II, and III, which reach a climax in the proposal that "Treasury actions relative to * * * transactions in the public debt shall be made consistent with the policies of the Federal Reserve," and that a joint resolution be adopted declaring that this is the will of Congress.

The subcommittee has not been led to this portentous proposal because there is now any controversy between the Treasury and the Federal Reserve Board. The Secretary of the Treasury and the Chairman of the Board have both told the subcommittee that the policies in which each of them has an important interest have been worked out through successful cooperation and that they have every expectation that they will be worked out in the future in the same way. Neither of them wishes to raise the question of dominant authority and each of them objects to being pushed into a controversy which they believe is unnecessary. As a principle of good administration, it is true that a division of authority with respect to a matter of this importance is unwise. As a matter of practical working policy, the Secretary and the Chairman are probably right in proposing the continuance of the present successful relationship when an effort to change it would surely evoke the sharpest controversy in the field of debt management where quiet and confidence are supremely important. We therefore refrain from a detailed discussion of the question whether final authority to determine administrative action of the broad economic significance which the subcommittee attributes to credit and fiscal policies should be vested in the Chief Executive chosen by and responsible to the people or should be lodged in an administrative board responsible only to a legislative body which is not organized in a manner which permits it to supervise continuing and flexible administrative action.

Debt-management policy.—The proposal of the subcommittee results from its conclusion that the debt-management policy followed by the Treasury and the Federal Reserve Board with repeated public approval by the President is wrong in one important respect and that the decisions of the Treasury should not give primary consideration to continued easy refunding operations at low interest rates. The subcommittee believes that the debt-management policy as well as the credit policy should "be guided primarily by considerations relating to their effects on employment, production, purchasing power, and price levels." It recommends that Congress direct this change in policy by joint resolution. This, the subcommittee says, should be done in order to permit the central bank to attempt to stabilize the economy by a policy of monetary and credit control for the success of which the subcommittee offers no stronger hope than that—

> Our monetary history gives little indication as to how effectively we can expect appropriate and vigorous monetary policies to promote stability, for we have never really tried them (subcommittee report, p. 18).

The only point in issue, aside from the question of final authority, is whether the debt-management policy should be modified to permit long-term, 2½-percent Government bonds to fall below par in periods of inflation. The general policy was described by the President in his Annual Economic Report in 1948, in these words:

> A most important part of our debt-management policy has been the program to support the market for Government securities. During the war period, when it was vitally necessary to maintain a market which would absorb vast issues of securities at low interest rates, the Federal Review stabilized the market through its open-market operations in buying and selling short-term Government securities at low rates of interest. Now that it is no longer necessary for the Government to increase its debt, short-term interest rates have been permitted to rise. A decline has also been permitted in prices of bonds from the premium prices to which they had risen as a result of market demands in the early postwar period. No bonds, however, have been permitted to fall below par and it is the declared purpose to continue active support of Government bonds for the purpose of maintaining an orderly and stable market at a low level of long-term interest rates (p. 85).

Relation of debt-management to monetary policy.—The President in discussing the problem in his several Economic Reports and the Council of Economic Advisers in their reports have always recognized that the present policy "does not permit the Federal Reserve to make effective use of the traditional method of limiting inflationary movements in the economy by requiring banks to borrow in order to obtain additional reserves and by raising the discount rate charged on such borrowings." After making this statement in his Economic Report in January 1948, the President continued:

> In the recent congressional hearings there have been proposals to solve this dilemma by abandoning the support policy and freeing the Federal Reserve banks to bring about an anti-inflationary contraction of credit by increasing the discount rate, as was done in 1920. No such change in policy should be considered. The financial world should rest easy that the investment market will not be subjected to the demoralization which swept over it in 1920 when the unsupported market for Government bonds fell about 20 percent below par.
>
> Affirmation of a policy of supporting the Government bond market as a continuing program of the Government requires the use of other and less dangerous methods to restrain inflationary bank credit. Voluntary but effective restraint by the banks of inflationary bank credit expansion may prove adequate to the problem. If it does not, more direct action by the Federal Reserve banks will be required. Such actions as may be taken will not involve withdrawing support from the Government bond market (pp. 85–86).

In his Economic Report in January 1949, the President again affirmed his purpose to continue his debt-management policy saying:

> The public debt will continue to be managed in a manner that will make a maximum contribution to the stability of the economy. An important factor in this program will continue to be the maintenance of stability in the Government bond market.
>
> * * * * * * *
>
> Only during the last few years have we had experience in dealing with the problem of managing a public debt of the size the country now bears. The policy of supporting the price of long-term Government bonds at the 2½-percent yield level has been eminently successful (p. 11).

The Council also discussed the debt-management policy and the problem of Federal Reserve power to influence credit conditions in its Annual Economic Review, forwarded to the Congress by the President with his Economic Report of 1949, and set out its reasons for believing that it would be a serious error to change the policy and to adopt that which is now proposed by the subcommittee (pp. 42–43). Earlier, in its own Annual Report to the President in December 1948 (pp. 27–28), in a discussion of the difficulties flowing from the need to adjust each economic policy to the conflicting requirements of others, the Council used the debt-management policy as contrasted with Federal Reserve credit control as an example. We said:

> Inflation is dangerous, and it is fed by our cheap-money policy. But it would be reckless to modify that policy by changes which might create uneasiness about the national credit and disorder in financial markets at a time when the Nation must support a vast public debt.

These statements were made by the President and by the Council when they were frankly worried by an inflationary movement which they felt was creating serious danger to the economy. The issue is now raised by the subcommittee when it sees no inflationary threat, and when the prices of Government bonds are well above the peg point of par, and may be expected to remain there unless the proposed reversal of the debt-management policy by congressional resolution should itself create such doubt and uneasiness among the holders of Government bonds that we would face a wave of liquidation. Our apprehension on this score was expressed when we appeared before the subcommittee (hearings, p. 537).

Purpose and result of debt-management policy.—On page 26 of its report, the subcommittee summarizes the five reasons advanced by Treasury and Federal Reserve officials for supporting the price of Government bonds even in periods of inflation. We think these reasons are valid and so cogent that they require that debt-management policy must be dominant and that we must look for other ways to restrain dangerous inflation rather than subordinate the debt-management policy to traditional central bank operations.

From the point of view of debt management the most important point is that the present policy maintains confidence in the public credit and makes it possible at all times for the Treasury to find buyers at low interest rates for new securities issued to refund our enormous public debt. The subcommittee neither accepts, rejects, nor qualifies any of the five reasons, but of this one it says it "looms important to the Treasury." We believe that it is important in reality and not merely in appearance. We do not have a complacent attitude toward the problems of managing and refunding a $250,000,000,000 debt which has to be rolled over at the rate of $50,000,000,000 each year.

Despite the drumfire of criticism which has been directed at the debt-management policy from certain financial quarters, the judgment of the President that it has been "eminently successful" is wholly justified by the record of the past 5 years. Our economy was unshaken by an immediate postwar slump which brought a decline of more than 60 percent in production of durable goods, a substantial decrease in nondurable production, and an increase in unemployment even when millions of war workers were withdrawing from the labor force. The policy made available abundant and cheap credit to business when it then endeavored to carry its share of the responsibility in the race with inflation by increasing productive capacity. It also helped to reduce a critical housing shortage. It contributed to the conditions under which the expected flood of liquidation of savings bonds did not materialize, and sales of savings bonds have continued in large volume. It preserved a solid credit position for the Government when the great economic question arose whether the end of inflation would become the beginning of economic collapse. It has even added to the prosperity of some custodians of funds who disdain it but who would have wholly inadequate outlets for the swollen deposits created by the war if they did not know that they can safely invest in Government bonds because the market price will be supported.

Central bank controls.—This is the record of the policy which the subcommittee would now abandon. What is the record of the proposed substitute policy of flexible monetary and credit control by the Federal Reserve System, when we look to its service in establishing economic stability? The subcommittee speaks of the desirable characteristics of central bank operations, and it is entirely justified in praising them for flexibility and because they are indirect and do not entail positive action by Government which limits the freedom of businessmen. But when it comes to considering their effectiveness in attaining the objectives of the Employment Act, the subcommittee only says that we can draw no conclusions from experience because we have never really tried to use these policies to counteract serious inflation or deflation.

We do not read history that way. For 35 years, Federal Reserve discount rates have been shifted up and down. For 25 years the System has carried on open-market operations. Changes in reserve requirements have been one of the tools of control for more than a decade, and have furnished experience which persuaded the Council of Economic Advisers to support the judgment of the Federal Reserve Board that broader power to change reserve requirements would permit some effective anti-inflationary action by the central bank notwithstanding the debt-management policy. Experience has furnished very valuable guides to the way central bank power may be used to influence economic conditions, and in our opinion the lesson it teaches is that we must learn much more before the central bank can act with such finesse and with such confidence of the specific results of its action that we should consider the subordination to it of the policies of debt management.

Repeatedly, in its discussion of this problem, the report of the subcommittee speaks of the need for "vigorous" use of central bank power. We assume that it is meant that history furnishes no guide to action because central bank operations have never been vigorous enough. If this also means that the writers of the report look to the Federal Reserve Board to interpret the proposed congressional directive as an instruction to use its powers more vigorously in a future inflation than they were used in the past, the joint resolution would indeed threaten untold damage to Treasury operations. Before this war, the Board has only twice been called upon to consider action in a period of important inflation. In 1920, it ran the discount rate up to 7 percent. In 1929, it pushed the rate up until it reached 6 percent. The debate still goes on, whether the high discount rates caused the ensuing catastrophes or whether the economic collapse was in each instance due to forces which not even 7 and 6 percent discount rates could quell. But certainly the Reserve Board is not open to the criticism that it has not used its powers vigorously. If that record shows that even more violent effort would be necessary in order to make central bank operations effective to curb an inflationary movement, we believe the conclusion should be that these particular anti-inflationary devices are altogether too dangerous to justify giving to them the premier position among the arsenal of weapons to gain economic stability, as the subcommittee proposes in recommendation I.

Fiscal policy.—The admirable discussion by the subcommittee shows, we believe, that fiscal policy is a far more powerful instrument of economic control of strong economic movements than is credit policy if the latter is confined within prudent limits. The effectiveness of fiscal policy will be greatly increased by the correlation thereto of policies relating to money and credit.

We are in general agreement with the views expressed by the subcommittee about fiscal policy, and about the desirability of a tax structure which will yield a surplus in periods of high business activity, while leading to a deficit in periods of recession, when expenditures by the Government in excess of the amounts collected in taxes will furnish valuable support to the economy.

We are dubious, however, whether it will soon be possible to devise, as has been proposed in some quarters, a tax program which will so accurately match the requirements of our dynamic economy or will so well reflect the requirements of many patterns of inflation and deflation that once enacted it may be left unchanged except as programs of Government action are themselves expanded or contracted. We, therefore, agree with the views of the subcommittee that the problem of flexibility in fiscal operations requires further exploration.

Formula flexibility.—One fiscal policy which was pressed upon the subcommittee, but which it has not recommended, carries to an extreme the idea of "formula flexibility." Under it some preordained fiscal change, such as a decrease of 15 percent in income taxes, would go into effect whenever a certain degree of change took place in some prescribed economic index, say in the volume of unemployment, or the index of wholesale prices, or the index of industrial production. If one of the economic indicators suggested to the subcommittee were selected as the one to sound the alarm, it might have been sounding off by the end of last June, and vigorous antideflationary action, such as reducing taxes or increasing Government spending, would then automatically have come into effect. But the Council of Economic Advisers, even though we knew and said that conditions would become even worse in July, advised the President that there were factors outside of the statistical indexes which, in our opinion, meant a reversal of the business trend before the end of August, and we advised him to hold firm on taxes and hold off on any program to increase Government spending. It therefore appears that the formula plan might have rushed us into the wrong course of action last summer. We do not believe it should ever be a substitute for careful study of all of the conditions affecting the economy, and the making of plans which then appear to be appropriate to the particular kind of difficulties which require attention and which cannot be described in advance.

The value of cheap credit.—The difference in our position from that of the subcommittee arises in part from a somewhat different view of the desirability of low interest rates. In the report of the subcommittee it is said, and repeated, that low interest rates are generally beneficial, but it is proposed to yield that principle in periods of inflation and to use central bank operations to induce an increase in the cost of money.

Our view is that low interest rates are always desirable. In periods of inflation they have the undesirable collateral consequence of contributing to inflationary forces, but even then they have the economic advantage of facilitating the expansion of productive capacity which is the best road to stability. Where we differ with the subcommittee is that we would not abandon the advantages of cheap money and use central bank operations to cause an anti-inflationary increase in interest rates. We would retain the advantages of cheap money and adopt other measures to curb the inflationary forces. In extreme cases, as in 1947–48, we would tighten the availability of credit by pressure upon bank reserves under the plan proposed by the Federal Reserve Board at that time, but would hold the resulting trend to higher interest rates within narrow limits.

Regulation of installment credit.—Another point not discussed by the subcommittee is the regulation of installment credit. The President has recommended that the authority of the Federal Reserve Board to regulate installment credit be renewed, and the Council has already presented to the joint committee its view that it is highly desirable to curb the growth of such credit and to force sellers to compete in prices and not in easy terms.

IV. RESERVE REQUIREMENTS OF COMMERCIAL BANKS

That part of recommendation IV which relates to the application of reserve requirements to nonmember banks in line with those imposed upon member banks is in accord with the proposal in the recent Economic Report of the President. The added recommendation that nonmember banks then be given Federal Reserve discount privileges should be carefully considered with attention to the desirability of retaining all of the advantages which are now found in Federal Reserve membership, of which the very broad right to rediscount and to borrow is the most important.

VI. MONETARY POLICY RELATIVE TO SILVER

There is no value to monetary policy in the silver-buying program to which recommendation VI applies, but it is of too little significance to involve any monetary danger. It was established by the Congress for other than purposes of monetary policy and its continuance or abandonment should depend upon congressional decision with respect to a policy of subsidy.

VII. RESTORATION OF GOLD STANDARD

We thoroughly agree with recommendation VII opposing the proposal for the restoration of free domestic convertibility of money into gold. The subcommittee has not discussed the companion proposal for a free market for gold, which also we oppose.

X. NATIONAL MONETARY AND CREDIT COUNCIL

The coordination of the many Government programs for loans and the guarantee of loans as proposed in recommendation X is so desirable that it is probable that action will have to move beyond the proposal of the Subcommittee for a National Monetary and Credit Council, with only advisory powers. A procedure may be needed whereby the authority of the Executive Office is brought to bear in positive manner to bring the policies of the several agencies into harmony. The organization of an advisory council at this time would not interfere with the subsequent program of more positive control and if that program should later be set up, it could readily furnish an important place for the advisory council.

XI. NATIONAL MONETARY COMMISSION

We believe the subcommittee is right in proposing that a broad study of monetary and credit systems and policies be undertaken by the joint committee and the standing committees rather than by a national monetary commission. The report of the subcommittee is itself the climax of exactly the kind of inquiry for which a national monetary commission has been proposed. In organization of the technical staff, in the range of its hearings, and in the character of its witnesses, the inquiry by the subcommittee has followed the precise methods which would be adopted by an extra-congressional commission. It has not only had available every process and talent which a commission could use, but it has been able to initiate, organize, and complete a splendid study within less time than a commission would require to organize a staff.

It should be recognized that the joint committee now completely fills the role in matters of economic policy for which national commissions have occasionally been created. Like a commission, its studies cut across the jurisdictional lines of all standing committees, and like a commission, its membership includes members from both Houses of Congress. It does not include other citizens, but the views of others are just as available to the joint committee as they would be to a commission of which they were members. One important advantage of the joint committee in a broad study is that the standing committees move forward with their work upon individual problems within the broad field under investigation. When a commission is appointed, there is always a disposition to suspend consideration and action upon separate problems until the long-delayed report of the commission is presented.

XIII. EARNINGS OF FEDERAL RESERVE IN EXCESS OF DIVIDEND REQUIREMENTS

Whether the franchise tax on the net earnings of the Federal Reserve System should be enacted to replace the voluntary contribution now being made does not involve any economic question. The present method seems to be working satisfactorily, but the question is one of administrative policy upon which the Council has no opinion.

OTHER RECOMMENDATIONS FOR STUDIES

Recommendations IV, V, VII, VIII, IX, XI, and XII propose a number of other studies of subjects and problems. The character of the subject-matter to which these studies would be directed is well described in the report. They would be so valuable to the effort to carry forward the novel national policy established by the Employment Act that the Council earnestly supports the proposal that it be made possible for the staffs of the joint committee and of the standing committees to enter upon these projects, in the course of which the Council will be eager to participate and to offer every assistance.

ADDITIONAL GENERAL COMMENTS ON REPORT OF SUBCOMMITTEE ON MONETARY, CREDIT, AND FISCAL POLICIES

The scope and significance of fiscal policy

The Council agrees with the subcommittee's view that monetary, credit, and fiscal policies "can be very powerful * * * for promoting general economic stability." We also agree that "they are not a panacea for all economic ill * * * and if not used in a coordinated and supplementary manner * * * are likely to prove insufficient to cope with strong cumulative forces," and that "in fact these policies may completely defeat each other."

The Council desires to elaborate upon the importance of the foregoing quotations from the Subcommittee report.

Fiscal policy may be narrowly defined to include the management and the constant refunding of the 250-billion-dollar debt, the imposition and collection of more than 40 billion dollars of general and of social-security taxes each year, and the movement into the economic currents of Federal expenditures of comparable volume. Even as so narrowly defined, these operations have an effect immeasurably greater than that which similar operations produced before the war. All of these activities of Government must perforce be controlled by deliberate decision, based upon some rationale. The Employment Act has now established a principle of public policy which requires that the decision in each instance shall be related to the objectives of that act. The Federal Reserve System must also make its decisions relating to central-bank operations affecting money and credit, and the Employment Act requires that each decision shall now be made with attention to its effect upon economic stability. When threatening conditions arise, the fiscal, monetary, and credit policies will naturally be among the first to be directed against them, because those policies are being determined every day.

It should be recognized, however, that besides the over-all impact of strictly fiscal policy relating to expenditures, revenue, and debt management, there are specific effects upon the economy of specific tax and specific expenditure programs. Such programs as unemployment insurance, social security, aid to veterans, farm price supports, public works, and those relating to financing of housing and of business needs have specific effects on the labor force, productivity, work incentives, capital equipment, and the other factors that determine economic growth. Similarly, each change in taxes affects not only the flow of funds but also work incentives and consumers' and business' attitudes. Both the aspects of Government transactions, the impact on the flow of funds, and the specific effect on consumer, business, and work attitudes require examination. As thus more broadly defined, it is certainly true that fiscal policy assumes prime importance in the consideration of the relationship between governmental programs and the objectives of the Employment Act. Here lies a wide and promising area for study both by the joint committee and by the Council.

The report of the subcommittee has dealt mainly with problems of fiscal policy arising out of the narrower definition. However, the Council believes that the important programmatic aspects of fiscal policy will receive equal attention from the Joint Committee on the Economic Report toward the end that the range of the committee's work may be as broad as the purposes of that act. We make this observation because we feel that the committee shares our view that the manipulation of fiscal policy in the narrower sense will in itself prove inadequate to the problems of that act. The Council will be equally ready to cooperate with the committee as it turns to a fuller consideration of these broader programmatic aspects of fiscal policy.

Objective of stabilizing the private economy and compensatory fiscal policy

The Council has always been careful not to place excessive reliance upon the use of fiscal policy as a compensatory stabilization device. The view of the Council focuses upon promoting greater stability within the private sector of the economy itself and regards Government policy for mitigating and compensating fluctuations only as a second line of defense. Frequent variation in tax rates and Government programs, though responsive to short-run fluctuations in the economy, may impair to some extent the chances of greater long-range stability in business decisions. This view leads to giving the greatest attention to all possible avenues through which the heavy fluctuations in private business investment can be more nearly straightened out. Any policy which aims at promoting stabilization within the private-enterprise system must be greatly concerned with the development of prices and wages in the economy. In view of the fact that in important areas of the economy prices are determined by the deliberate decision of management, and that wages to a large extent are determined by collective bargaining involving millions of workers, it is of extreme importance to recognize clearly what price and wage policies of private enterprise and labor unions would be most conducive to economic stabilization. It is a challenging task to work out and secure public recognition of the principles involved. When it has been accomplished, a long step forward will have been taken even without any attempt on the side of Government directly to enforce adherence to such principles by business and labor.

The effort to promote the purposes of the Employment Act requires use of the many measures which encourage steady economic expansion in standards of living, productive capacity, and community services. The confidence of business that the Government will combat heavy fluctuations in itself will have an important stabilizing influence.

The task of monetary, credit, and fiscal policies in a high employment economy

Recommendations for improved arrangements for monetary, credit, and fiscal policies must be considered in the perspective of the task that such policies may have to perform in the future. We must see to it that we are better prepared if we should be confronted again with the same problems of inflation which we have experienced during the war and postwar period. We cannot ignore the possibility that increased international tension may lead to the need for increasing defense or other international expenditures. Therefore, our monetary, credit, and fiscal machinery should be so designed as to enable us to deal with such contingencies.

It is quite possible, however, that under peacetime developments we may encounter a different type of inflationary pressure requiring different remedies. It is conceivable, for instance, that the knowledge of business and labor that the Government will step in if substantial unemployment develops might introduce a tendency toward price and cost increases, an "inflationary bias," into the economic system. This might take place even if at the same time inadequate investment results in deflationary potentialities.

This sort of inflationary bias, which may or may not be associated with deflationary developments in other sectors of the economy, would be different in origin and nature from the kind of inflation which is usually considered in connection with the use of monetary, credit, or fiscal policies. True, by a vigorous use of such policies we may curtail effective demand by business and consumers and thereby may counteract the tendency toward price and cost increases. This use of monetary, credit, or fiscal policies, however, may at the same time curtail demand so effectively as to cause serious unemployment. If a policy of maximum production and employment creates certain problems, we must deal with these problems rather than solve them by abandoning the policy which the Congress has directed the Government to pursue.

We believe that a democratic society must find suitable means for dealing with new problems as they occur. We hope that the joint committee will join with the Council in encouraging the development of arrangements which could serve as a guide for dealing with price and wage problems by business and labor in a cooperative spirit.

D. Separate Questions Submitted by Congressman Rich

Before answering the specific questions raised by a member of the committee, it may be desirable to make some general comments on his list of questions as a whole.

Several of these questions raise the issue of whether the Nation is on the way to socialism, and whether the policies and programs recommended by the President or suggested in the Council's Annual Economic Review might soon result in a rather completely managed economy with the Government taking the responsibility for directing most of the decisions concerning investment, production, and employment.

The Council wants to make it very clear that it does not subscribe to such a view, and that in its judgment such a view has never entered into the Economic Reports of the President. We have from the start been fully in accord with the stated objective of the Employment Act of 1946, in which the Congress directed the President and the Council "to promote maximum employment, production, and purchasing power * * * in a manner calculated to foster and promote free competitive enterprise." We not only agree with the desirability of this objective, but believe that it is attainable. We are working to the best of our abilities to suggest means of attaining it.

However, the Congress obviously did not intend to say that the Federal Government should refrain from utilization of programs intended to affect the economic situation. On the contrary, the act states—

> The Congress hereby declares that it is the continuing policy and responsibility of the Federal Government to use all practicable means * * * to coordinate and utilize all its plans, functions, and resources—

for the purpose of maintaining stable and prosperous economic conditions.

It is always difficult to decide how far the Federal Government needs to go for this purpose, and what specific policies and programs are most needed. There is room for genuine disagreement on this subject. But we believe that action thus far under the Employment Act has been based on an objective appraisal of the economic situation and outlook and of the programs needed now and in the near future to assure continuing prosperity with a minimum of interference by the Federal Government in the economic plans and decisions of private enterprise.

The Council's views on this important subject are more fully detailed in its Fourth Annual Report to the President, Business and Government, published in December 1949.

Question 1

The President's Economic Report of 1949 reported that in 1948 more than 1,000,000 homes had been built by private industry; and that more than 1,000,000 homes had been built by private industry in 1949. Yet he has asked, and there are pending measures to provide for the expenditure and financing of billions of dollars of Federal funds for financing more and more housing. Do you think there is any necessity for more Federal financing of homes for middle- and lower-income people?

Comment.—A large proportion of the middle-income families are housed in cramped or otherwise unsatisfactory quarters. A larger proportion of low-income families also are inadequately housed. To provide desirable housing for all these families in reasonable time will require a substantial increase in residential construction. The Council's Annual Economic Review, on page 102, pointed out that—

> housing investment needs stimulation more than any other type, whether measured by the opportunities which this would afford to business enterprise or by the people's needs for shelter. With a well-established and Nation-wide program for subsidized low-rent housing under way, the outstanding problem now relates to housing for middle-income groups.

This will require additional financing methods and resources, which should utilize Government stimuli primarily to release for housing investment massive funds of private capital which thus far has not entered this field sufficiently. It will also require further improvements in private construction techniques, which can be promoted by cooperation between private industry and the Government.

Question 2

The President has advocated raising individual incomes to $12,500 a year, and foresees a national income of a trillion dollars by the end of this century. Do you care to make any observations on that?

Comment.—The estimates of national income and family income at the end of the century cited by the President appear to be in conformity with past trends of growth in output. Over much of our history, national output has doubled every 20 years. If we made the same rate of progress in the future, national output would be over a trillion dollars by 1990, assuming the present price level. The projected growth in national output in the future is based on the expectation that the past rate of increase in output per man-hour worked will continue. This in itself would give a gain in national output of at least 2 percent a year. It is true that there will probably be a much smaller rate of population growth in the future than over the past 50 years. Between 1900 and 1950 the population roughly doubled. Over the next 50 years a 25 to 30 percent increase is all that can be expected. The slower rate of population growth may be partially offset, as far as growth in the national product is concerned, by the fact that hours are not likely to fall as fast in the next period as they did during the period when the 60- or 65-hour week was being reduced.

The increase in average family income (including single individuals) from the present level of about $4,000 after taxes to about three times that size by the end of the century seems reasonable in view of the increase in national income discussed above. It should be remembered, however, that any estimates for 50 years hence are mainly important as illustrating the potentialities of the economy, and should not be treated as precise forecasts.

Question 3

Is it not reasonable to assume that as national income is stepped up through Federal spending, there will be corresponding increases in Federal spending?

Comment.—The degree to which this question refers to the President's Economic Report or to the Council's Annual Economic Review is not understood. Neither report proposes or assumes that the national income should be "stepped up through Federal spending." Both reports emphasize that increased national income must come chiefly through increased productivity, resulting from high levels of private business investment, of improving labor and managerial skills, and of private price and wage policies which will support expanding purchasing power. Under the programs proposed by the President in the budget, the ratio of Federal expenditures to the Nation's Economic Budget total should decline over the next few years. In July 1949, there were many who advocated the stepping up of public spending to reduce unemployment, but the Council in its midyear Economic Review advised against that course.

Question 4

It is a fact, is it not, that our national income of the present is at its high peak as a result of outpourings of Federal funds for both domestic and foreign hand-outs?

Comment.—It is true, of course, that Federal expenditures increased greatly during the war and have since been at high levels. The high volume of Federal expenditures during the postwar years should be viewed in the light of the fact that during the four calendar years 1946–49 total Federal cash receipts from the public exceeded total cash payments to the public by some $12,000,000,000. It is also important to note that during this same period Federal purchases of goods and services amounted to less than 10 percent of the total gross national product. These two facts make it plain that a number of factors other than Federal expenditures contributed to the sustained high levels of production, employment, and purchasing power.

Other major factors have been (*a*) an enormous investment in expansion and improvement of productive capacity, (*b*) the vast accumulation of deferred payments and liquid funds during the course of the war, and (*c*) generally prudent private and public policies during the postwar period which restrained inflationary pressures and prevented a serious slump.

The large Federal expenditures in recent years obviously were not undertaken for the purpose of propping up our domestic economy. In fact, it was understood from the start that some of the postwar programs would inevitably add to our difficulties in controlling inflationary pressures. In spite of this, our long-run national interest required heavy expenditures for such programs as those for foreign aid and military preparedness.

Question 5

The President's economic message of January 6, 1950, recites that businessmen, wage earners, and farmers must work toward the same ends, and that "Government, in turn, must carry out the aspirations of the whole people." What do you understand that to mean?

Comment.—As stated in the President's Economic Report, the common interests of all groups in our society—business, labor, farmers, and consumers—revolve around a few basic objectives. In the economic sphere these are: (1) A stable and growing economy; and (2) the participation by all groups in the creation of the growth in our national wealth and resources and a sharing of the benefits of such growth. In the political sphere, the common objective is the strengthening of our free institutions. Individuals and groups of individuals contribute to these ends by shaping their private policies in terms of these common ends. Government, on the other hand, representing as it does, the whole people, has the function of viewing the economy as a whole and of proposing general measures which cannot be carried out through individuals. Part IV of the Council's Economic Review makes specific recommendations covering both private policy and Government policy.

Question 6

Can it mean other than that the Government must ride herd on, and control, all private activities?

Comment.—The President's statement quoted in question 5 does not mean "that the Government must ride herd on, and control, all private activities." It is designed rather to strengthen the role of the individual by encouraging him to carry out policies which will obviate the need for expanding the role of Government.

Question 7

The President recites a goal to bring about "the complete elimination of poverty," seemingly through the control by Government of all business activities. Do you think the complete elimination of all poverty possible, with or without the intervention of Government?

Comment.—In discussing the goal of "the complete elimination of poverty," the President did not state that this would require the control by Government of all business activities. He specifically pointed out that the major role would be played, as in the past, by the efforts of the individual citizens of this country. We have already made great progress in lifting the standards of living of the lowest income groups. As long as we continue to grow in our productivity and in our wealth, there is every reason to believe that we can attain the complete elimination of poverty. To believe otherwise is to fail to recognize the great productive power of our free American society.

Question 8

Can the plans submitted by the President mean anything other then plans to tax and tax, spend and spend, and elect and elect?

Comment.—The plans submitted by the President aim at promoting economic conditions under which the economy will expand so as to reach and maintain maximum production and employment. In an expanding economy existing tax rates will yield growing revenues and will, with the expenditure programs recommended by the President, result in a cash surplus of the Federal Government some years from now. This movement toward a balanced budget would be accelerated by the changes in our tax laws which the President has recommended. The Council has repeatedly expressed its views that it favors economy in Federal spending at all times. It is the joint responsibility of the President and of the Congress to determine whether the expenditure programs recommended have been held to the minimum that is compatible with existing obligations, with the requirements of national security, and the most essential needs of a growing economy.

Question 9

New Zealand and other countries have completely repudiated their Labor-Socialist governments, and demanded a return to former sanity in governmental affairs. Do you subscribe to the thoughts of many persons that we in the United States have traveled far on the road to socialization of industry?

Comment.—We do not subscribe to such thoughts. What we see is Government seeking to strengthen the forces of free enterprise, not to weaken them. Our free-enterprise system is larger and more profitable than it has ever been in the prewar period. There are no socialized industries in this country nor are any industries threatened with socialization. Moreover, the Government has pursued a policy of disposing to private enterprise the plants it built during the war. The latest step is the President's report on the future disposition of the synthetic-rubber plants. When foreign critics attack the socialism of their own governments, they point to the United States as the successful alternative to socialism. The intent of the Employment Act is that this country remains such a successful alternative.

Question 10

Do you think we in this country still have a chance to retrace our steps from inclinations to socialization, and return to our republican form of government?

Comment.—This has already been answered under question 9. We feel that the Nation has retained its republican form of government, and that our free institutions are as flourishing as ever.

Question 11

Do you think we could repudiate our past and present trend more cheaply now than we could if we follow that trend further?

Comment.—The "trend" which is mentioned in this question is not identified, but it seems to refer to a "trend" toward socialization. If that is the reference intended, our views are to be found in the comments under questions 9 and 10.

Question 12

Do you subscribe to the view held by many persons that present and past governmental programs have served to help one class, or more classes of people, at the expense of another class or of other classes?

Comment.—Since the whole economic community is so much better off than it was before the war, and since generally each group in our economy is enjoying a higher standard of living, there is presumptive evidence that past and present governmental programs have not been at the expense of some classes of people. The fact that a particular program is devised in terms of a particular group does not mean that other groups necessarily suffer. Indeed, the problem is the other way. As the President said in his Economic Report, "If any part of our economy is depressed or fails to gain, it can only serve as a drag against the gains of other parts."

Question 13

The President's economic message of January 6 last, says: "There is no room for the feeling that one group can prosper only at the expense of another." Do you believe that has actually been, and is, occurring in this country at this time?

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Comment.—What the Economic Report was pointing out was that as long as the economy grows in size so that our national output increases, there will be more available for all. Hence, our efforts should be directed toward achieving and maintaining growth at a steady rate so that all may benefit. The feeling that one group enjoys prosperity at the expense of another arises in periods when the economy fails to grow or is depressed and when large groups of our population are unemployed or are living under substandard conditions. Currently, we are enjoying a high level of output, although somewhat short of maximum employment. We do not agree that having a level of employment below our potential confers benefits on any major group in our economy. On the contrary, we believe that it prevents them from enjoying the higher standard of living they could have if maximum employment were achieved.

Question 14

Do you subscribe to the thought expressed in the President's latest economic message that: "The fiscal policy of the Government must be designed to contribute to the growth of the economy;" or do you think activities of the Government should be confined to governing and enforcement of salutary laws on proper subjects?

Comment.—The Council is in full accord with the quoted statement by the President. We feel that such an approach to the fiscal policy of the Government is required by the declaration of policy of the Employment Act of 1946.

Question 15

The President's Economic Report of January 6, last, states that we had 3½ million people unemployed in the United States in 1949, and that unemployment should in the next year be reduced to 2 or 2½ million in the near future. The Department of Labor reported that $1,700,000,000 was paid out to the unemployed in 1949 from the unemployment fund, a record for all time. Do you care to comment on that?

Comment.—This statement may be directed at the fact that in prior years, notably 1938, 1939 and 1940, unemployment-compensation payments were less than in 1949 although the level of unemployment was higher. There are three main reasons which account for this:

(1) Since unemployment compensation laws did not become effective until 1937 a considerable portion of the persons unemployed in 1938, 1939, and 1940 had not worked sufficiently to earn wage credits which would enable them to draw unemployment-compensation benefits.

(2) There has been a considerable broadening of the coverage under State unemployment-compensation laws during recent years.

(3) The level of payments has been raised and the number of weeks that the unemployed may draw benefits has been increased.

Unemployment-compensation payments serve a useful economic purpose when business activity is declining. They add to the buying power of consumers and thereby help to bolster weakening markets. Despite the fact that total payments in 1949 amounted to $1,700,000,000, it may be pointed out that as of November 1949 public unemployment benefits were being received by only about two-thirds of laid-off workers and represented compensation for only 20 to 25 percent of the Nation's total wage loss due to unemployment. In a number of the areas with severe and long-continued unemployment only about one-third of the laid-off workers were receiving benefits at the end of 1949.

The fact that unemployment-compensation payments are so large when 3,500,000 persons are unemployed is an additional reason why we, as a nation, must strive to reduce this unemployment, as called for in the Economic Review.

Question 16

The new Wages and Hours Act takes effect January 25, 1950, and the Department of Labor has suggested that the increase of 40 cents an hour will fall short of buying what it would have bought when the first Wages and Hours Act was passed. Does not the new act merely add to inflationary pressures that beset us from every angle?

Comment.—The facts are that the cost of living has increased so much during recent years that employees being paid 40 cents an hour today are receiving only about 25 cents an hour in buying power compared with what 40 cents would buy when the Fair Labor Standards Act was passed.

As a result of the war, the levels of wages, prices, and profits in monetary terms have all been raised. Because of this workers today receiving only 40 cents cannot possibly maintain decent living standards. A 40-cent wage does not provide adequate purchasing power to enable those persons receiving it to adequately support the market for the goods being turned out by our highly productive economy. It appears, therefore, that there is a valid social and a valid economic argument for raising the minimum wage.

Whether a 75-cent wage necessitates a price increase by an employer depends of course, upon what productivity changes have taken place in the particular establishment. It is estimated that productivity in manufacturing generally has over the long run been increasing at an annual rate of something like 2½ or 3 percent and for the economy as a whole at something like 2 percent. In the situation existing currently of higher price levels and of high productivity, and in view of the relatively few employees affected in any large measure by the new minimum, it does not seem that the new law "could add greatly to inflationary pressures."

In any case, the strong inflationary pressures that existed in 1946, 1947, and 1948 have moderated. The Council does not think that a minimum wage of 75 cents an hour will confront us with the danger of renewed inflation.

Question 17

Do you consider that unemployment payments, social-security payments, and all other payments and expenditures made by the Federal Government tend only to increase inflationary pressures?

Question 18

Is it not a fact that all Federal expenditures are inflationary, and demand readjustments to meet the inflation they cause?

Comment.—The impact of Federal expenditures can be appraised only if considered in the light of methods of financing and in the light of economic circumstances. Under our social-insurance system the Federal Government is collecting substantially more contributions than it is disbursing to beneficiaries. Therefore, the social-security system, viewed as a whole, has been deflationary rather than inflationary.

Considering all cash payments to the public and cash receipts from the public of the Federal Government, the Government received more in taxes than it spent through most of the period from 1946 through 1948. Thus the net effect of Federal fiscal operations was to reduce the inflationary tendencies that prevailed during this period.

Question 19

It has been suggested that if the President's predicted raising of national and private income does reach the goals he set, the value and purchasing power of the dollar will be correspondingly reduced? (David Lawrence has estimated that if the President's goals are attained, the dollar will have a purchasing power of about 18 cents.)

Comment.—The suggestion amounts to saying that income in real terms cannot increase at all in the next 5 years. We cannot agree. The estimated goals set forth by the President for 1954 assume the same price level as in 1949. The growth in output and income arises mainly from an expected rise in output per hour of work, and to a smaller extent from an increase in the working population. Any increase in the price level over that of 1949 would make the projected income higher.

The decrease in the buying power of the dollar in the past 50 years was due in largest part to two world wars and to the ensuing inflations. Some business experts even go so far as to say that it was "perhaps entirely" due to the two wars. Any assumption that a corresponding decrease in the value of the dollar will take place in the next half century apparently involves the further assumption that there will be two more world wars and that we have learned nothing from past experience about controlling inflation, which will permit us to avoid the same consequences as those following similar events in the first half century.

Question 20

Since the devaluation of foreign currencies, it is noticeable that our exports are down and our imports are increasing rapidly. Do you subscribe to the theory that the devaluation of foreign currencies will result in flooding our markets with goods that will undersell our own?

Comment.—The Council does not expect devaluation of foreign currencies to bring about an increase of imports that could properly be described as "flooding our markets."

The decrease of exports and increase of imports referred to in the question began several months before devaluation occurred. Exports began to fall in July. Their decline is in large part the result of measures taken to stop the drain of the United Kingdom's gold and dollar reserves that resulted from the rise in the sterling area gold and dollar deficit which began in the spring. The recovery of imports began in August and appears to have resulted from the same forces that brought about general economic recovery about that time; i. e., the resumption of business buying. The increase in imports continued to the end of the year, but the rate of increase was diminishing.

A further increase in the quantity of imports is to be expected as a result of devaluation. A rise in imports is essential if the export surplus is to be significantly reduced without harmful effects upon foreign countries. The export surplus is being financed mainly by Government aid, and a decrease in the export surplus will make it possible to reduce this important element of Government spending. If high levels of domestic demand are maintained in accordance with the Employment Act, increased imports can be absorbed without reducing the market for domestic production, and indeed consistently with increases in that market. (The Council's views as to the effects of devaluation on United States foreign trade are stated in its January 1950 Annual Review in the paragraph beginning at the bottom of p. 58.)

Question 21.

With foreign trade barriers being leveled, under the Reciprocal Trade Agreements Act and under the Foreign Assistance Act, do you consider there will be a tendency to importations of cheaper merchandise that will injure American industry and labor?

Comment.—The reduction of foreign trade barriers under the Reciprocal Trade Agreements Act—no reductions are being made under the Foreign Assistance Act—will reduce interferences with the American citizen's ability to buy goods from the cheapest sources. As a result, an increase in imports is to be expected, but not to an extent that will injure American industry and labor. Since 1947 the standard escape clause has been required in all new reciprocal trade agreements. This clause provides protection against such harmful effects by providing for the withdrawal, modification, or suspension of concessions that cause or threaten to cause serious injury to domestic industry. In administering the act, great care has been exercised to avoid any reductions in trade barriers which would result in such injury. Should injury result from unforeseen developments or from concessions made under the act, a procedure has been established under which the domestic industry may request an investigation by the Tariff Commission looking toward appropriate action.

It should be noted that increases in the dollar value of United States imports have a stimulating effect upon United States exports. Under present conditions, our exports are limited mainly by the supply of dollars available to foreign countries. Expanded imports increase this supply of dollars.

It should also be noted that concessions under the act are reciprocal. While the concessions made by other countries on imports from us may not have much immediate economic effect under present conditions, they will become effective when the foreign countries are able to pay for larger quantities of our goods.

JANUARY 1950 ECONOMIC REPORT OF THE PRESIDENT

[The following hearings were held in executive session of the committee but are made a part of the printed record by mutual consent]

WEDNESDAY, JANUARY 18, 1950

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

The joint committee met, pursuant to adjournment, at 10:20 a. m., in room 318, Senate Office Building, Washington, D. C., Senator Joseph C. O'Mahoney (chairman) presiding.

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

Also present: Theodore J. Kreps, staff director; Grover W. Ensley, associate staff director; Fred E. Berquist, economist for the minority, Joint Committee on the Economic Report.

Frank Pace, Jr., Director; Frederick J. Lawton, Assistant Director; Elmer B. Staats, Executive Assistant Director; G. Griffith Johnson, Fiscal Division; Donald B. MacPhail, Legislative Reference Division, Bureau of the Budget.

Dr. John D. Clark, Council of Economic Advisers.

The CHAIRMAN. We have before us this morning the budget. You gentlemen from the Bureau of the Budget have the slight task of telling us about it. I understand that you do not have a prepared statement. In our session today I think it is just as well not to have a statement as it will develop the freedom of across-the-table discussion. I do not want to suggest to you how you should start—I leave that in your hands. Mr. Pace, will you take the lead?

Mr. PACE. Mr. Chairman and members of the committee, I want to say first that it is a pleasure for me to have an opportunity to appear before this committee and discuss the Federal budget and its general relationship to the economic report.

I want to say secondly that I chose to speak to you directly rather than from a prepared statement, because I felt that, although my presentation might suffer, as a presentation, I would be in a position to produce more substance by discussion.

In discussing the 1951 budget, I would like first to call attention to certain new features of the document which I think will be of great aid to this committee and all Members of the Congress in their consideration of the budget. I will not discuss the fact that the budget is presented for the first time on a performance basis, which fundamentally provides not only the Congress but the executive branch and the people themselves a better opportunity to evaluate what the money is actually being spent for and furnishes a better basis of comparison within the various branches of the executive branch.

Secondly, for the first time, we have presented in the budget what is known as a character classification. This classification is designed to show those items of expenditure in the Federal budget which might be considered to be returnable. It provides the same sort of information that a capital budget provides generally for a business, except that it, of course, does not provide for depreciation. This would be an exceptionally difficult problem, as you can see, in the Federal budget. Nonetheless, for the benefit of the Congress and the people, that particular section is in the budget.

Furthermore, the budget this year also includes a "Management" section. This is included because for the first time an active management-improvement program has been integrated into the budget or fiscal process on a formalized basis. I think this particular "Management" section will give this committee a picture of exactly where the Federal Government is moving in this particular area, both with respect to the reports of the Commission on the Organization of the Executive Branch of the Government and with respect to actual performance within the executive branch.

The CHAIRMAN. Where is this particular classification to be found?

Mr. LAWTON. Page 1113.

The CHAIRMAN. Performance basis, of course, runs right through?

Mr. PACE. It runs right through the budget; yes, Mr. Chairman.

I intend to confine my remarks, with your permission, to the expenditure programs and their outlook, because the tax features are generally in the province of the Secretary of the Treasury, and the President's tax message is currently being prepared. Therefore, any statement I might make would be premature.

I thought that it would be useful to this committee if I touched on four general areas. I thought I would touch on the general process of preparing the budget and some of the major policy issues in its preparation. I thought that I would also discuss the particular situation which was faced in preparing the 1951 budget with respect to the kind and type of commitments that were already undertaken in the Federal program.

Third, I thought I would talk about the assumptions and the policies that were followed in preparing the 1951 budget—in other words, the policies and the economic assumptions underlying it. I thought, finally, I would indicate where, from the President's point of view, the present 1951 budget might take us in the future.

I can vary my presentation in any form that suits the committee, but that seemed to me to be the most logical method of expressing exactly how the 1951 budget fitted into the general economic picture.

The CHAIRMAN. So far as I am concerned, Mr. Pace, I should be interested in your summary now of what you call returnable items because, as a member of the Appropriations Committee, I know that we have never paid any specific attention—that is, in the sense of having any aggregate figures—to those appropriations which go into productive enterprise which bring back payments to the Federal Government or which result in the acquisition of materials which are the property of the Federal Government.

For example, in the last session of Congress, as you know, there was quite a long struggle in the committee about the expenditures for stock piling. Now, ordinarily the appropriation for stock piling just goes as an expenditure, and little or no attention is given to what the

Government receives in return, but it is a very definite acquisition because it is physical material which is the property of the Government and, therefore, on a regular balance system the whole thing would be written off.

Mr. PACE. May I speak to that in connection with my development of the whole program?

The CHAIRMAN. Very well.

Senator FLANDERS. May I ask you first—I do not see that this particular question that is segregated in the big budget book is segregated in the little book—The Budget in Brief.

Mr. PACE. It is not. It was felt to be too complicated.

Mr. RICH. In reference to the duties to be performed by the Budget Bureau, are you a representative of the Federal Government, insofar as you are trying to present a program to the Congress in the form of a budget that you consider the sound, just, and proper thing to do, or are you submitting a budget that is supposed to be the will and desire of the President?

Mr. PACE. Definitely the latter, sir. We are a staff agency to the President within the executive branch. We follow his policy and direction. The policies he establishes are the policies that are included in the budget. We are merely the vehicle by which the budget is actually produced and transmitted to the Congress. Of course, we also have the responsibility of advising the President on the implications of policy decisions in each area.

Mr. RICH. The responsibility for the budget, the amount of the income and outgo, depends entirely upon his judgment and what he wants, and you are only the agency and speaking for him?

Mr. PACE. We speak for him only in a staff capacity.

The CHAIRMAN. It seems to me that might be clarified just a little bit. You do not want to leave the implication that by direction of the President you come up here with suggestions for expenditures which have not previously been authorized by the Congress, do you?

Mr. PACE. No; not at all, Mr. Chairman. The budget is primarily based on what, in the President's judgment, is required to carry out provisions of existing law. All of the detailed material on the programs of agencies is based on programs already authorized. Since a budget to be meaningful must be comprehensive, however, the President's message and summary statements include estimated expenditures for any new legislation the President is proposing. Actual requests for appropriations to carry out these programs are not transmitted to the Congress, however, until after the authorizing legislation has been passed.

The CHAIRMAN. So that your budget is divided into two segments, one designed to carry out a policy already adopted according to constitutional method by Congress with the signature of the President; and, two, those included in the budget message suggesting legislation which would authorize future expenditures.

Mr. PACE. That is exactly accurate. My intention in answering the question was to indicate that our function in performing for the President the operations that we perform is that of carrying out Presidential determination.

Of course, the President's determinations are based upon laws enacted by Congress.

Mr. RICH. You can see that the President has to have somebody at his defense at all times, especially in this committee.

The CHAIRMAN. Sometimes I think it is the Congress that needs the defense.

Mr. RICH. I think it is both.

Senator WATKINS. May I ask a question to clarify the work of the Budget Bureau?

The CHAIRMAN. Yes, sir.

Senator WATKINS. As I understand, you say you are the vehicle through which the President works in these policies that he has determined he wants to follow.

Mr. PACE. One of the vehicles, yes, sir.

Senator WATKINS. And when you speak, in effect you speak under the direction of the President.

Mr. PACE. That is correct; yes, sir.

Senator WATKINS. So, when a measure that has been introduced is sent to you from one of the committees and the committee wants a report, when you give it your approval, you are speaking in effect, for the President. It is in accordance with his policy, and you are stating it for him.

Mr. PACE. When we state that it is or is not in accord with the program of the President, we are stating that position for the President.

Senator WATKINS. When you approve a program and say it conforms to the President's program, it is tantamount to saying the President will sign the measure if it is like the one you consider?

Mr. PACE. It is not tantamount to saying that, because there might be later considerations that might cause the President to change a position.

Senator WATKINS. It would be his view at the time you made that statement?

Mr. PACE. That is right. It would be his view if it is specifically stated that a legislative proposal is or is not in accord with the program of the President. Sometimes that specific wording is not included in a report because there has not been sufficient opportunity to consider the proposal thoroughly, but generally that is true, sir.

Senator WATKINS. Your statements are not made to the Congress directly through the committees, but are made to the inquiring department of the Executive Office; are they not? You do not write a letter to the committee itself; do you?

Mr. PACE. Yes, sir; we do.

Mr. LAWTON. We supply advice to the Congress only when asked directly by the committee. Normally, our advice is given to the agency to include in its report to the committee. That is, about 90 percent of it at least.

Senator WATKINS. The reason I am asking these questions is because I probably do not understand just how the Bureau of the Budget operates, and I have noticed from time to time the departments will say, "This hasn't been submitted to the Bureau of the Budget, and we don't know whether it is in conformity with the President's program or not." I want to develop how this Bureau operates in connection with requests for legislation.

The CHAIRMAN. May I say in this connection, frequently the Interior Committee has wanted a report on a bill which has been introduced, but the committee has not received a report from the Department. So, at the direction of the committee, I have called up the Secretary and said, "We are waiting for a report on this," and his reply would be, "Well, it hasn't cleared the Bureau of the Budget." I say, "Well, give us a report anyway." Then they will send up a report expressing their opinion, but they will be careful to hedge by saying, "This has not been submitted to the Bureau of the Budget, and we don't know whether or not it is in conformity with the President's program."

Senator WATKINS. What I am trying to develop—I have in mind that the Bureau of the Budget in effect is speaking for the President as to whether or not the program is in conformity with his program.

Mr. PACE. That is fundamentally correct.

Senator WATKINS. When, for instance, a matter comes to you from the Interior Department, a reclamation program, a bill of that kind, you, in behalf of the President, attempt to pass on it to see if it is in conformity with his program?

Mr. PACE. Yes; we do, but we also obtain views of interested agencies.

Senator WATKINS. Do you have engineers there to pass on the engineering features of a project?

Mr. PACE. We have engineers, but fundamentally the President's position on technical phases of the projects is determined from the comments of all agencies.

Senator WATKINS. As a matter of engineering, for instance, the Bureau of Reclamation sends a message over; it has been sent down to the Interior Department and finally comes to you. You cannot send that to any other engineering organization, can you, because it has already been referred to an engineering organization?

Mr. PACE. It is entirely probable that it would be referred to the Department of Agriculture, the Corps of Engineers, and the Federal Power Commission.

Senator WATKINS. I mean for the engineering phase of it.

Mr. PACE. Only for the engineering phase. The information that comes from the Bureau of Reclamation is probably our major guide.

Senator WATKINS. Do you have engineers there who attempt to pass on what the Bureau of Reclamation recommends?

Mr. PACE. We do have men with engineering experience in the Bureau of the Budget; yes, sir.

Senator WATKINS. And at various times they have attempted to say whether or not this project is feasible from the standpoint of engineering or from the standpoint of economics?

Mr. PACE. Taking into consideration the positions as expressed by the various departments, yes, sir.

Senator WATKINS. And how many engineers do you have, men with engineering experience?

Mr. PACE. Specifically, we have only a small number.

Senator WATKINS. I would like to know how many.

Mr. PACE. We probably have 10 examiners in the civil-works field who are engineers. Fundamentally, the engineering and technical determinations are the responsibility of the departments.

Senator WATKINS. I do not want to pursue this too far, but I have been wondering, for instance, with a project like the central Arizona reclamation project—do you recall that one?

Mr. PACE. Yes, sir; I do.

Senator WATKINS. Did your engineers attempt to pass on that?

Mr. PACE. Yes, a recommendation was made to the President after review and analysis in the Bureau of the Budget, just as is done on all major projects. The determination was made at the Presidential level. As to the engineering feasibility of it, that fundamentally is a responsibility of the operating agencies.

Senator WATKINS. Would you take the recommendation of the agency sending it over to you rather than your own engineers' view of it?

Mr. PACE. In terms of feasibility, generally, yes.

Senator WATKINS. And from the standpoint of economics as well, inasmuch as they do have economists in the Bureau of Reclamation, would you take their findings?

Mr. PACE. Not conclusively, sir, because any agency generally views the proposition only as it relates to a specific area and to a specific project. The responsibility of the President, however, is to consider its relationship to the whole fiscal program of the Government. The Bureau of the Budget is the one place in which the opportunity lies to give it that sort of consideration.

Senator WATKINS. Suppose the policy had already been determined to build reclamation projects that did fit into the over-all economic picture and the program of the President. Would your staff attempt to pass on whether or not this particular project was feasible from the standpoint of economics?

Mr. PACE. From the point of view of economics, it would be a Presidential determination of whether it fitted into the program.

Senator WATKINS. I am assuming, if you keep in mind what I have assumed, that it is the policy of the President, for instance, and the administration, to further a reclamation program.

Mr. PACE. That is correct.

Senator WATKINS. And under a general set-up whereby the costs are to be returned or allocated to various things that may be charged against the National Treasury—would your office attempt to determine whether or not that project fitted within that situation and pass on the economics?

Mr. PACE. We would pass not only on the over-all economic feasibility but on whether the allocations of costs were in accordance with law. The President is committed to a program of national security, a program of international development, a program of agricultural development. In each of these areas he is committed, but the extent to which he can move is one that is determined by over-all fiscal considerations as well as the demands of the international and national security situation.

Senator WATKINS. What I am attempting to do is to assume a general approval of the program and get right down then to say whether or not a particular project fits within that or not. I am assuming it is part of the national policy and has been approved as part of our security to build these projects.

Mr. PACE. That is correct. The problem then is the extent to which we move and the timing.

Senator FLANDERS. What about the selection of particular projects?

Senator WATKINS. That is the thing I am trying to get at, as to whether or not they pass on this one, and say this one is economically feasible or not, and then whether or not you have the staff to do that sort of thing.

Mr. PACE. Based upon information that comes to us from the departments, we have information as to merit and relative priority of particular projects. That information is not developed purely within the Bureau of the Budget.

Senator WATKINS. You attempt to check up on that by independent investigation?

Mr. PACE. In certain cases yes, depending upon the scope of the project involved. In other words, our people travel out in the field from time to time during the course of the year, and check on projects.

Mr. RICH. You try to get the over-all picture as to whether the general economy would meet such an expenditure of funds at this particular time?

Senator FLANDERS. Or particular spot.

Mr. PACE. Or at that particular spot.

Senator WATKINS. To be specific about it, to get down to see how it works in practice and not just in theory, take the central Arizona project. That is an immense project. As I remember, there were certain findings and communications from the Bureau of the Budget—probably you were not responsible at the time, because it happened some time ago—certain statements that indicated some doubt about that entire situation. Having before you the general policy of the administration of the country to favor these reclamation projects, et cetera, I am wondering how you would go about making that test, what kind of a staff you have, how many people are qualified to make a determination on a project as immense and big as the central Arizona. Probably it has taken many, many years and hundreds of engineers to work it up.

I want to find out how much trained ability and experience you have in your department and also the personnel to take care of passing on it, almost like the Supreme Court passing on whether that project is or is not going to be approved.

Mr. PACE. I will say the men we have are men of broad experience generally in the particular fields in which they operate. Our staff is small, of necessity it must remain small to be cohesive. If it were larger, it would be less effective in my estimation.

Senator FLANDERS. Would you not, furthermore, be duplicating other staffs in the departments?

Mr. PACE. That would be true.

Senator WATKINS. All of that can be granted, but I get to the point: How, with that kind of staff, can you attempt to pass on what maybe thousands of men have worked up who were experienced in the particular field and specialists in that field?

Mr. PACE. I think if I were to give you a broad over-all answer to your question, it would be this: That somewhere in the executive branch there must be some central staff group responsible for working with the agencies and advising the President on projects or proposals as they relate to his policy. The size of that organization should be kept as small as possible, so as to avoid duplication.

If you did not have such staff review and coordination and if you took all the recommendations that came from men of vast experience in the individual departments, you would probably have a Federal budget involving expenditures of around $65,000,000,000 or $70,000,000,000 instead of $42,000,000,000.

Senator WATKINS. I think you are still not starting off with the premise that I started with. Assuming that the comprehensive reclamation program is already agreed upon and is part of the policy of the President—now come to individual programs.

Senator FLANDERS. May I ask what I think is a clarifying question? On this Arizona project, for instance, do you do a simple division, just common arithmetic, and inquire as to what the cost per acre would be?

Mr. PACE. That is correct.

Senator FLANDERS. And use that as a part of your judgment in determining it?

Mr. PACE. That is correct. It is, of course, only one of the many considerations involved in determining the justification for a project.

Senator WATKINS. Of course, I happen to know that project pretty well and listened to the testimony. That would not be a determining factor. It was recommended by the Bureau of the Budget and others, and I want to know just what happens in the Bureau of the Budget, what machinery it has, what personnel it has, how well trained they are to pass on work involving many, many thousands of men, specialists in the field.

Senator FLANDERS. As a taxpayer, I am interested in the cost per acre.

Senator WATKINS. I am, too, but you would be surprised if you heard the cost per acre in that project.

Mr. RICH. Mr. Pace, do you ever have any influence brought to bear upon the Budget Bureau, to have projects promulgated with the idea of trying to have them completed as soon as possible, by Members of Congress who use their influence to have these projects put in after the bill has gone by the Senate and House?

Mr. PACE. Obviously, we have requests of that nature and requests that they either be included or speeded up. I will say in all fairness and honesty that the requests have all been on a basis of presentation of facts. I know of no situation where anyone has ever attempted to exert pressure other than the pressure of their own individual interest in the program on me or on any member of my staff since I have been Director of the Budget.

Mr. RICH. Then you use your own judgment, regardless of whether you have had the request from either Representatives or Senators to do certain things. You render your decision on what you believe to be an over-all policy for the best interests of the country. Is that right?

Mr. PACE. That is right. There are now on the shelf nearly $11,000,000,000 in authorized projects, not including the cost of completing projects actually under way. If all of those projects were started, we might face a situation of dangerous fiscal imbalance.

Mr. RICH. Tell me why, then, you have recommended for 1951 a budget that is $5,100,000,000 more than your income?

Mr. PACE. I think that is certainly a very fair question.

Senator WATKINS. I wonder if he could answer mine before he gets into that general field.

The CHAIRMAN. I think Senator Watkins wants to clear up his point.

Senator WATKINS. I do not have the answer yet.

The CHAIRMAN. May I make this suggestion? I think the witness has not quite gotten the point of your question. Assuming, as Senator Watkins does, that there is a general over-all approval of the reclamation program, assuming further that Congress has authorized a broad series of projects, and there are before you the estimates of the costs of those projects: How much of a staff do you need to determine whether or not those projects can be financed out of the receipts which your estimates indicate the Federal Government will have for the year during which the work is to be initiated and carried on?

Mr. PACE. We have approximately five men on reclamation.

The CHAIRMAN. Is it not a fact that you can balance the fiscal feasibility of the proposed projects, the cost of those projects, with the income which the Federal Government can in the opinion of the President devote to resource development, with a small staff?

Mr. PACE. We can, as far as it lies within the capacity of human capability to do so.

The CHAIRMAN. In other words, you do not undertake to duplicate the engineering work of the Bureau of Reclamation?

Mr. PACE. That is true.

The CHAIRMAN. You do not undertake to duplicate the work of any other agency that may have any part in presenting the original project to the Congress for authorization.

Mr. PACE. That is also true.

Senator WATKINS. That is only part of it, sir. You assume we have had an authorization of Congress, it has been authorized by legislation. Now, we send a measure to you like the central Arizona and, as I recall, the Budget Bureau has stated some very definite ideas about the feasibility and the economics of that situation, not on the over-all program, but whether or not that particular one is feasible.

Mr. PACE. That is correct.

Senator WATKINS. As I understand it, in order to do that you must of necessity have your engineers review it, and your economists review it, and determine whether or not that particular one is feasible from the standpoint of economics and engineering, et cetera.

Mr. PACE. Naturally, we review it, but in determining individual projects it is fundamentally necessary that we consider over-all considerations.

Senator WATKINS. I realize that and admit that phase of it.

Mr. PACE. That is our major function.

Senator WATKINS. Don't you go beyond that? Don't you know of cases where you have gone beyond that and attempted to pass upon the economics of that particular project and engineering feasibility?

Senator FLANDERS. Perhaps it would be useful to ask you what your considerations are in picking out the most feasible projects from the sum total of authorized projects, which are obviously too great for any fiscal year. You must have some considerations you use in picking out the projects which you recommend.

Mr. PACE. That is mainly an agency responsibility.

Senator FLANDERS. Compare the feasibility.

Senator WATKINS. I was coming to that. I am taking one at a time. I do not want us to dive off again like we did yesterday.

Mr. PACE. I am very anxious to stick right with you on this. I have no desire to——

Senator WATKINS. I want the answer because it bothers me. I want the information. I am not just making an attack.

Mr. PACE. I understand. The answer primarily is that our responsibility principally lies in the determination of the economic feasibility of the projects and their relationship to the program of the President. In terms of problems that relate to engineering, my staff can and does raise questions with the Departments concerned, because one of our responsibilities is to assure that things are done as economically as possible.

Senator WATKINS. Even on the feasibility from the engineering point of view, don't you raise questions?

Mr. PACE. We do raise questions. That is our responsibility.

Senator WATKINS. And suppose that your engineers determine in their judgment that this particular project is not feasible from an engineering point of view, and that was the only thing against it, would you turn it down or recommend against it because in the opinion of your engineers it was not feasible?

Mr. PACE. Probably not. In any event, that would be a situation you would take——

Senator WATKINS. Wouldn't you tell the President? You are speaking for him.

Mr. PACE. I understand that, but it is true when we speak for him, we generally consult with the President and lay both sides of the case before him. We usually would have representatives of the Department of the Interior present under circumstances like that for an opportunity to present their position to the President.

We perform a staff function. We advise the President on both sides of the situation, and when we make a recommendation to the President, it is generally in terms of economic feasibility. But the final determination is his.

Senator WATKINS. For instance, on a project like that, before you finally gave it clearance from the Bureau of the Budget, would you take that up with the President?

Mr. PACE. In all probability, yes, depending on the size and importance of the project. I have this difficult proposition before me, Senator. I seek in all cases to bring before the President all problems that relate to fiscal policy determination. I like to have actual Presidential determination on all possible matters, certainly those of major determination. It is also true that it is impossible for the President to pass on everything. If I err, I err on the side of getting his decision too often rather than too seldom.

Senator WATKINS. To go back to the number of men, you say you have about five that are assigned to that?

Mr. PACE. About five; yes, sir.

Senator WATKINS. Now, with respect to this general policy, is it not true that you have had a Presidential direction that there shall be no new reclamation projects nor any acceleration in the construction of the old works already started unless an emergency exists?

Mr. PACE. You mean for the fiscal year 1951?

Senator WATKINS. For all the years; as a matter of fact, for the last several years, hasn't there been a directive to your Bureau from the President on that point?

Mr. PACE. The answer to that—and I will ask Mr. Lawton to check me on this—is "No," There is no such directive from the President. The President's position in this particular fiscal year is that there will be no new starts in the reclamation area. This position is dictated primarily by the fiscal situation of the Government.

Senator WATKINS. Whatever dictates it, I am trying to find out this: Has there been such a directive?

Mr. PACE. The answer is, "There is such a policy in this particular year."

Senator WATKINS. That there shall be no new projects started this year and no acceleration of the progress of the old except in cases of emergency?

Mr. PACE. No new and no acceleration of the old.

Mr. LAWTON. That is right. The minimum economic rate.

Senator WATKINS. I had a project I wanted to get a million dollars extra to take care of—what I though was an emergency. I received the information then from the Bureau of the Budget—I do not recall whether it was Mr. Webb or you or some man assigned to reclamation—that that year there was a directive from the President that there was to be in substance what I have just said to you and what you said is the policy for this year.

Mr. PACE. The year 1951 is the first year the President has specifically prescribed no new starts in this particular area. I would say, however, that for the past several years there has been a pretty restrictive policy on public works and both my predecessors and myself have had to say the same thing to a great many Senators and Representatives in terms of individual projects——

Senator WATKINS. For this year?

Mr. PACE. For this year and for past years.

The CHAIRMAN. There was a time back in 1945, as I recall it, when Congress passed appropriations for reclamation and flood control, and the President did not permit the agencies to expend the money that was appropriated. So it was done at a previous time, but that was before you had become Director of the Budget, Mr. Pace. Do you recall that?

Mr. LAWTON. That was the moratorium in 1946. But that was a delay for about 6 months rather than a curtailment.

The CHAIRMAN. I remember the work was suspended; the money was there.

Senator WATKINS. May I finish that, and then I am through. I had that experience. I called personally and I talked with some member of the staff—I thought I talked to either the Director or one of the Assistant Directors of the Bureau of the Budget—and I was told that there were to be no new projects authorized—and that was not in 1951, that was not this current year, but that was several years back. In other words, the Bureau was not to approve the authorization of any new projects, or acceleration of construction of any old ones, except in case of emergency.

Mr. PACE. I think I have answered your question.

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Senator WATKINS. Did that policy apply only to the present time or did it exist several years before? I am talking about 1947 and 1948 and 1949 as well.

Mr. LAWTON. Last year, 1949, and 1950, projects for power were permitted to go ahead at a relatively rapid rate. Other projects, going projects, were at the minimum economic rate. There were only a few starts on features of projects, but no major new projects were started.

Senator WATKINS. In other words, they were not authorized, the Bureau was instructed not to approve them. When the bills would be sent in for these, the Bureau was instructed not to approve them by the President, as I understand it.

Mr. LAWTON. You are referring to authorizing bills?

Senator WATKINS. Or approving.

Mr. LAWTON. This was different. That policy did not apply to the authorization of projects. It applied to appropriations.

Mr. PACE. There were a substantial number of authorizations.

Senator WATKINS. You turned down authorizations as well.

Mr. PACE. Turned down some, but not for that reason.

Senator WATKINS. I wanted to know whether or not that was under this general directive.

Mr. PACE. I can state as far as my experience in the Bureau goes, which is only 2 years, Senator, that this is the first year you have a rule of absolutely no new starts.

Senator WATKINS. That applies to authorizations as well as appropriations?

Mr. PACE. That applies only to appropriations. At no time since I have been in the Bureau has there been any general rule opposing authorizations.

Senator WATKINS. I got the contrary impression. I made a note at that time and the correspondence was dictated on it, and I just wanted to find out from you people direct whether or not that has been the policy.

Mr. PACE. That is the direct answer.

Senator WATKINS. You were not the man, I am sure, I talked to, but somebody there gave me that impression that they had to take my request up with the President. We finally got it, but it took a long time because they said there was such a directive.

Mr. PACE. There was none to my knowledge.

Mr. RICH. Mr. Pace, that in a measure helps to answer the question I asked a while ago. It certainly is good policy when we have as many projects under construction as we possibly can complete over a period of years not to start any new ones when you are going in the red for some $5,100,000,000; is that not right?

Mr. PACE. That is the President's determination for this year; yes, sir.

Mr. RICH. Why didn't you go beyond that when you found that you were going in the red by this amount?

Mr. PACE. In that particular area there is no way to go beyond that.

Mr. RICH. I am not speaking of any particular reclamation project or anything like that. I am thinking in terms of trying to get our income equal to our outgo.

Mr. PACE. I think there are considerations that run beyond, at this particular time, the proposition of making income and outgo meet.

Certainly, it was the determination of the President that that was true.

The President has stated not only privately but publicly on many occasions that he believes in a balanced budget. Fundamentally, the principle and yardstick of a balanced budget is a sound one. The President has stated and has determined in the year 1951 that to attempt to achieve a balanced budget would detrimentally and fundamentally affect the country, particularly in terms of our responsibilities in the security and the international areas.

Mr. RICH. If he believes in that policy, he has certainly been far afield. He has not accomplished it in any sense of the word over the past years. Let me read this statement made by Dr. Nourse last night in Richmond:

> The Fair Deal is trying to buy another year of prosperity with a risky program of unjustified deficit spending.

Dr. Nourse was one of the President's chief economic advisers; he has advised the President over these years, but the President has not listened to him. In your judgment, do you think we can continue on in the way we are going with this deficit spending?

Mr. PACE. Over a long period of time deficit spending is certainly a bad fiscal policy, over a long period of time, unless there are considerations——

Mr. RICH. What do you mean by "a long period of time?"

Mr. PACE. I am talking about a period of 4, 5, 6, or 7 years, unless, if I may get in this qualification, there are considerations that go beyond the pure economic questions that a budget represents.

In other words, a Federal budget is no longer purely an economic document. It is not a statement of progress as, for instance, a budget for a business or a budget for an individual is a statement of progress. It is a statement of international and national security commitments, commitments to pay obligations incurred by reason of past wars, and commitments that are made in the domestic field.

Mr. RICH. But, Mr. Pace, you can go on and elaborate on that but take during the Eightieth Congress, we had a Congress in there trying to cut down and hold the expenses down, and we accomplished it to the tune of 8 or 9 billion dollars in 2 years. If it is not the will of the people who are in the Congress and the Chief Executive to cut these down, are we going to do it?

Mr. PACE. If I recall correctly, the recommendations of the President in those years actually contemplated a surplus.

Mr. RICH. Why does he not do it in these years? Is there any reason why he should continue on that way of spending now?

Mr. PACE. I call your attention to the fact that in 1948, when Czechoslovakia fell, it affected the Federal Budget by around $3,000,000,000 that was actually voted to meet the international crisis that arose at that time. You are still paying for that in 1951 in terms of meeting commitments that were made at that time.

In other words, the budget is fundamentally not only a fiscal document, it is a reflection of the whole policy of the Nation in terms of both international affairs, national security, your payments to your veterans——

Mr. RICH. I realize that. I am not trying to get to the point where I cannot see that it is necessary for the Government to spend once in awhile, but I certainly think under present-day conditions—when our receipts are as great as they are and when the condition of the country is as good as it is—that we should economize in many, many ways, which could eliminate a great part of this deficit. That is the point I want to make. If the President of the United States is responsible for this, we ought to know it; or is the Congress responsible for it?

Mr. PACE. The ultimate responsibility under the Constitution rests in the Congress. The President merely presents his recommendations to the Congress.

I would say that, in terms of economizing, I could not agree with you more. I think trying to produce the most for the tax dollar is all important. I would call your attention to the fact that both the President and the Congress have moved ahead in the large economy areas recommended by the Hoover Commission. I think that in terms of saving——

Mr. RICH. We have only taken one step in that direction up to this time.

Mr. PACE. You have taken a step in the national defense field, following completely the Hoover Commission recommendations, and you have taken similar steps in the property field. The third large area is the Post Office. There is now presidentially recommended legislation before the Congress to carry out what the Hoover Commission recommended.

Mr. RICH. I hope they pass it.

Mr. PACE. So do I, sir; and there is also before the Congress at the present time recommended legislation in the Civil Service area.

The CHAIRMAN. Please do not overlook the State Department. The Hoover Commission recommendation for reorganization of the State Department was one of the first laws enacted at the last Congress, and then the Hoover Commission recommendation for the reorganization of the Defense Department. That was passed by the Congress.

Mr. PACE. That is correct.

The CHAIRMAN. Two great departments of the Government have already been reorganized in conformity with the Hoover Commission recommendations, with the approval of the President.

Mr. PACE. That is correct. I would say as far as economy is concerned, it is a matter of establishing not only a better framework for management, as the Hoover Commission has recommended, but also creating the attitude and approach toward better management practices that will produce results. To that end, it has to be made a general practice in the Government as a whole to adopt improved management practices. Savings in terms of little savings are as important as big savings. I would be the last one to say there is not some duplication and that there are not expenditures in the Federal Government that should not be made. In anything as big as the Federal Government there will always be, but the impulse and drive we have put on has been in terms of creating a management system that will eliminate duplication and unnecessary expenditures and to get some understanding of the necessity for this all down the line.

Mr. RICH. I fail to see the drive that is being put on by the Chief Executive for economy in Government. I just cannot see it. If he would assume the responsibility that I believe he should with his departments and heads of the departments, he would get in there with a big stick and say, "We must cut this down," and he could easily save four or five billion dollars in the overall, as I view it, taking in the foreign aid, ECA, and our own establishments. I think he can cut down two or three billion dollars without any difficulty. If the President does not do it, don't think that the Congress is going to, because there are too many Congressmen wanting things for their own districts and they will be after him, and it is up to the President to hold them down.

Mr. BUCHANAN. Is it not a fact that the Congress turned down just one of the seven recommendations of the President?

Mr. PACE. That is correct.

Mr. BUCHANAN. That was in the field of Interior.

Mr. PACE. In the field of welfare.

The CHAIRMAN. We can get into quite a little argument as to what should be done, without getting the facts. You were asked to come here this morning in the hope that you might lay the facts before us with respect to precisely what you have done. I would like to bring you back to that. I think it might be helpful if in the course of this statement you should tell us precisely in what fields any effort has been made to cut expenditures; in what fields reductions have been made and why they have been made; in what fields reductions have not been made, and why they have not been made.

Then, after you have outlined what you conceive to be the fact with respect to income and outgo, I think we would be in a much better position to argue about it.

Mr. PACE. I appreciate the opportunity to answer the questions, Mr. Chairman. I would like, if I could, to move very quickly over the budget process; and then get into the heart of some things you are perhaps more interested in.

One thing I would like to say at the outset is that there is a tendency to evaluate the soundness of the process by which a budget is prepared on whether a surplus or a deficit results.

What brings about a surplus or deficit are fundamentally policy determinations, economic considerations, and international considerations, that go beyond the scope of the budget process. I think it is an error and a mistake to judge and evaluate the budget process on whether you produce a surplus or a deficit. That does a disservice to the process itself.

Now, if I could just for a moment, I would like to tell you just how we worked on the 1951 budget. We began work on the 1951 budget last January—a year ago—right after the 1950 budget was transmitted. My staff spent considerable time in the Departments and agencies studying program problems at first hand and getting a preview of what the agencies' problems looked like in terms of large-scale problems for the year 1951.

In April we began intensive discussions on what the over-all fiscal considerations would probably be for the year 1951. To do this, we consulted informally with the President's chief fiscal advisers, and discussed all broad-scale policy questions with the President. In this respect, I might point out that we do not proceed solely on the basis of our own information, but generally use all of the facilities of the Government interested in a particular field.

Based on these discussions, we then met during May with the Cabinet officers and the heads of all major agencies. At that time I outlined to them the problems that were involved and the fact that the President had indicated that a stringent fiscal policy must be followed. Each Cabinet officer outlined the major programs he felt should move forward in 1951; the ones he felt could be actually maintained at a level, the ones that could be curtailed, and most important, those that could be eliminated.

These discussions were usually attended, not only by the Department head, but by his under secretary and his principal budget officers, as well as by key members of the Budget Bureau staff. The larger policy considerations which arose at these meetings were discussed with the President, so that he could give us his determination on where we should move in that particular field.

After the President had made his determinations, the Budget Bureau then set a ceiling on the major departmental activities, in line with the President's policy and in line with his determination on where that Department must of necessity move in the coming year.

The ceiling process, which is only 2 years old, is, in my judgment, one of the really significant developments in the budget field. It has two very important results: First, it forces the head of an agency or the head of a large department of Government to plan his own program within specified limits. He is given a certain figure as a target. He must decide where and how he will adjust and balance his program within these fiscal limitations.

Prior to the ceilings, major determinations as to program and expenditure levels were frequently made by division chiefs. Their decisions went to bureau chiefs who reviewed them. Bureau chiefs then sent these recommendations to the department level, so that, in effect, a great deal of policy was determined from below rather than from above. The Hoover Commission specifically raised objections to this lack of top control. Under the ceiling process, top management in each agency must play an active part in planning and deciding upon the whole program.

The second major result of a ceiling is that it promotes better and more meaningful budgeting all along the line. Now, when a division chief or a bureau chief plans his program, he plans it within the confines of a certain amount of money, knowing that that rounded program will proceed at least as far as departmental level and then will be considered by the Bureau of the Budget. Formerly, he faced the problem of developing a program that could be drastically varied at any one of the three or four levels. As a result, ceilings mean that the gap between what the departments request and what the Bureau of the Budget may recommend to the President under the policies he has established is very definitely narrowed. This helps reduce the necessity of readjustment of program following hearings by the Bureau of the Budget.

It means one other extremely important thing, and that is that although your program is controlled, it still permits flexibility. Each agency is permitted to submit what is known as a "B" list of items which fall outside the ceiling. These are items of importance an agency is not able to include within the limits represented by the ceiling. The "B" list also sets forth the priority given by the agency to the items outside the ceiling. This permits the President and the

Bureau of the Budget to evaluate these items, not only in terms of their relationship to the program of the particular agency, but to the Government's program as a whole.

Following the submission of their estimates and supporting material, the departments then appear before our examiners for intensive hearings which start in September. At these hearings, agencies present fundamentally the same information as they present later to the Appropriations Committees of the Congress. There is one important difference, however. In the case of the Budget Bureau's hearings, many of the policy issues and assumptions have been determined in the preceding months.

The budget examiners who conduct the hearings, later prepare their recommendations which they then present and justify before the Board of Review of the Bureau of the Budget. This board includes Mr. Lawton, our assistant director, as chairman, and each of the assistant directors in charge of the various divisions. Mr. Staats, the executive assistant director, also sits as a member of the board. The divisions represented are the Fiscal and Estimates Divisions, the Administrative Management Division, which guides and coordinates much of the Government's work in organization and management, the Legislative Reference Division, which conducts the legislative clearance process to which you referred earlier, and the Statistical Standards Division, which acts as a central coordination and review point for all programs in valuing statistics and questionnaires.

Thus, the focus brought to bear in the review board is not purely a fiscal focus, but is a combined focus—legislative, management, and statistical. The board reviews and adjusts the recommendations of examiners and identifies policy issues for discussion with the President. The Bureau's recommendations and policy questions are then fully discussed with the President. Once his determinations are made, agencies are notified by letter of the allowances to be included in the budget. Of course, the agencies have the right of appeal, first to the Bureau of the Budget and then to the President. The process of review and presidential decision takes place in November and December. Then, as you know, the budget is submitted in January.

I think the process by which the budget is prepared is as carefully integrated and as intelligently programed as can be under current circumstances.

I would like to leave the impression, and I welcome examination, that the process, itself, is a close, hard, tight, grinding, and difficult one.

I wish I could tell this committee how many times I have sat with heads of agencies who said that our lack of understanding of their program needs failed to move their program ahead, and we have been forced to make adverse decisions, not because the program was not good, but because over-all fiscal considerations would not permit us to expend the amount of money involved.

So much for the program, Mr. Chairman. That is how we operate.

I would like to move on now.

Senator WATKINS. May I ask a question before you move on? I understood you to say you have several billion dollars of projects on the shelf.

Mr. PACE. That is right.

Senator WATKINS. They have been authorized but not acted upon?

Mr. PACE. I think 11 billion dollars is the approximate figure.

Senator WATKINS. Do I understand it to be within the President's policy to keep on approving the authorization of more projects, even though you have those on the shelf now?

Mr. PACE. Some of the projects are outmoded.

Senator WATKINS. What do you mean "outmoded"?

Mr. PACE. I mean by "outmoded" that they were authorized many years ago. In some cases they probably require some reconsideration, both by the Congress and by the President.

Mr. STAATS. The economic situation could have changed, so that the return to the Government would be different for different parts of the program that were authorized maybe several years ago and would no longer be considered desirable by the agency concerned.

Mr. PACE. Or by the people who originally sought them.

Senator WATKINS. How do you determine the priority of those who are going to be given the "go-ahead" when it comes to money?

Mr. PACE. Generally on the basis of economic benefit that will accrue and the over-all cost of the project in terms of actual return.

Senator WATKINS. Who makes that determination?

Mr. STAATS. I think it might be helpful to say first we get a recommendation from the agency concerned. As Mr. Pace pointed out earlier, agencies are informed during the summer of the policies which the President proposes to follow not only with respect to the total budget but in particular areas, such as public works. Within the framework of those policies agencies plan and submit their requests. Under the ceiling process, they themselves determine the priorities they would assign to projects not included within the ceiling.

Our review then would be in terms of the economic necessity or desirability of individual projects in the program they recommend. Thus, the determination as to which projects are to be considered for a particular budget is not primarily the Budget Bureau's job. That is the job of the individual agency responsible for the program. Our task is to review the agency's recommendations to be sure all projects included are sound and that they are in line with the policies set by President.

Senator WATKINS. Your determination is subject to the decision of the President?

Mr. PACE. Yes.

Senator WATKINS. How do you determine out of the multitude of recommended projects on the shelf which ones not to go ahead with and which ones to start?

Mr. PACE. I think my original answer stands. First, we have the recommendations of the agencies themselves and the relative priority they would assign to the limited number of new starts on projects they are recommending. Obviously, an agency does not recommend each year that every authorized project be started. The Bureau analyzes these recommendations from a number of standpoints, including the cost of the projects, the economic benefits, the relationship to national defense, and many others.

Senator WATKINS. You would not say pressure from the States would have anything to do with it?

Mr. PACE. I would say that as far as the Bureau of the Budget is concerned, I can answer that categorically, "No."

Senator WATKINS. It does not do us any good to go to you urging that these projects be stepped up?

Mr. PACE. I do not think that is a fair assumption from what I said. I have never failed to hear the arguments that are made by the Senators and Congressmen.

Senator WATKINS. I think you listen all right; but does it do us any good?

Mr. PACE. If there are some facts we do not have, sir, it does. If there are no facts that we do not already have, the answer is "No," sir.

Senator WATKINS. Then, finally, however, it goes to the President to determine, and he has the ultimate responsibility.

Mr. PACE. That is correct.

Senator WATKINS. When a decision of that kind is made, it is the decision of the President?

Mr. PACE. It is the decision of the President.

Senator WATKINS. I still want to get back to that one question, because it has to do with your methods. I cannot understand yet exactly why you would authorize or approve the authorization of new projects when you have so many already authorized that you cannot touch under the program of the President.

Mr. PACE. I think the answer to that, Senator, lies in the whole process by which projects are studied, authorized, planned, and finally started. As you know, the Corps of Engineers in the fields of river and harbor improvement and flood control is specifically directed by Congress to conduct studies and investigations of particular areas and to report to Congress on the feasibility and desirability of making a particular improvement. As a result of these investigations and surveys—many of them taking months and even years to complete—the Secretary of the Army submits a project report to Congress. In order that the Congress may have the views of the executive branch, the Bureau of the Budget has the responsibility of clearing and coordinating the views of all agencies. The project may then be authorized as part of an omnibus river and harbor and flood-control bill, such as the one before Congress now. Even after the project is authorized, however, detailed advanced planning must be completed before it is ready for construction. Reclamation projects are investigated, authorized, and planned in much the same manner. Decision on when a project is included in the budget as a new start depends upon a number of factors such as the general budget situation, the price situation, the relative urgency of the project in terms of flood protection, or national defense, or increased power. What I am saying is that the process by which a project is authorized and built is necessarily a long one, involving many individual steps. Many projects were authorized prior to the war, but were not started during the war years for obvious reasons. After 4 years of tremendous demands upon our natural resources, the pressures for additional new projects has been substantial. Today the existing authorizations constitute a backlog of projects on which much of the study and planning has been done. Some planning work still must be completed, however. I don't think it is either the intention of the Congress or the executive branch that every project authorized should be immediately started. There are still many worth-while and sound projects proposed for authorization. It does not seem fair to me that they should not have the opportunity to be authorized.

Senator WATKINS. Even though you may have so many——

Mr. PACE. I think close to 11 billion dollars.

Senator WATKINS. And you still approve many projects for authorization. Although the Congress has already expressed its opinion and determined policy with respect to the rest of them, you still authorize more, knowing they cannot be implemented.

Mr. PACE. We do not authorize them, but merely determine the President's position on them.

Senator WATKINS. But it is an authorization as far as the President is concerned.

Mr. PACE. That is correct.

Senator WATKINS. That sort of holds out to the people that they have got something when, as a matter of fact, in the background they know there will be no appropriations because the new ones cannot be started.

Mr. PACE. That is not necessarily true. I do not think that there has ever been any effort to hold out to anyone——

Senator WATKINS. I do not say it is deliberate, but that is the effect; is it not?

Mr. PACE. That is because of the process by which projects are actually authorized. As I have said there is a set and stated process by which projects are studied, authorized, and planned before money is appropriated for them. I know of no way to handle the matter more thoroughly or, frankly, more honestly than it is currently being handled; and I think there has been no effort to avail the administration of any advantage from the fact that programs are authorized. They are authorized on a basis of economic feasibility and, once authorized, within the limitations of our present fiscal program, we are not in a position to meet demands for starting them at once.

Mr. RICH. Who would recommend the St. Lawrence seaway in another country at a time like this, when we are too short of funds to do the things that Members of Congress would like to have done in our own country?

Mr. PACE. I think that probably is a matter of individual consideration. There are a great many people who feel that the St. Lawrence seaway has ultimately great economic benefits to this country. I call your attention to the fact that the project has not yet been authorized and that the funds included in the budget represent money for planning, rather than construction, in the event the Congress approves the legislation. The President has indicated his intention to move ahead, however, when it becomes feasible.

The CHAIRMAN. It is my understanding that a colleague of our good Member, Senator Flanders, is one of those who urges the St. Lawrence seaway—Senator Aiken, of Vermont. And I think Senator Wiley of Wisconsin is another man who urges it.

Mr. RICH. I did not ask who is in favor of these things.

The CHAIRMAN. You did ask that.

Mr. RICH. I am against it. I want that money spent in this country, and if you have those projects, it seems to me, the Budget Bureau should look after the economy of our own country, and eliminate a lot of highly expensive things proposed for some foreign country.

Senator WATKINS. I understand these are taken care of on the economics of the thing and not as a result of Senator Aiken or Senator Ives or Senator Wiley asking for them.

Mr. PACE. That is certainly true.

Mr. RICH. I do not think the economic benefit accruing from that project would be nearly as great as from some of the things we should do in the States for our own people.

Mr. PACE. To set the record straight, I think money for this project would be spent in this country as well as in Canada.

The CHAIRMAN. Of course, it is a matter of fact, Mr. Pace, that the St. Lawrence seaway will not be built unless Congress passes the authorization; so, it really has nothing to do with the story you are trying to tell us.

Mr. RICH. Wouldn't you rather have projects in Wyoming than that St. Lawrence seaway?

The CHAIRMAN. Of course I would.

Senator WATKINS. But it is economics, Mr. Rich, that determines whether it will be built.

The CHAIRMAN. I would even rather have a project in Utah than have the St. Lawrence seaway.

Senator WATKINS. Some of it might spill over into Wyoming.

Mr. PACE. May I proceed, Mr. Chairman?

The CHAIRMAN. If you will, please.

Mr. PACE. I think that one other aspect of the budget which would certainly interest this committee is the factor of controllability you face in considering the budget for 1951. It vitally affects your capacity actually to plan a budget. I intend in a moment to go into the specific figures as they relate to 1951, but I will say that one of the great problems of budgeting is the amount of "carry-over" expenditures from prior years that comes to each budget as you prepare it. Thus, a large part of any budget that you plan for 1950, 1951, or 1952 represents money to pay for commitments that have already been made. This is particularly significant when one considers the problem of budget balancing and the problem of budget planning. I will go into the specifics of it in a second.

The second factor that should be considered by all who consider the budget is the problem presented by "open end" programs. The major "open end" programs are now three in number: One, the education and training of veterans; two, the Commodity Credit program; three, RFC purchases from private lending institutions of Government-insured mortgages.

The veterans' education and the training program is probably the best example of the problem you face in planning a budget and in keeping within the confines of revenues and expenditures. Thus, the Congress passed a law to help GI's make the transition to civilian life. One provision of that law stated that any GI who desired education or training within a certain period of time was entitled to have it, and that the Federal Government would pay the cost. The desirable objective of aiding veterans in this important area thus became national policy.

From a budgetary standpoint, neither the Congress nor the President can control how much will be spent under present law for carrying out this national policy. If a certain number of veterans decide to attend school in a certain year, the Government must pay a certain amount of money. That amount may vary by as much as a half-billion to a billion dollars, based upon the individual desires of the veterans and the economic conditions of the country. Budget policy cannot adjust expenditures materially. Education and training is thus an "open end" program in which the costs are determined by factors beyond the control of the budget process itself.

The same thing is true in the price-support program of Commodity Credit Corporation, where weather, demand, and the prices paid for crops can make a large difference in the expenditures required.

The same is also true in the RFC where expenditures for the purchase of mortgages depend, in the last analysis, on the number and amount of Government-insured mortgages turned over by lending institutions to the Corporation.

It is also true that you have certain other programs that require a necessary continuity. It is not possible to decide suddenly that a going program such as, say, soil conservation in the agricultural area, will be cut off because there are commitments in the program itself that carry you on into a future year.

Another factor which the President must consider is the effect of prices, employment, and other conditions upon his budget. The public generally tends to regard the budget as a very exact document because it is set up in dollar terms. Fundamentally, it is a statement by the President of what he anticipates will happen under laws already passed by the Congress and under programs that he recommends, based upon certain assumptions as to prices, as to the economic condition of the country, and as to costs of the various Government programs. That being so, human judgments must be brought to bear in estimating the expenditure outlook in many fields.

You have one other problem that I think should be considered and that is the problem of deferred maintenance in preparing the budget. The Bureau of the Budget for a long period of time has said, "Well, it is necessary to defer maintenance in this area for another year because of the fiscal considerations involved in the total budget." Yet, this is economical only to a point.

If I recall correctly, in the national defense field alone the military plant has a value of about $25,000,000,000. That figure does not include ships, tanks, or guns, but it represents primarily posts, camps, arsenals, and other installations.

To defer maintenance on such a plant is fine until you reach the point where there is real deterioration in your investment. When you reach that point, the Federal Government will have to pay a lot more money in the future to rebuild what has not been maintained than it will cost to maintain it at the present time. Therefore, one of the problems that faces the President is: How long can you defer essential maintenance before you actually face the immediate necessity of taking steps to sustain the capital plant?

Senator FLANDERS. Has that question come up in connection with Federal highways?

Mr. PACE. It does in all areas. When I say about $25,000,000,000 in the military alone, you can see how much money the Federal Government has invested in its capital plant. If you were running a business, you would insist on maintaining that plant.

Senator WATKINS. The Federal Government does not put up money for the maintenance of those roads.

Mr. PACE. Generally, there are matching grants for the building of roads.

Senator WATKINS. Building only.

Senator FLANDERS. There are questions of rebuilding.

Mr. PACE. I was thinking only of rebuilding as it applied to our national parks.

Senator WATKINS. I understand that, but I did not want the record to show, when it came to Federal aid to highways in the States, that the Federal Government had a problem of whether it would maintain now or rebuild later.

Mr. PACE. You are absolutely accurate in that.

Mr. RICH. Also, in this maintenance of Government equipment and things of that kind, don't you feel sometimes that we have more of certain things than we should have and that it ought to be the recommendation of the Budget Bureau or someone to try to cut down on some of the things that we are doing on the scale we are, or even some of the functions of Government?

Mr. PACE. I think the answer to that, if I may say, is that we constantly maintain a pressure to that end. We constantly maintain a pressure toward reduction of plant operation. There are certainly areas——

Mr. RICH. Have you been very successful?

Mr. PACE. I can say that I could provide for this committee a statement of the actual reduction in Federal plant over the past 5 years that I think would startle you. I do not want to quote a figure because I do not know it exactly, but I think you would be both amazed and interested to see that figure.

Senator FLANDERS. I want to bring up a case that I am familiar with. Fort Ethan Allan in Vermont has been given up by the Army. That is an example.

Mr. PACE. That is one example. I think if I could provide for this committee a statement of the reduction that has been effected, Senator, it would amaze every member of this committee.

The CHAIRMAN. Why don't you present that?

Mr. PACE. That was our plan.

The CHAIRMAN. Please do.

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

Value of real property disposals by the Federal Government of war-created inventories

[In thousands of dollars]

	War Assets Administration	Department of Agriculture	War housing	War public works	Total
Gross inventory [1]	7,790,057	59,800	1,659,454	168,511	9,677,822
Disposals	6,662,528	44,156	486,447	130,607	7,323,738
Present inventory	[2] 1,127,529	15,644	1,173,007	37,904	2,354,084

[1] Program peak.
[2] Of the present inventory, $565,320,000 represents real property on lease.

NOTE.—While it is estimated this report includes 95 percent, both dollarwise and projectwise, of the Government's disposal of real property, both during and since World War II, individual agency action (other than those indicated in the table) since July 1, 1948, is not included.

Senator FLANDERS. Furthermore, attempted abandonment of Government installations has met with a good deal of resistance on the part of Congressmen and Senators.

Mr. RICH. That is right, but I would not care for them at all, when I think it is right. I have been insisting as far as I can through the Budget Bureau to hold them down and cut out a lot of these things. I say to you now as head of this organization that I think you ought to make a drive for it. I would not care, if I were you, how much these Congressmen and Senators might become incensed, if you cut out things you know ought to be cut out in Government.

Mr. PACE. Where things should be cut out, it has been the desire, and I can say this with complete honesty, of both the President and the Bureau of the Budget to cut them out.

Mr. RICH. I remember when Ambassador Douglas had the job you have, and I knew him. He was a driver at cutting them out and he did a good job. I hope you will be as good or better than Douglas was in that respect. I think you have a better opportunity today than he had.

Mr. PACE. I appreciate that. I would like to measure up to Ambassador Douglas. I would like to point to two other factors, if I might, that a President must consider in actually determining what he will do in the budgetary area. One is your security requirements and the other is your responsibility as far as the over-all economy of the country is concerned.

Obviously, anything that constitutes approximately one-fifth of the national income has an impact on the economy. It must be intelligently used from that point of view, and that is one of the factors that the President has to consider.

I do not know the limitations on your time, but if you would like, I will speak about the carry-over expenditures for the year 1951 when we began to consider the budget and what the "open end" programs actually call for?

The CHAIRMAN. I think it is most important. I think that it would be well for you to give us, if you have it, the total amount of contract authorizations made by Congress in the appropriation bills and otherwise which involve a commitment upon the Federal Government for future expenditure. I would like to know what those contract authorizations amount to at this moment for future expenditure.

Mr. PACE. I will have to pull that specific figure together and present it to the committee.

The CHAIRMAN. That is just a detail, and it is only part, I think, of the information you would now like to give us.

(The information requested above is as follows:)

As of July 1, 1950, unfinanced contract authorizations previously granted by Congress are estimated at 9 billion dollars. Of the total 9 billion dollars, agencies will have obligated 6.4 billion requiring expenditures for liquidation during the fiscal year 1951 or later periods. The difference of 2.6 billion is available for obligation in 1951 or subsequent fiscal years.

The CHAIRMAN. I would also like to have you discuss the difference between the so-called cash budget that the Committee on Economic Development recommended recently and the traditional budget. I do not think that is generally understood, and I think it is important that it should be gotten into the record.

Mr. PACE. I would be very anxious to do that.

This chart (see p. 111) is roughly drawn together; it is not completely accurate. But it shows one of the major problems we face in budgeting. The final totals are these:

Out of the $42,400,000,000 in estimated expenditures for the fiscal year 1951, about $27,800,000,000 is required to meet obligations and commitments already firmly made. In other words, those are commitments that are already entered into as a result of past appropriations and contract authorizations, and agreements and arrangements with States under existing laws.

The CHAIRMAN. When you speak of a commitment, precisely what do you mean?

Mr. BUCHANAN. Extension of existing legislation?

Mr. PACE. No. No proposed legislation is included in that figure. Perhaps I can best explain its composition by discussing some of the individual items.

This first item representing 7.1 billion dollars is for the obligated balances of prior year appropriations. Let me explain that. At the close of each fiscal year there are certain unspent balances of appropriations already enacted which are carried forward into the next year for payment. Although the appropriated funds have been obligated, actual payments have not yet been made because the vouchers may not yet have been audited or checks written or because the goods or services for which funds have been obligated have not yet been received. As you can see, these obligated balances which must be paid and thus become expenditures represent slightly more than one-sixth of all expenditures in 1951.

Senator FLANDERS. What is the nature of that item?

Mr. PACE. The nature of that, Senator, is—Mr. Lawton, why don't you spell that out?

Mr. LAWTON. It results from borrowing authority—authorization to spend from nonappropriated funds granted in previous years. The 2.6 billion dollars represents chiefly the expenditures from earlier authorizations of the Reconstruction Finance Corporation, principally for mortgage purchases, the Commodity Credit Corporation, for price supports, and the REA for loans.

Mr. PACE. Therefore, the borrowing authority automatically becomes a charge.

Next, there are fixed charges amounting to 9.4 billion dollars. That includes interest in the public debt, which runs, as you know, around 5.6 billion dollars, and veterans' pensions, which are already created by law and paid out automatically, which are estimated at 2.2 billion dollars.

Senator FLANDERS. That is a one-shot proposition?

Mr. PACE. Not for pensions. I will come to the veterans' readjustment benefits in just a second.

Next your appropriations to liquidate contract authorizations amount to 3.8 billion dollars. That provides part of the answer to your earlier question, Mr. Chairman. These appropriations are to liquidate or pay off contracts entered into as a result of contract authorizations enacted by Congress in the past. These include your contracts to buy airplanes, tanks. and guns. You may have let these contracts, say, in 1948 when you had the blockade of Berlin, and you authorized additional procurement in the military field.

Senator FLANDERS. How does that differ from the first item?

Mr. PACE. From the obligated balances of prior year appropriations? As you know, the two chief methods of providing for the actual operation of Government programs are through appropriations and through contract authorizations. An appropriation authorizes an agency to make actual payments, whereas a contract authority merely authorizes the agency to enter contractual arrangements for delivery of goods at some future time. When the goods have been delivered actual appropriations are then enacted to liquidate the contracts. Contract authority is used principally for large procurement and construction programs where a long "lead time" exists between the original contract and its final completion.

Can you give a specific example of this, Mr. Lawton?

Mr. LAWTON. The 7.1 billion dollars in obligated balances of prior year appropriations relates to any appropriations where you have the authority to obligate them and also the authority to spend the money. This amount is the carry-over. For example, generally for the last pay period in a fiscal year for practically every Government agency, the checks would not go out until July, after the start of the new fiscal year. Thus expenditures would occur in the new fiscal year although the obligation had been incurred in the previous fiscal year. All appropriations have some carry-over in them of that nature. There are also cases where materials you buy late in the year are not delivered and paid for until the next fiscal year.

Senator FLANDERS. The first item relates to appropriations which have been made, the fourth item relates to authorizations which have been made but for which appropriations still must be made.

Mr. LAWTON. Yes, that is right. Contract authority is used where you make the contract in the one fiscal year but will not receive delivery until a following fiscal year. It is long-term procurement items such as airplanes, ships, and so forth.

Senator FLANDERS. But it does require a new appropriation to carry out?

Mr. LAWTON. To pay for the goods when delivered.

Mr. PACE. But the Government entered into a contract just as in the case of interest on the public debt.

Another large item is veterans' readjustments benefits about which Senator Flanders inquired. These amount to $2,600,000,000. This is the "open end" program I spoke about earlier where the budgetary impact is determined by the number of veterans eligible and desirous of taking education or training benefits.

The next item is matching grants to the States amounting to $1,600,000,000. Here again the amount depends on what the States themselves do under existing law. Within the limits specified by law, the Federal Government contributes on a matching basis to what the States put up for, let us say, public assistance and other programs.

Then, there is $720,000,000 to continue going work in projects which are actually under way. You have either the option of carrying these projects on at a minimum rate as you are now doing or stopping them entirely, which would involve a substantial economic loss to the Government. These items I have listed amount to $27,800,000,000. That leaves you approximately $14,600,000,000 in which to do your planning for 1951.

The CHAIRMAN. Will you please recapitulate those figures on the chart.

Mr. PACE. Obligated balances of prior year appropriations, $7,100,000,000; authorizations to spend nonappropriated funds, $2,600,000,000; fixed charges which involve interest on the public debt and VA pensions, $9,400,000,000; appropriations to liquidate contract authorization, $3,800,000,000; veterans readjustment benefits, $2,600,000,000; grants to States, $1,600,000,000, and public works, $720,000,000. Total budget expenditures in terms of fixed charges or other firm commitments $27,800,000,000; in terms of the flexible area, $14,600,000,000.

Mr. RICH. Do you figure in that foreign aid?

Mr. PACE. Only those expenditures for foreign aid which will be made from appropriations already enacted. In the total of $7,100,000,000 from obligated balances of prior year appropriations, for example, there is about $2,000,000,000 in foreign-aid programs.

Mr. RICH. Have you figured that in? I see in your statement in this small book, The Budget in Brief, you figure 71 percent. You have national defense, veterans, interest on public debt, international, you have $4.7 billion included in that 71 percent budget expenditures. Is that considered in that chart there?

Mr. PACE. No; it is not. What I am talking about here is, in effect, the source of expenditures in 1951, the funds from which they are made and the type of commitments they represent. The figures I have been discussing represent only those payments you are committed to make as a result of obligations incurred pursuant to appropriations and other authorizations already enacted. The 71 percent to which you refer represents total spending for the four programs you mention. Included in that 71 percent is some spending which will result from prior authorizations which I have been speaking about and some which will result from the new appropriations and authorizations which the President is requesting.

Mr. RICH. This $4,700,000,000 for international expenditure—it is not assumed that it is supposed to be spent unless we appropriate that money for expenditure?

Mr. PACE. That is correct.

Mr. LAWTON. There is a billion and a half of ECA appropriations that is in this figure here. That is: Of the 1950 appropriation already made, which will be paid for and spent out of the Treasury in the fiscal year 1951 in payment for goods delivered in 1951 that were ordered in 1950.

Mr. RICH. What I am trying to bring out here now is this: Have we the obligation in the mind of the Budget Bureau that we should carry out the Marshall plan as was stated several years ago, that we would over a period of 3 or 4 years spend $17,000,000,000?

Mr. PACE. I think the President's recommendations, Mr. Congressman, are below the amount of the figure that was originally contemplated in that area. Of course, what the Congress wishes to do with the President's recommendation lies entirely in the hands of the Con-

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gress. This presentation merely goes to show the things that you have already committed, just exactly as though you had borrowed money and agreed to pay it back. That is a commitment. The remainder, which is that part of the program you intend to carry out, lies in the hands of the Congress.

But the point I make is that neither the Congress nor the President has capacity to affect the large area of the budget—that is, approximately 27.8 billion dollars.

Mr. RICH. What I was trying to find out is whether the Budget Bureau was assuming the responsibility, dated back 3 or 4 years ago, that we will agree to the Marshall plan now—$17,000,000,000 over a period of 3 or 4 years. At the time they had the bill up in Congress, they said, "We are only appropriating or recommending the expenditure of money for 1 year" and then last year came in and said, "We are duty bound, morally bound, and honor bound, to continue to pay this $17,000,000,000." I cannot see it that way—I do not know who to believe any more.

I certainly cannot believe the fellows responsible for it in our Foreight Affairs Committee, the committee in the House, because 2 years ago they said we were not and now last year they said we were. You cannot have faith in men who give you statements like that. It just does not seem right that we should have men in responsible places who would make that kind of statements.

Mr. PACE. That is a matter that goes beyond the province of the budget, Mr. Congressman.

Mr. RICH. I appreciate that, but I wondered now whether you had it definitely fixed in the Budget Bureau that we were committed to this expenditure.

Mr. PACE. I think that the Budget Bureau, which reflects generally the President's thinking, says that this should be done at a minimum expense so that it can be done within the framework of Presidential thinking. I do not think we are committed to a specific figure.

Mr. STAATS. The continuation of the Marshall plan is not included in these fixed commitments here. That depends entirely on new appropriations.

Mr. RICH. That is what I wanted to know, whether you fellows were putting it in as a fixed commitment.

Mr. PACE. No. This merely shows the area over which neither the President nor Congress has any control.

Senator FLANDERS. By the way, have you any smaller and more convenient form of that first diagram?

Mr. PACE. That is the only one that I have, Senator.

Senator FLANDERS. It is most interesting.

Mr. PACE. I will submit the chart, Analysis of Budget Expenditures, for inclusion in the record.

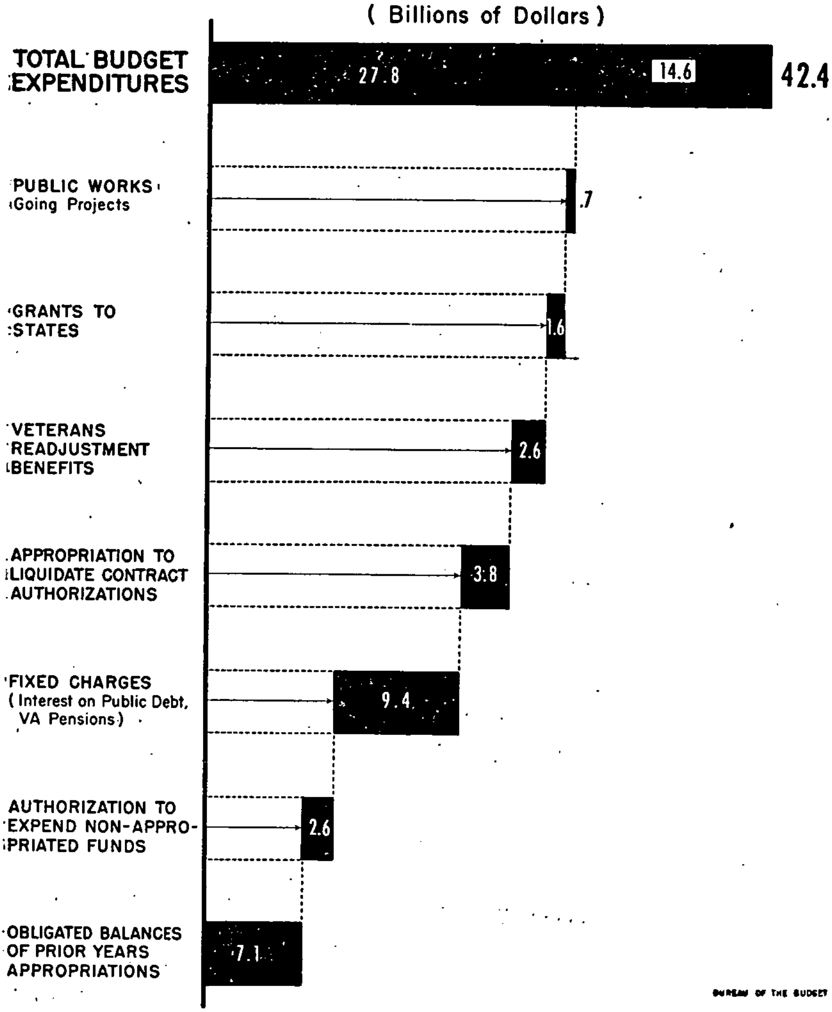
I do think these things are tremendously important. You must remember, too, in terms of these open end programs—and that is something that anyone considering the budget must consider—that based upon laws passed by the Congress, we are committed to an area over which we have no control. Now, that duplicates what I have already presented here as fixed commitments, but it is an area that in terms of fixed commitments you cannot predict when you go to plan your budget.

ANALYSIS OF BUDGET EXPENDITURES

FISCAL YEAR 1951

JAN. 1950 ESTIMATE

(Billions of Dollars)



In other words, how many GI's are going to take advantage of education and training? What kind of an agricultural year will we have in terms of crop support? How many purchases are going to be made by the RFC in the secondary-mortgage market? Those things are completely beyond the control of the executive branch and the Congress and beyond terms of really sound judgment in knowing exactly where you are going. So you do have that problem in estimating what is going to happen.

Because I have taken a substantial amount of time, I think I should move on and tell you what the President's program was in major areas.

In the national defense area I think you are all familiar with the substantial reductions made over the requests of the Defense Department in fiscal year 1950. In 1951 the President——

Senator FLANDERS. And also over the appropriations made?

Mr. PACE. Also over the appropriations made.

Senator FLANDERS. Because the President segregated a certain large sum he said he was not to be expended.

Mr. PACE. I make only this one correction, Senator. He placed it in reserve.

Senator FLANDERS. All right.

Mr. BUCHANAN. $2,200,000.

Mr. PACE. In what area?

Mr. BUCHANAN. In the 1950 defense.

Mr. PACE. In 1951?

Mr. BUCHANAN. 1950.

Mr. PACE. In 1950 defense—you mean reductions made?

Mr. BUCHANAN. Yes.

Mr. PACE. In preparing the 1950 budget, original requests of the three services ran around 21 billion dollars. These were subsequently reduced by the Secretary of Defense to 16.9 billions. The final provision in the budget for new appropriations and other authority for the Defense Department and certain activities like stock piling amounted to 14.8 billion dollars. As you can see the original requests were reduced substantially. This year the requests for new appropriations and authorizations for national defense amount to 12.8 billion dollars, a reduction of 1.8 in authorizations from those enacted last year. Expenditures will amount to 13.5 billion dollars. That is an absolute minimum program consonant with the best judgment of everyone in the executive branch as to the provisions of security. I think I can say in all honesty that in that area Secretary Johnson is making a tremendous effort to produce a dollar's result for a dollar spent. I think that is an area you could expect to move down.

Mr. RICH. I want to say this: He is getting plenty of criticism from a lot of Members of Congress who do not want him to do a lot of things, and I hope he goes ahead. I think he is doing a good job.

Mr. PACE. The second thing I want to say is in the public-works field, which we covered generally earlier, the President has followed a very stringent policy involving no new starts, not only in reclamation, as I mentioned to Senator Watkins, but also in the field of rivers and harbors and in flood control.

Senator FLANDERS. I was extremely interested in your statement that in picking out the ones to go ahead on, the power projects were selected in preference to reclamation projects. That is a matter of considerable interest, I think.

Mr. RICH. You are not speaking of power projects that the Government is trying to build in competition with private enterprise, are you?

Mr. PACE. No.

Mr. RICH. Are you interested in that?

Mr. PACE. No. The stated policy in that area has been for private enterprise to provide power wherever it can and is able to do so, to the extent of satisfying the consumer. The Federal Government's operation is fundamentally a supplementary one. Is that a fair statement?

Mr. STAATS. I think so. And you also have special situations such as the increased need for power in connection with the atomic-energy program.

Mr. RICH. I recall in Johnstown the REA wanted to build power projects there to compete with the West Penn Power. It does not mean any more to me than that there is no reason why the West Penn Power—with other power companies—cannot furnish all the power that the people in that vicinity need. Yet REA was trying to go in there and undermine them by building a power plant. I hope that your department of Government will stop spending Federal Government money where private enterprise will go ahead and do the work.

Mr. PACE. I am not familiar with that particular situation.

I do want to move on to the atomic-energy area, which is a major area in the budget, and I would like to go just briefly off the record.

(Discussion off the record.)

The CHAIRMAN. I want to say that before he left Senator Watkins handed me this memorandum, requesting me to submit it to you. [Reading:]

Ask for information on agencies authorized to make loans and extend credit, amount of authorization in each case, amount of such funds loaned or granted by each lending or granting agency.

If you will put that in the record, we will appreciate it.

(The information requested above is as follows:)

STATUS OF MAJOR FEDERAL LOAN, LOAN GUARANTY, AND LOAN INSURANCE PROGRAMS

The attached three tables summarize the status of the 15 major Federal loan, loan guaranty, and loan insurance programs, including changes made during the first session of the Eighty-first Congress, and additional authority available at the discretion of the President. The tables exclude programs in liquidation and other programs with no continuing lending authority; the most important of these are the Treasury loan to the United Kingdom and the Home Owners' Loan Corporation. Because of the sizable available authority, the industrial loan program of the Federal Reserve banks is listed, even though it has been largely inactive in recent years. Sales credits, e. g., surplus property sales credits, are excluded.

Status on June 30, 1949 (table 1)

Over-all limitation (columns 1, 2, 3, and 4).—For 12 of the 15 major agencies, loans, loan guaranties, and loan insurance are covered by specific limitations. These limitations totaled 30 billion dollars on June 30, 1949, including amounts available for the fiscal year beginning July 1, 1949. In the case of the Federal land banks, Federal home loan banks, and Veterans' Administration, there are no specific limitations.

The over-all limitations on loans, guaranties, and insurance are of two major types, depending on whether repayments are or are not available for relending. In the case of the revolving type of limitation, the amount shown in the table is ordinarily one or a combination of two of the following: (a) The maximum outstanding amount of loans, guaranties, and insurance permitted by statute; (b) the cumulative amounts appropriated into a revolving fund; or (c) the capital, surplus, and authorized borrowing authority. In the case of the nonrevolving type of gross limitation the amounts shown are the total authorizations still available plus outstanding loans and commitments. The net commitment authority is the gross commitment authority of both types minus the amount not available for loans (e. g., the amount already invested in nonlending assets, such as commodity inventories or legal reserves against deposits).

Outstanding loans and commitments (*columns 5 and 6*).—Outstanding loans (9.1 billion dollars) and commitments to lend (2.2 billion dollars) of the 15 programs amounted to 11.3 billion dollars on June 30, 1949. These include all direct loans on which the principal has been disbursed and all undisbursed commitments on such loans; they exclude accrued interest.

Guaranties and insurance (*columns 7 and 8*).—Outstanding Federal guaranties and insurance of private loans (12.6 billion dollars) together with commitments (2.7 billion dollars) were 15.3 billion dollars on June 30, 1949. In such guaranties or insurance the Federal agency contracts to take over loans made by other lenders or to pay a specified amount to the original lender in case of loss. Commitments to guarantee or insure represent guaranties and insurance approved but not yet in force. In cases where only a portion of the loan is guaranteed or insured (e. g., FHA, title I; VA; and RFC) the total credit extended by the lender exceeds the aggregate Federal guaranty or insurance liability.

Uncommitted authority (*column 9*).—The uncommitted authority on June 30, 1949, of the 12 major agencies with specific limitations was 8.8 billion dollars; or this 1.8 billion dollars was FHA mortgage insurance authority and 2.6 billion dollars represented the total funds available for all loan and commodity purchase operations of the CCC. It also included all amounts then available for obligation in the fiscal year 1950.

Net increase in commitment authority, June 30, 1949, to October 26, 1949, (*table 2*)

From June 30, 1949, to October 26, 1949, the Congress granted an additional 3.9 billion dollars in authority to lend or to guarantee or insure loans. In most cases, the Congress simply added to the previous authority; in the case of the FHA, however, the type of authority was changed from nonrevolving to revolving.

Additions to commitment authority subject to Presidential discretion (*table 3*)

An additional 2 billion dollars in commitment authority was available on October 27, 1949, subject to approval by the President.[1] This discretion is available for the three major mortgage insurance programs of the Federal Housing Administration and for the slum clearance and urban redevelopment program administered by the Housing and Home Finance Administrator. In the case of the slum clearance and urban redevelopment loans, the President may increase the limit only upon his determination that such action is in the public interest "after receiving advice from the Council of Economic Advisors as to the general effect of such increase upon conditions in the building industry and upon the national economy."

[1] Of this amount he subsequently released additional FHA insurance authority of $750,000,000 for title II (revolving type) and $200,000,000 for title VI (nonrevolving type).

TABLE 1.—*Status of major Federal loan, loan guaranty, and loan insurance programs, June 30, 1949*[1]

[In millions of dollars]

Agency	Over-all limitations: Gross commitment authority: Revolving (1)	Over-all limitations: Gross commitment authority: Nonrevolving (2)	Over-all limitations: Not available for loans (3)	Over-all limitations: Net commitment authority (1+2−3) (4)	Loans: Outstanding (5)	Loans: Commitments (6)	Guaranties and insurance: Outstanding (7)	Guaranties and insurance: Commitments (8)	Uncommitted authority (4−5, 6, 7, 8) (9)
Department of Agriculture:									
Farm Credit Administration:									
Banks for cooperatives	[2] 642	—	12	630	248	(3)	—	—	382
Federal intermediate credit banks	[2] 1,497	—	(4)	1,497	576	(3)	—	—	921
Federal land banks	(5)	—	—	(5)	902	3	—	—	(5)
Commodity Credit Corporation	[2] 4,850	—	913	[6] 3,937	745	21	524	(3)	2,647
Farmers Home Administration	100	[7] 630	—	730	523	3	7	(3)	197
Rural Electrification Administration	—	[8] 2,256	—	2,256	1,153	550	—	—	553
Economic Cooperation Administration	1,150	—	—	1,150	782	190	[9] 5	(3)	173
Export-Import Bank	3,500	—	—	3,500	2,052	374	120	(3)	954
Federal Reserve banks	[10] 278	—	—	278	1	(4)	2	(3)	275
Housing and Home Finance Agency:									
Office of the Administrator	15	—	—	15	—	—	—	—	15
Federal Housing Administration	[11] 6,200	[12] 6,000	13	12,187	—	—	7,784	2,572	1,831
Federal home loan banks	(5)	—	—	(5)	363	(3)	—	—	(5)
Public Housing Administration	—	[12] 724	—	[6] 724	284	341	—	—	99
Reconstruction Finance Corporation	2,050	[13] 1,017	—	3,067	1,424	710	172	—	761
Veterans' Administration	(5)	—	—	(5)	—	—	[14] 3,968	108	(5)
Subtotal, agencies with specific limitations	20,282	10,627	938	29,971	7,788	2,189	8,614	2,572	8,808
Subtotal, other agencies	—	—	—	—	1,265	3	3,968	108	—
Total	—	—	—	—	9,053	2,192	12,582	2,680	—

[1] Includes commitment authority available for fiscal year 1950, beginning July 1, 1949.
[2] Capital, surplus, and borrowing authority.
[3] Not available.
[4] Less than $500,000.
[5] No specific limit.
[6] Derived from agency's estimate of uncommitted authority.
[7] 1950 authorizations plus loans and commitments outstanding.
[8] Total authorizations (including $150,000,000 on call by Secretary of Agriculture) less repayments.
[9] Guaranty of currency convertibility only.
[10] Surplus at July 1, 1934, plus amount paid for FDIC stock.
[11] Excludes $300,000,000 made available retroactively by the Housing Act of 1949.
[12] Total authorizations less repayments.
[13] Outstanding loans made prior to June 30, 1947.
[14] Does not allow for partial amortization of outstanding loans.

TABLE 2.—*Net increase in commitment authority of major Federal loan, loan guaranty, and loan insurance programs, July 1 to Oct. 26, 1949* [1]

Agency	Over-all limitation			
	Gross commitment authority		Not available for loans	Net commitment authority
	Revolving	Nonrevolving		
Farmers Home Administration		$25,000,000		$25,000,000
Rural Electrification Administration		25,000,000		25,000,000
Housing and Home Finance Agency:				
Office of the Administrator	$25,000,000			25,000,000
Federal Housing Administration	1,525,000,000		(2)	1,525,000,000
Public Housing Administration	1,500,000,000	−724,000,000		776,000,000
Reconstruction Finance Corporation	1,500,000,000	(2)		1,500,000,000
Total	4,550,000,000	−674,000,000		3,876,000,000

[1] Excludes increases in authority subject to presidential discretion; see table 3.
[2] Not available.

TABLE 3.—*Additional loan and loan insurance authority, subject to Presidential discretion, Oct. 26, 1949*

Agency	Over-all limitation			
	Gross commitment authority		Not available for loans	Net commitment authority
	Revolving	Nonrevolving		
Housing and Home Finance Agency:				
Office of the Administrator	$250,000,000			$250,000,000
Federal Housing Administration	1,250,000,000	$500,000,000		1,750,000,000
Total	1,500,000,000	500,000,000		2,000,000,000

NOTE.—On Nov. 18, 1949, the President approved increases in insurance authority of the Federal Housing Administration totalling $950,000,000, thus reducing the authority subject to Presidential discretion to $1,050,000,000.

The CHAIRMAN. I asked you at the outset for a statement with respect to returnable expenditures.

Mr. PACE. I want to make this statement very quickly about the current status of the budget outlook. The expenditures for 1950 are now estimated at $43,300,000,000. The budget for 1951 presents a program which checks and reverses the rising trend in expenditures. I can assure you that that is not an easy thing to do. Specifically expenditures are estimated to fall to $42,400,000,000, which is close to a billion dollars below the 1950 estimate.

More important, if you examine the total requests for new appropriations and contract authorizations you will find that they have been reduced by around $3,000,000,000. This will fundamentally affect expenditures in the years to come. In other words, the amount of carryover will be substantially reduced in the budget in 1952 and succeeding years.

I would like to speak on two subjects that you asked me about earlier, Senator. The first is the cash budget. I have here an analysis of the CED recommendation on the budget for this particular year. The cash budget is similar to the conventional budget, except it includes the receipts and expenditures of all of the trust funds and excludes intragovernmental transactions. Thus, it shows the total flow of money between the Federal Government and the public.

Now, I think that the most interesting thing I can say to you, without going into a complete analysis of the CED budget, is that if we calculated receipts on the same assumptions as those used by the CED and we took the expenditures actually presented in the President's budget, instead of a deficit, you would show a surplus. Is that right?

Mr. JOHNSON. Yes, that is correct.

The CHAIRMAN. That is, taking the sum total of tax receipts by the Government from taxes of all kinds, including returns on all trust funds, and comparing that with the actual recommendations of the President for expenditures, there would be no cash deficit?

Mr. PACE. That is correct; using the CED tax estimates.

The CHAIRMAN. Does that mean that in submitting the budget you have underestimated receipts or that you have made a conservative estimate? Or does it mean that the CED has been unduly optimistic?

Mr. PACE. That is impossible, of course, to say, Senator. It is true that receipts are based upon judgment as to the economic condition of the country. Obviously, the judgment of the CED as to national income and the yield of the present tax system was more optimistic than that of the President.

Mr. RICH. You are taking into consideration trust funds that are supposed to be laid aside for the purpose of carrying out the guaranties that people are expecting under social security, that money that was received?

Mr. PACE. That is what is shown under the cash budget. We do not advocate the cash budget.

Mr. RICH. You do not figure on using those funds for the purpose of operation of Government in order to balance this budget?

Mr. PACE. No, we do not.

The CHAIRMAN. That is not what was said.

Mr. PACE. That is not what I said. What I said is that the cash budget, which is one of the important bases for analyzing the economic impact of Federal operations and which was the basis of the CED report, has been cited as an example of how the budget can be balanced. If you took the same assumptions for the Federal revenues——

Mr. RICH. Is it good business assumption to assume that?

Mr. PACE. Apparently the CED thought it was.

Mr. RICH. Would you do that in the operation of your own affairs or your own business?

Mr. PACE. Again, I do not undertake to either support or fail to support the CED position in this particular area. The CED did not attempt to set this up as a comparative budget to the conventional budget that is presented to Congress by the President. It has been so used by a great many people, and improperly so. I merely use that as an example, pointing out, in answer to the Senator's question, that under circumstances assumed by the CED and using the same type of budget as they were talking about for a purely different purpose, you would not have the deficit you find in the conventional budget.

Is that an accurate statement?

Mr. JOHNSON. Yes.

The CHAIRMAN. Again I say, if I understand you correctly, you are telling the committee that if the cash receipts of the Government from tax revenue, customs revenue, and everything else——

Mr. PACE. Miscellaneous receipts.

The CHAIRMAN. Miscellaneous receipts, et cetera—were added to the receipts which go into the trust funds, and against those were balanced the recommended expenditures by the President, including the expenditures which must be made from the trust funds, you would not have the deficit which shows in the conventional budget which you have submitted.

Mr. PACE. That is exactly accurate.

The CHAIRMAN. You have not recommended that?

Mr. PACE. We have not.

Mr. RICH. Why make the statement?

The CHAIRMAN. Because I asked him to make the statement.

Mr. RICH. But you will go out on the stump and use it and it will give a wrong impression to the people and we do not want you to do that.

The CHAIRMAN. My friend, Congressman Rich, is naturally of a suspicious nature. He keeps us on our toes.

May I at this point read into the record from page 12 of the report of the Subcommittee on Monetary, Credit, and Fiscal Policies, a footnote dealing with this subject. This was a unanimous report of the subcommittee. Incidentally I do not agree with all of that report, but this is what appears in the footnote:

> In dealing with the effects of fiscal policies on general economic conditions, we shall refer to the cash budget rather than to the conventional budget. The former more accurately measures the impact of Federal financial operations on the economy, for it reflects all Federal receipts of money from the public, including social security contributions, and all Federal payments to the public, including social security benefits; it does not include receipts or expenditures which are merely bookkeeping transfers within the Government. The conventional budget, though highly useful for evaluating and controlling the various governmental programs, fails to measure accurately the impact of Federal revenues and expenditures on the economy, for it does not include all payments between the Government and the public, and it does include some items that merely represent transfers on the books of the Government itself. In neither case, of course, do receipts include proceeds from borrowing nor expenditure the amounts used to retire the debt.

That substantially states the view of the CED as I understand it, and the view of a group of economists who met at Princeton University.

Mr. PACE. That is correct. I would like to make only one other point, if I may, and that is in answer to an earlier request on your part. There is included in part III of the budget a statement of budget expenditures classified according to their investment, operating or other nature. This includes an attempt to show those expenditures of the Federal Government that are returnable. Thus, in ordinary business terms, as Congressman Rich was asking me about before, the RFC in purchasing the mortgages that are guaranteed by the Veterans' Administration really is purchasing the Government's own paper. Nonetheless, we show a billion dollars in expenditures for RFC mortgage purchases, just as though that billion dollars were to be spent on atomic bombs that were to be exploded day after tomorrow.

Now, if that particular item were being shown in a business or in a bank statement, you would actually show it as an acquisition of an asset. Furthermore, since you are buying your own paper, you would not set up any reserve as you sometimes do in a business. In this conventional budget, however, which shows a $5,000,000,000 deficit, you actually show as expenditures a billion dollars which the RFC uses to acquire mortgages guaranteed by the Government.

In terms of acquiring strategic materials and stock piling, you spend about six hundred million a year. Yet, you do not show these materials as acquired assets. You show their purchase as an expenditure just as you show, as an expenditure, the acquisition of a crash boat to be destroyed in maneuvers.

I myself do not favor a capital budget, because I think it lessens the ability to control expenditures which is inherent in the present budget process. But I do believe that, in considering the fiscal position of this Government, it is essential that we take into account those expenditures that are actually returnable.

The CHAIRMAN. On page 1115 of the budget, there is a table entitled "Expenditures for Federal Physical Assets." This table shows a total for 1949 of $5,174,000,000; in 1950, $6,207,000,000; and the estimate for 1951, $6,823,000,000. This total is divided into four categories: Public works, sites and direct construction; major commodity inventories, net change; major equipment (national defense); other physical assets, acquisition and improvement.

Would you care to break that down a little bit?

Mr. PACE. Why don't you speak to that point, Mr. Johnson?

Mr. JOHNSON. In the detailed statement at the end of this particular study, there is given on page 1117, second column, under "Physical assets," the various major items that are included in that category. They are shown in detail by agencies and types of construction and by types of major commodity inventories.

The CHAIRMAN. Well, here we have engineering and natural-resource surveys. There you give a dollar value to a survey. It does not represent actual construction, nor does it represent return. It is in the second column under engineering and natural resources.

Mr. JOHNSON. That dollar figure represents the amount to be expended in a particular year on that activity.

The CHAIRMAN. What I am trying to find out is just what these physical Federal assets are.

Mr. JOHNSON. That particular item of engineering and natural resource surveys is not included in physical assets.

The CHAIRMAN. My question had to do with the table on page 1115. There are four items, and I would think it would be perfectly simple to break that down into actual physical assets. That is what you describe. Suppose you prepare that and put it in the record.

Mr. JOHNSON. The table beginning on page 1117, the second column, gives a break-down of physical assets by program.

The CHAIRMAN. But don't you see all you have to do is look at that to note that it would require a Philadelphia lawyer to describe those assets. Now, that is perfectly understandable to you gentlemen in the Bureau of the Budget, because you are working with those things every day. What I want to have is a statement of physical assets which is understandable by the man in the street.

Mr. STAATS. You would like to have a description of those categories spelled out in some detail?

The CHAIRMAN. Yes; a description of what you are talking about. Are you talking about dams? Are you talking about Federal power, public roads?

Mr. PACE. That can be included, and we will provide it for the record.

(The material referred to above is as follows:)

Additions to Federal assets

[Physical assets: Public works, sites and direct construction]

Department or agency, with examples of major items	Expenditures (in millions)		
	1949 actual	1950 estimate	1951 estimate
Civil:			
Atomic Energy Commission	$312	$297	$400
Construction of research laboratories, such as the Argonne Laboratory at Chicago; developmental nuclear reactors (Arco, Idaho, and Schenectady, N. Y.); production facilities such as the Hanford, Wash., and Oak Ridge, Tenn., plants; and housing and community facilities at Richland, Wash., Los Alamos, N. Mex., and Oak Ridge, Tenn.			
Veterans' Administrations, hospitals	34	82	157
The large construction program for veterans' hospitals includes 76 hospital projects to provide 36,804 beds and major alteration and renovation of existing hospitals and homes. The projects are located throughout the States. The Veterans' Administration uses the services of the Corps of Engineers for construction of 45 of the projects (see expenditures under Department of Defense, civil functions). The remaining 31 projects, together with major alteration and renovation of existing hospitals and homes, will be constructed by the Veterans' Administration.			
Tennessee Valley Authority	47	80	118
Largely for construction of major multiple-purpose dams (such as Watauga, South Holston, and Boone); additional generators at existing dams; the Johnsonville and central area steam plants; and power-transmission facilities.			
General Services Administration	9	53	125
Largely for construction of public buildings in the District of Columbia (such as the GAO Building, Federal Courts Building, and Howard University buildings); Public Health Service research facilities at Bethesda, Md.; acquisition of sites and planning of public buildings outside the District of Columbia; renovation and improvement of federally owned buildings outside the District; and Alaska public works.			
Department of Agriculture:			
Grain-storage facilities	----	90	15
Provides for construction of grain-storage facilities by the Commodity Credit Corporation (mostly in the North Central States).			
Other	18	6	12
Includes forest development roads and trails, forest highways (1949 only), water conservation and utilization projects, and research facilities (animal industry).			
Department of Commerce	20	70	86
Largely for establishment of air navigation facilities throughout the States and construction of the National Airport and Alaska airports by the Civil Aeronautics Administration; research facilities for the National Bureau of Standards; and forest highway construction by Bureau of Public Roads (in 1950 and 1951).			

Additions to Federal assets—Continued

[Physical assets: Public works, sites and direct construction]

Department or agency, with examples of major items	Expenditures (in millions)		
	1949 actual	1950 estimate	1951 estimate
Civil—Continued			
Department of Defense, civil functions:			
Flood control	$374	$459	$534
Program provides for major storage reservoirs, usually for multiple purposes, construction of levees, and improvement of channels, and involves many projects scattered throughout the States. Some of the major projects are: Bull Shoals Reservoir, Ark.; Clark Hill Reservoir, Ga..; Buggs Island Reservoir, N. C. and Va.; Wolf Creek Reservoir, Ky.; Fort Gibson Reservoir, Okla.; Center Hill Reservoir, Tenn.; Conemaugh River Reservoir, Pa.; Mississippi River and tributaries; Garrison Reservoir, N. Dak.; Fort Randall Reservoir, S. Dak.; Oahe Reservoir, S. Dak.; Folsom Reservoir, Calif.; Detroit Reservoir, Oreg.			
Rivers and harbors	74	126	161
Nation-wide program involving dredging and rock-removal operations in the ports and waterways of the Nation and construction of locks and dams, including installation of hydroelectric power facilities. Several of the larger projects include: Arkansas River and tributaries (Arkansas and Oklahoma); Mississippi River between Ohio and Missouri Rivers, regulation works only; Mississippi River between Missouri River and Minneapolis, Minn., excluding St. Anthony Falls; Ohio River lock and dam construction; Missouri River, Kansas City to Sioux City; St. Marys River, Mich.; Missouri River, Kansas City to mouth; Fort Peck Dam, Mont.; Columbia River at Bonneville, Oreg.; McNary Lock and Dam, Oreg.; Chief Joseph Dam, Wash.; etc. The 1951 expenditures include $4,000,000 for preliminary work on the proposed St. Lawrence seaway and power project.			
Veterans' hospitals (see Veterans' Administration, hospitals, above)	108	141	97
Other	5	4	9
Department of the Interior:			
Bureau of Reclamation	212	308	354
Provides construction on many large irrigation and power projects for development of water resources in 17 Western States. Major developments include Central Valley projects of California; Colorado-Big Thompson project in Colorado, Hungry Horse project in Montana, Davis Dam on the lower Colorado River; and the Missouri River and Columbia Basin projects.			
Other	86	114	150
Includes construction of power-transmission facilities by Bonneville and Southwestern Power Administrations; irrigation and power systems, buildings, utilities, and roads and trails by the Bureau of Indian Affairs; parkways, roads and trails, and physical improvements by the National Park Service; research laboratories and synthetic liquid fuel pilot plants by the Bureau of Mines; the Alaska Railroad and Alaska roads.			
Other agencies	9	24	38
Includes U. S. share of construction of dams on the Rio Grande by the International Boundary and Water Commission; Coast Guard facilities; Panama Canal facilities; Capitol Power Plant; and cemeteries and monuments by the American Battle Monuments Commission, etc.			
Total, civil public works	1,307	1,854	2,255
National defense:			
National Advisory Committee for Aeronautics	11	15	20
Provides for research facilities at laboratories and research stations (Virginia, Ohio, and California) and initial construction on supersonic wind tunnels.			

Additions to Federal assets—Continued

[Physical assets: Public works, sites and direct construction]

Department or agency, with examples of major items	Expenditures (in millions)		
	1949 actual	1950 estimate	1951 estimate
National defense—continued			
Department of Defense:			
Existing programs (including Organized Reserves construction)	$151	$301	$195
Provides for construction of top-priority projects of troop and family housing; research and development facilities; and technical, operational, and industrial facilities. Included are such programs as the further development of Alaskan military installations, the improvement of military installations on the islands of Guam and Okinawa, and initial amounts for the development of an aircraft control and warning system, a long-range proving ground for guided missiles, and an air engineering development center. Over half of the expenditures are for construction outside the continental United States.			
Proposed legislation (chiefly public works)			70
Includes expenditures under proposed legislation which would provide $372,000,000 of new obligational authority, the largest part of which is for military public works for both Regular and Reserve forces.			

Mr. PACE. I do want to say in reference to the surveys that although it is excluded from the category of physical assets, in many cases similar costs might be included in capital expenditures in a business operation.

But the point I should like to emphasize, Senator, is that this investment classification has been made on a conservative basis. We exclude as far as possible those items that might be considered to be questionable.

The CHAIRMAN. You see, if I am to make any one of those speeches that Congressman Rich thinks I will make, I must have a better itemization of your estimate of the value of physical assets in 1951 in order to make my audience understand what I am talking about.

Mr. PACE. That can be provided for the committee, Mr. Chairman. I have concluded, sir.

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

The CHAIRMAN. Certainly.

Mr. BERQUIST. Earlier in your discussion of the CED cash budget, cash receipts set against expenditures, the statement was made that if you calculate receipts on the same basis or assumptions as CED as to levels of economic activity, you would get a balanced budget. You would, nevertheless, have an increase in the debt equivalent to the deficit, would you not? It would reflect itself in the debt figures, would it not?

Mr. JOHNSON. Under circumstances when the cash budget was in balance, there would still be some deficit in the conventional budget. This deficit would cause an increase in the total Federal debt, but not in the debt held by the public.

Mr. KREPS. That is only insofar as your estimates of receipts are identical with theirs. Isn't it true that their estimates of receipts are some $2,000,000,000 higher than yours?

Mr. PACE. Based on present tax laws their estimate is almost $4,-000,000,000 higher than ours. If you have the increased receipts, you would not have an addition to the debt held by the public.

Mr. BERQUIST. An addition to the trust fund assets, that is, calculating at a higher level of income?

Mr. PACE. That is correct.

The CHAIRMAN. So again I come to the question I asked you on that point: What about your estimates of receipts? Are they on the conservative side or on the high side?

Mr. PACE. Estimates of receipts are made by the Treasury Department as they have been over a period of time. They are based upon a level of personal income, of $212,000,000,000, which is about the current level.

The CHAIRMAN. There are variations every year from those estimates of receipts.

Mr. PACE. That is correct.

The CHAIRMAN. Sometimes the receipts are more; sometimes they are less.

Mr. PACE. That is correct.

The CHAIRMAN. If economic conditions should be less favorable than seems to be the general outlook now, then we might look for a drop in receipts below these estimates.

Mr. PACE. That is accurate.

The CHAIRMAN. On the other hand, if the economic outlook remains as rosy as so many economists, both private and Government, seem to think it will, then it is quite conceivable, is it not, that the receipts might be what the CED estimates they would be?

Mr. PACE. They probably would move up.

The CHAIRMAN. And that without respect to any tax program?

Mr. PACE. That is correct.

Mr. KREPS. I have a question. With regard to the chart you had showing the fixed commitments and the margin of flexibility, do I interpret accurately that of the forty-two billion four total expenditure for 1951, the twenty-seven billion eight—I believe it is—would go on if you shut down the Government completely. That fourteen billion eight, in other words, has in it all the remuneration to personnel and the like.

Mr. PACE. That 27.8 billion dollars includes very little payment for personnel—only that amount previously obligated.

Mr. KREPS. I understand. In essence it means, so far as the accounting budget is concerned, any cut has to come out of the fourteen billion six.

Mr. PACE. That is correct, except in a few cases the Congress could change basic legislation such as pension rates or the GI bill of rights.

Mr. KREPS. Essentially, if you close down the Government as a whole except for meeting all past commitments, things you could not avoid, plus interest, would still incur twenty-seven billion six of expenditure.

Mr. PACE. That is an important point.

Mr. KREPS. You have two billion six for veterans, as I remember. Does that include the personnel to handle such disbursements?

Mr. PACE. It does not.

Mr. KREPS. In other words, that includes merely the payments to the veterans themselves and does not even allow for the fact that you have to have personnel to make such payments?

Mr. PACE. That is right.

Mr. KREPS. So that is a minimum estimate, twenty-seven billion eight?

Mr. PACE. That is exactly accurate.

Mr. KREPS. Your real margin of flexibility is somewhat less?

Mr. PACE. Substantially less.

Mr. KREPS. Substantially less than that if you allow personnel for liquidating all those contractual obligations of the Government.

Mr. PACE. Absolutely.

The CHAIRMAN. Do you have with you, Mr. Pace, that statement of CED and your own analysis of it?

Mr. PACE. I do not have a specific analysis, but I can provide one.

The CHAIRMAN. I would like to have both of them in the record if that is convenient.

Mr. PACE. I will see that that is done.

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

The Federal budget for fiscal year 1951, "cash-consolidated basis"—Comparison of CED proposals with "receipts from and payment to the public" as estimated in the President's budget

[In billions of dollars]

	President's budget [1]	CED proposal	Difference
Payments	45.8	40.0	−5.8
Receipts [2]	43.1	45.5	+2.4
Cash surplus (+) or deficit (−)	−2.7	+5.5	+8.2

[1] "Receipts from and payments to the public".
[2] Excluding the $1,000,000,000 of net additional revenues proposed in the President's tax message.

The CED budget excluded proposed legislation affecting the social-insurance trust accounts. The President's proposals for expanded social insurance would increase trust-account revenues and expenditures equally in 1951, and thus would have no effect on the cash deficit. The comparison between the CED and President's budgets is thus more clear if the proposed legislation affecting the trust accounts is excluded, as follows:

[In billions of dollars]

	President's budget [1]	CED proposal	Difference
Payments (excluding proposed legislation affecting trust funds)	44.3	40.0	−4.3
Receipts (present tax laws)	41.6	45.5	+3.9
Cash surplus (+) or deficit (−)	−2.7	+5.5	+8.2

[1] "Receipts from and payments to the public".

About one-half the difference between the two budgets is accounted for by expenditure proposals, and one-half by variation in estimates of revenues from present tax laws. The following tabulation shows the major difference in estimated expenditures by programs for the fiscal year 1951:

[In billions of dollars]

	President's budget [1]	CED proposal	Difference
Veterans' life insurance dividend	0.6		−0.6
Veterans' readjustment benefits	2.7	2.2	−.5
RFC mortgage purchases	1.0	.6	−.4
Farm price supports (CCC)	.9	1.4	+.5
Unemployment insurance	1.6	1.2	−.4
National defense	13.8	12.6	−1.2
Other existing legislation	22.5	21.5	−1.0
Proposed legislation (new programs, excluding postal rate increases)	1.0		−1.0
Reserve for contingencies	.2	.5	+.3
Total payments (excluding proposed trust-fund legislation)	44.3	40.0	−4.3
Proposed trust-fund legislation	1.5		−1.5
Total payments	45.8		−5.8

[1] "Receipts from and payments to the public".

The major factor accounting for the difference in revenue estimates between the two budgets is the varying economic assumptions used by the CED and the Treasury in computing these estimates under present tax laws. In addition, under the CED assumptions, certain expenditure estimates in the President's budget would be lower, notably unemployment-compensation payments from the Unemployment Trust Fund. The approximate effect on the President's budget (cash basis) of using the CED economic assumptions would be as follows:

President's budget (receipts from and payments to the public adjusted for CED economic assumptions)

	In billions of dollars
Payments as estimated in the President's budget	45.8
Less adjustment for lower CED estimate of unemployment-compensation payments	—.4
Total adjusted payments	45.4
Receipts as estimated in President's budget [1]	43.1
Plus adjustment for CED assumed high-income level	3.9
Total adjusted receipts	47.0
Adjusted cash surplus (+) or deficit (—)	+1.6

[1] Excluding the $1,000,000,000 of net additional revenues proposed in the President's tax message.

NOTE.—In computing revenue estimates for 1951 the Treasury assumed personal income of $212,000,000,000—the 1949 level. The CED assumed national income of $238,000,000,000 as the level which would reflect high employment conditions, and this would be equivalent to about $225,000,000,000 of personal income.

The CHAIRMAN. If there are no other questions we will adjourn. Thank you very much, Mr. Pace. You have been very lucid and very patient.

(Whereupon, at 12:30 p. m., an adjournment was taken until Thursday, January 19, 1950, at 9:30 a. m.)

JANUARY 1950 ECONOMIC REPORT OF THE PRESIDENT

THURSDAY, JANUARY 19, 1950

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

The joint committee met, pursuant to adjournment, at 9: 55 a. m., in room 318, Senate Office Building, Senator Joseph C. O'Mahoney (chairman) presiding.

Present: Senators O'Mahoney (chairman), Douglas, and Flanders; and Representative Rich.

Also present: Theodore J. Kreps, staff director; Grover W. Ensley, associate staff director; and Fred E. Berquist, economist for the minority, Joint Committee on the Economic Report. V. Lewis Bassie, University of Illinois; Arthur Burns, National Bureau of Economic Research; Martin Gainsbrugh, National Industrial Conference Board; Seymour Harris, Harvard University; Arthur Smithies, Harvard University; Paul J. Strayer, Princeton University; Julius T. Wendzel, W. E. Upjohn Institute for Community Research; and Donald B. Woodward, Mutual Life Insurance Co. of New York.

The CHAIRMAN. Gentlemen, I think it would facilitate our purposes this morning if we would start by calling the roll. I would like to have each person rise when his name is called so that the reporter may be able to establish the locale of each participant. When we proceed to the round-table discussion, it is desired that it be as free as possible. We want as complete an exchange of frank views as we can get.

Will each of you please rise as your name is called?

Mr. V. Lewis Bassie, of the University of Illinois.

Mr. Arthur Burns, of the National Bureau of Economic Research.

Mr. Martin Gainsbrugh, of the National Industrial Conference Board.

Mr. Seymour E. Harris, of Harvard University.

Mr. Arthur Smithies, of Harvard University.

Mr. Paul J. Strayer, of Princeton University.

Mr. Julius T. Wendzel, of the W. E. Upjohn Institute for Community Research.

Mr. Donald B. Woodward, Mutual Life Insurance Co. of New York.

I notice that Dr. Clark, of the Council of Economic Advisers, is at the end of the table. The members of the Council are invited to participate in the discussion.

Mr. Dewey Anderson, of the Public Affairs Institute, expected to be with us this morning, but another appointment has kept him away. We are very sorry he could not be here to participate at this roundtable. Mr. Anderson's statement will be included in the record at the end of today's discussion. (See pp. 199–205.)

When the members of the round table were invited to participate in this conference, we notified them that we would try to observe a 5-minute rule and that we would discuss, broadly speaking, two general subjects: First, the appraisal of the economic situation and outlook; and, second, recommendations for policy. Unless there is objection, we will proceed with that scheme.

The first discussion will be the appraisal of the economic situation and outlook—what kind of a year was 1949 and what is the outlook for the next year in terms of production, employment, and purchasing power?

I wonder, Mr. Bassie, if you would care to start the proceedings.

Mr. BASSIE. With reference to 1949, I think it clearly was not a year of maximum employment, production, and purchasing power. We had a significant let-down from the levels of the earlier periods.

The 1948 situation had continued to be one of inflationary pressure growing out of accumulated postwar demands plus the fact that new military and foreign-aid programs were superimposed early in the year. Throughout the postwar period, however, there had been continuing fears of a let-down similar to that following the First World War. Those fears became dominant in the latter part of the year and, with readjustments in some durable-goods industries occurring at that time, accompanied by a tendency for consumers to let their expenditures fall off to provide a more normal level of saving, businessmen generally accepted the viewpoint that a decline was in prospect and decided to cover their position. In covering, they attempted to reduce their inventories. I think this was the primary factor in the 1949 recession.

Then, about midyear, their views changed again, and, generally speaking, it was seen that the situation was not one that would call for continued rapid liquidation of inventories. Consumer expenditures were maintained in the face of a decline in income and prices; and, with inventories having been adjusted to a more normal position, business confidence recovered. It recovered to the point where businessmen again would have liked to have reversed inventory policy. I say "would have liked to." The recovery movement was interrupted by strikes and also by necessary lags in the situation, so that probably even the fourth quarter will show some continued liquidation of inventories.

The 1949 unemployment of 3,500,000 workers was about twice as large as that which prevailed in the earlier postwar years, but, generally speaking, was not so high as to affect the economy seriously.

Whether or not that volume of employment is considered incompatible with a "maximum employment" objective is quite another question and one, it seems to me which goes back to the question of long term, or at least longer term economic policy. I do not think that it can be an acceptable objective of Government policy to hold unemployment at all times to a level which would be regarded as the "maximum employment" position, such as we maintained through 1947 and 1948.

It seems to me that would call for a level of economic effort on the part of the Government which could not be sustained in a period of serious decline.

The CHAIRMAN. Does that mean that in your opinion the Government must be content to live with a degree of unemployment?

Mr. BASSIE. Yes; a degree of unemployment that is not necessarily large but is certainly larger than it would be with maximum employment in the sense in which this——

The CHAIRMAN. How would you measure it?

Mr. BASSIE. Frankly, I do not know precisely how to measure it. If we look at 1948 as being an inflationary year in which unemployment was perhaps somewhat below what should be an objective, and 1949 as deflationary and perhaps somewhat above, then, by taking a medium position, you might arrive at a figure of, say, 2,500,000 as a full employment objective.

The CHAIRMAN. I wonder if it would be possible to define this problem in statistical terms—2,500,000, 3,000,000, 1,500,000. They mean very little unless you take into consideration the ratio between that number and the total labor force, it would seem to me. Therefore, I wonder if it would not be better to try to agree upon a definition of terms. What do we mean by "maximum employment"? It will be remembered that when this law was under discussion, it was first called a full employment proposal. The word "full" was dropped and the word "maximum" was put in in its place. The purpose of that change was to recognize that there is such a thing as frictional unemployment, but I cannot say that there was any accurate definition. What would be your definition? I think we should have a situation which enables the labor force to move around, we want to be perfectly free. We do not want to have a system, I would think, by which Government could pick up men and say, "Here, you are out of a job, now go somewhere else and go to work," if they do not want to.

Mr. BASSIE. I think that is correct. I would point out in that connection we are using a measure of unemployment that excludes a considerable portion of the so-called frictional unemployment. The census survey of employment and unemployment is set up in such a way that certain types of short-run unemployment do not appear, or are not counted as unemployment, certain turn-over unemployment, perhaps I should call it, people moving from one job to another. But, leaving aside that qualification and speaking in terms of the census measures, it seems to me that there is a range of unemployment in which no particular Government action is called for.

That might be stated roughly in the range of 2 to 6 percent of unemployment. I feel that the Government is not particularly called upon for large compensatory action.

To take such action when unemployment is still at a moderate level may involve you later in serious difficulties which it would not be possible to compensate. That is to say, if you use your ammunition when unemployment is only two and one-half or three million, and then you get into a much more serious recession, what will you be able to do about it?

Mr. RICH. May I ask this question? Hasn't it been a fact that too many people in Government have tried to take care of those people who are out of jobs rather than letting them try to seek jobs for themselves? The person unemployed should try to take care of his own unemployment and not look to the Government to do everything for him.

Mr. BASSIE. I think, of course, the individual frequently has very little opportunity to do anything about the situation. Either there are jobs that he can move into, or there are not, and from his point of view that is all there is to it.

Now, just where the Government should step in and try to provide jobs or insure provision of private jobs is the point it seems to me, the essential point, of this discussion. I think that should not be too early; but certainly in the range of three to four million unemployed is where you begin to get into the problem, and it seems to me that as unemployment goes over four million, you clearly ought to be thinking in terms of Government policy.

Now, we are not in that range now, and it seems to me we are not in the immediate future likely to be faced with that problem in serious measure.

Mr. RICH. I quite agree with you on that, but I think if the individual does not take some responsibility of his own to try to locate a job, but exects somebody in Government to do it, then the great burden is always on the Government to find a job for the individual rather than letting the individual find a job through his own efforts.

Mr. BASSIE. But I try to make a distinction between where initiative is important and one where it is not. One aspect of the problem is locating a job, whether or not there are enough jobs, and another, from the broader viewpoint, is to consider whether or not there are enough jobs.

Mr. KREPS. In other words, you feel the objective was set too high—the figure of three and one-half million unemployed, say, between 4 and 5 percent of the labor force, is a reasonably attainable objective. To try to keep the number of unemployed down to 2½ million may involve considerable danger of inflation. Other objectives promulgated by the Council may also be too high. Therefore, the policies they advocate should not come into being at the time they set, but at a lower and more attainable level; is that right?

Mr. BASSIE. My remarks were not directed specifically toward the recommendations. At this point, we were talking about the general situation. As you recall, I set up two and one-half million, or roughly 4 percent, as being a kind of full-employment objective for the year 1949. I took that as a medium figure in which there would have been neither inflation nor deflation in that situation. Now, there has to be growing production to maintain unemployment at that level, because productivity is increasing and the labor force is growing and we cannot keep unemployment down to such a level without a rise in production and employment.

My remark on that point was partly cast in terms of my view of the outlook, which is one of general stability and continuing prosperity through this coming year.

The CHAIRMAN. In terms of employment what is your outlook?

Mr. BASSIE. I think employment is likely to be fairly stable, possibly tending upward, with unemployment also fairly stable, and possibly also tending upward. The margins of growth in the labor force can permit both of these measures to increase at the same time; and I think the outlook is close enough so that both could increase at the same time. Now, it might be that the movement in unemployment would be large enough to——

Senator FLANDERS. The present unemployment figures are what?

Mr. GAINSBRUGH. Three and one-half million.

Senator FLANDERS. Would you be satisfied to see those go upward in view of your suggestion of the two and one-half million?

Mr. BASSIE. A little bit would still be within the limit of tolerance, but I think as soon as it got over four million, we would be in a position of casting our thoughts basically on the side of trying to reduce unemployment rather than letting it get any higher.

Mr. RICH. What would you do if there were, say, 100,000 people who were not working, and there was a demand for the work they were intended to do, and if they did not go ahead and do that work, there would probably be a million more people put out of work? What would you do so far as the Government was concerned in a case of that kind?

Mr. BASSIE. Are you referring specifically to the coal situation?

Mr. RICH. Your guess is as good as mine. [Laughter.] What would you do in a case of that kind where either somebody is telling them not to work, or they are refusing to work, and because of it a million more people will be put out of work in a very short time? What would you do?

The CHAIRMAN. May I interrupt?

Mr. RICH. I would hate to have you interrupt me. I would like to have him answer the question. I am not interested in your answer.

The CHAIRMAN. This is a question. I was wondering whether you want the committee to understand that you are just guessing.

Mr. RICH. I think the gentleman and I are pretty much of one mind in the question. I am just trying to get his answer.

Mr. BASSIE. I am afraid I have very little to contribute to that question of policy.

Mr. RICH. You are an economist, are you not?

Mr. BASSIE. Yes, I am; but this is not primarily an economic question.

Mr. RICH. It is not?

Mr. BASSIE. Not as I see it.

Mr. RICH. What would you call it?

Mr. BASSIE. Basically a political question.

Mr. RICH. Politics?

Mr. BASSIE. Not politics in the narrower sense, but, broadly conceived, a political or social question rather than a question of economics.

Mr. RICH. Then, whenever men refuse to work at something in which the public is very much interested—to keep people from freezing and keep others from starving—it becomes a political question?

Mr. BASSIE. The question of action certainly does, yes.

Mr. RICH. All right. [Laughter.]

The CHAIRMAN. Does any other member of the round table wish to get into this? Please do not let the congressional Members do all the needling here.

Mr. RICH. Needling? If you call that needling, then I do not know. I am trying to get an answer from these economists now on how to run things. You cannot get it from the administration, you cannot get it from any laws we have passed. It is a question that somebody must figure out outside of the Congress, because they are doing nothing. It is about time somebody in this country tried to do something that is the right thing for the American people.

The CHAIRMAN. What would you do?

Mr. RICH. What would I do?

The CHAIRMAN. Yes.

Mr. RICH. I am not the President of the United States. I would not do what they are doing down there now running this Government, I will tell you that.

The CHAIRMAN. Mr. Woodward, do you care to get into this picture?

Mr. WOODWARD. I do not think so, sir.

The CHAIRMAN. I am looking right at the Harvard professors now.

Mr. HARRIS. May I continue a point that has been raised?

The CHAIRMAN. Yes.

Mr. HARRIS. I think I represent Harvard more than Arthur Smithies does.

Mr. SMITHIES. Let's see what you say before I agree to that.

Mr. HARRIS. On this last point I think the figures we ought to strive to set as a maximum on unemployment depend partly on how you define "unemployment." I think there is a good deal of difference on that issue. There is the question, for example, of people who have been unemployed for less than 30 days and are waiting for another job. Are they unemployed or not? There are people who work 2 days and want to work 5 days. Are they unemployed or not? That is a question of definition.

If we knew how many people were working 2 days who would like to work 5 or 6 days, if we knew how many of those people there are, we would know how many there are unemployed. That is a technical definition.

Mr. RICH. Let me ask you a question here. Would you call a man who has the opportunity to work and does not work, or whom somebody is keeping from working, an unemployed man?

Mr. HARRIS. He is unemployed if he is a member of the labor market and is looking for a job and cannot find one.

Mr. RICH. No; I am talking about the man who has a job, and is willing to work. The job is there, the people in the country need his services. Is he unemployed?

Mr. HARRIS. You say the job is there?

Mr. RICH. Yes.

Mr. HARRIS. You mean he is on strike?

Mr. RICH. I do not know what he is on. He just is not working.

Mr. HARRIS. Why isn't he working?

Mr. RICH. That is what I want to know. [Laughter.]

Mr. HARRIS. It is partly a question of intention. If he really is looking for a job—and what you mean by "looking for a job" is another issue.

Mr. RICH. I want to know whether the fellow is unemployed if there is a job waiting for him, ready and coaxing him to take it, and yet he refuses to take it.

Mr. HARRIS. I would say if he is not looking for a job, he is not a member of the labor market, he is therefore not unemployed. He is not unemployed because he is not a member of the labor market.

Senator FLANDERS. As a matter of fact, are those on strike, formally or informally, included in the unemployment figures?

Mr. HARRIS. I believe they are not.

The CHAIRMAN. The rules of the Bureau of Labor Statistics and the Department of Commerce in compiling our statistics on employment and the labor force are, as I understand it, that any person who is employed 14 hours in the week is counted as employed and not as unemployed.

Mr. HARRIS. The only other point I was going to make on that particular issue is the question that should also be determined in relation to how well the unemployed are taken care of. If you have an excellent social-security system, then having 4 or 5 million unemployed is one matter. If you have a pretty poor social-security system, it is another matter. I would not set any fixed number, but I would raise the issue of the relevance of the definition of unemployment and the manner of taking care of our unemployed. It is certainly better to have a job than to be taken care of by social security.

The CHAIRMAN. We were discussing the outlook, and this is incidental to the discussion.

Mr. HARRIS. Do you want me to go on?

The CHAIRMAN. Just give us a summary, if you please.

Mr. HARRIS. I would say that the major factor in the 1949 situation was an increase of the contribution of Government by $10,000,000,000 relative to 1948. That is to say, a rise of Government's contribution, a deficit of $3,000,000,000 against a surplus of $7,000,000,000.

Now, it seems to me that was the crucial factor that kept this down to a minor decline, and I do not agree with the Council that it was to an important extent a matter of cooperation between business and Government or between business and labor or between labor and Government. I do not agree that there was any significant trend in this direction; if anything, in view of the large strikes, one might say there was a deterioration of relations.

The important fact was that we have an element of built-in flexibility in our economic system so that as soon as a recession comes an increase in public spending and a decrease in taxes follows, and that was the decisive factor that kept the economy from declining more than it did.

I would say if there were not $6,000,000,000 in foreign aid in 1949, you would have had a more serious decline. I also would like to point out that if you take the years 1942 to 1945, take the total income during that period and take the normal investment and consumption during that period, there was a deficiency of $207,000,000,000 of spending on consumption and investment; and the prosperity we have had in 1946, 1947, 1948, and 1949 in no small part depended upon using up that backlog, and it seems to me we have gone a long way toward using that backlog up, and unless we have increased war expenditures, and so forth, we will have to have additional outlets to maintain a stable economy.

The CHAIRMAN. What outlets do you see?

Mr. HARRIS. Well, Senator, I would say that one important matter is to maintain foreign aid.

Mr. RICH. Right there, do you mean maintain foreign aid? Do you mean giving things away in order to keep our economy up?

Mr. HARRIS. I would say it is quite conceivable that you can give things away and still gain even in terms of our own national income if you have a large amount of unemployment. I think that is generally accepted.

Mr. RICH. Where is the breaking point on that?

Mr. HARRIS. I would be glad to develop that point, Congressman Rich, if you like.

Mr. RICH. All right.

Mr. HARRIS. You can develop it in any way you like. I do not think, for example, the national debt is a matter of great concern. I would say a national debt that takes $5,000,000,000 a year out of a national income of $225,000,000,000 a year is nothing to get frightened about.

Mr. RICH. How long can you keep that up?

Mr. HARRIS. If you take President Truman's statement that we may have a national income of $900,000,000,000 by the year 2,000 I would say we can keep on for quite a long time.

Mr. RICH. I would rather have somebody else's statement.

Mr. HARRIS. Let me go to history. Do you mind?

Mr. RICH. Go ahead.

Mr. HARRIS. Going back a hundred years to the British situation in 1818, they had a national debt costing 8 percent of the national income. By 1913 that national debt, although a very small part of it was repaid, cost them 1 percent of their national income. That nineteenth century development in Great Britain corresponds to a certain extent to what we might expect in the United States in the twentieth century.

Senator FLANDERS. May I go back to an earlier point and ask you whether you feel that we cannot maintain full employment without this process of an unbalanced foreign trade, whether by ECA or by point 4 or by some other means? Is our economy such that we have to reckon on distributing an unavoidable surplus by means which do not bring in an immediate return for the goods produced?

Mr. HARRIS. Senator Flanders, I belong to the school that holds that view to some extent, and I must say I was a little distressed to see the Council repudiate that view to some extent in its last report.

Senator FLANDERS. That is, we cannot have a generally balanced economy without continuing deficits which have to be accepted?

Mr. HARRIS. I would not say I am absolutely certain about this, but I would say there is a strong probability that that is true, and I would like to point out that if, for example, we drop foreign aid and if as a result of dropping foreign aid our economy grows normally for the next 10 years, and if our investments return to a normal level in relation to present income, then the total amount of consumption in relation to the national income would have to rise to almost 80 percent in 10 years and that is a percentage that we are not likely to attain on the basis of past experience. I, therefore, say you either have to have Government spending rise if you are going to have a high employment economy and keep investments at a normal level, or else you have to have a depression.

Mr. GAINSBRUGH. Do you mean Government expenditures for goods and services and private capital formation and foreign investment would take only 20 percent of national income or GNP?

Mr. HARRIS. Private investment and Government spending as against the increase of income of 3 percent——

Mr. GAINSBRUGH. Not accompanied by corresponding expansion in capital goods?

Mr. HARRIS. Normally in a high-employment economy we are not likely to be able to absorb more than 12 percent of the national income in private investment. That was in the preceding year's report.

Mr. GAINSBRUGH. The Council is willing to accept 14 or 15 percent this year.

Mr. HARRIS. This year they have gone overboard on private investment. I do not think the Council will get a good grade on Keynesian economics on the basis of this year's record.

The CHAIRMAN. Do I understand, Professor, that you are grading them down on the ground that the Council has abandoned the theory of Government spending which you are expounding?

Mr. HARRIS. I grade them down—of course, I realize the Council is a semipolitical organization and I realize they cannot say the things that a professor can say who does not have these responsibilities. It it my job to egg on the Council to do what I consider to be correct public policy, and I suspect that even—well, I will not say this, since it might embarrass some members of the Council.

Mr. RICH. You do not need to worry about embarrassing Members of Congress.

The CHAIRMAN. He is worrying about embarrassing members of the Council, not Members of Congress.

Senator FLANDERS. Mr. Harris, it apears to me that you have the feeling that our industrial economy cannot of itself distribute all that it produces; is that right?

Mr. HARRIS. That is right.

Senator FLANDERS. What relation does that bear to the Marxist theory of surplus production? It seems to have some resemblance to it.

Mr. HARRIS. There is some resemblance, and not only to Marx. As you probably know, Senator Flanders, from your New England experience, we also had the Foster-Catchings theory in the twenties.

Senator FLANDERS. What were the names?

Mr. HARRIS. Foster and Catchings. I was a reader in the awarding of a $5,000 prize which was awarded for the best interpretation of their book on profits. It is an old theory in the history of business cycles.

Senator FLANDERS. It is a theory that troubles me because I can easily conceive of theoretical returns from production which with the balance between investment and personal consumption and governmental expenditures supported by taxation does, nevertheless, distribute everything produced. It seems to me that is not an impossible situation. Yet, these theories tend to indicate that it is an impossible situation.

Mr. HARRIS. May I say if I were interpreting this Democratic economic program as against the Republican economic program—and, of course, I speak for myself—I would say the Republican program is progress without Government intervention of any kind or a limited amount of intervention. The Democratic program is: Let's have full employment, progress, rising standards of living, but we are not likely to achieve these without perhaps an increased proportion of Governmental intervention.

I think that is a fair summary of the Democratic position from 1933 until 1948. I am not sure it is in 1949.

Senator FLANDERS. I am not attaching Democratic or Republican labels to this, but simply considering whether there is any optimum return, division of the returns from production, which will insure the purchase of the goods produced. That is it.

Mr. HARRIS. I think you said if the Government sees that we have a fair distribution, and so forth—is that not correct?

Senator FLANDERS. I did not use those words.

Mr. HARRIS. What are the words you used? If you grant the Government is going to bring about a great redistribution—you may have noticed the Council soft pedaled the difficult question of redistribution in its last report.

Senator FLANDERS. I am leaving out the question of Government policy, except as the Government is one of the consumers of production, and assuming that in a balanced situation consumption, governmental consumption, is paid for by taxation which comes out of the money returns for production—whether it is not conceivable that that thing can be balanced; so that whether it is the Marxian or Keynesian or the Foster-Catchings variety, a balance between production, the returns from production, and the flow into consumption and investment may not be balanced.

Mr. HARRIS. I say unless you have the Government intervene to a considerable extent, either through domestic investment programs, stimulating consumption of the masses or foreign aid, there will be trouble, because I think the position that I gather you hold, Senator Flanders, leaves out of account the tremendous increase in the output of consumer goods that results from more and more investment.

Finally, you reach a crisis, and you have to take care of either goods that are being produced——

Senator FLANDERS. The crisis is the thing I cannot understand, as a necessity. As a practical fact, perhaps yes, but as to its economic necessity, that is the thing I was unable to understand many years ago in reading Foster-Catchings or reading the Marxian theory of surplus production or the Keynesian theory, all of which seems to indicate the necessity for supplementing in some way the support of the returns from production in distributing the production itself.

It seems to me we can conceive that it can be on balance, and I just have been unable to find out any inherent reason why that cannot be done.

Mr. SMITHIES. Could I get into this?

Mr. HARRIS. Mr. Chairman, I do not accept his views.

Mr. SMITHIES. That is why I want to get a balanced Harvard point of view on this thing.

The CHAIRMAN. Do get in.

Mr. SMITHIES. I think one can also approach this question from the point of view of the Council and the Brookings Institution, which have pretty much the same point of view. I think they both say that the wage-price system is an inherent factor in this balancing, and both the Brookings Institution and the Council feel that you can have a system of wages and prices that will produce balance. If the gap between wages and prices is too large, they feel the purchasing power will get taken out of circulation and you will not distribute the product.

Now, one method of restoring balance to the economy—and I think Mr. Harris would agree—is to achieve an appropriate margin between prices and wages.

That is the view that Brookings put forward in the thirties and that is the view I think the Council is putting forward today as its main line of attack.

Mr. RICH. Do you agree with Mr. Harris that you can go on and continue on with a national deficit that——

Mr. SMITHIES. Could I come to that? I am leading up to his point.

Mr. RICH. I would like to know whether all the other economists agree with Mr. Harris.

Mr. HARRIS. They all disagree with him.

Mr. RICH. I do not agree with him.

The CHAIRMAN. Mr. Smithies, do you agree with Professor Harris that the Council has turned to the right since last year?

Mr. SMITHIES. Oh, yes; I agree most decidedly.

Mr. RICH. Read their December report. It is entirely different from the one last February. You would not recognize it.

Mr. GAINSBRUGH. Read the January report and set that against the December report.

Mr. RICH. They are here today and there tomorrow.

Mr. SMITHIES. May I go on with this?

The CHAIRMAN. Please do.

Mr. SMITHIES. I think the Council has not yet told us how the wage-price margin could be fixed at an appropriate level. I very much sympathize with anyone who refuses to contemplate adjusting the wage-price margin through widespread and comprehensive economic controls, and I think the Council very properly has refrained from recommending putting this economy into a strait jacket of economic controls, but the fact remains that we are not told how you do adjust the wage-price margin; and I think that is what leads Professor Harris into his view that if you cannot get a wage-price policy that will solve this problem of distributing the product, you must resort to fiscal policy.

Personally, I would very much prefer to resort to a fiscal policy of compensatory spending or compensatory reduction of taxes than to resort to a system of compulsory control over the economy; and that may be the real issue that confronts the country—whether a compensatory fiscal policy is the thing to resort to or whether a compulsorily controlled economy is the thing to resort to.

Senator FLANDERS. May I ask, Mr. Smithies, whether it is your feeling that at present the wage-price structure needs in general—we will not refer to specific instances—an increase in the wage participation?

Mr. SMITHIES. I would like to refer in that connection to the President's own economic report. One disturbing thing in the President's economic report from the economic outlook——

Mr. HARRIS. Only one?

Mr. SMITHIES. I said one disturbing factor on the economic horizon it draws attention to is the declining rate of investment, and it points out that serious problems may arise in 1950 unless the declining rate of business investment is arrested.

Now, if the declining rate of business investment is not arrested, and there may be some question even as to whether it should be arrested, because the high rate of investment since the war has been largely necessitated by catching up on capital equipment—if the natural thing to happen is for the rate of business investment to decline, then some other kind of adjustment has to take place in the economy, and if we accept a declining rate of business investment as a fact, some other compensating device has to come into play, and on that premise a narrowing of the wage-price margin would help to sustain activity.

Mr. RICH. Will you give us the reasons why you think investment is declining?

Mr. SMITHIES. It seems to have been exhibiting a downward trend for the last few months.

Mr. RICH. Can you give us reasons why you believe it to be the case?

Mr. SMITHIES. As I said before, after the war for several years there was a period of extraordinarily high investment demand to catch up on capital requirements of business that had not been supplied during the war. I think one would naturally expect the postwar rate of investment to be above normal.

I do not pretend to be able to forecast any of these things, but on the basis of general reasoning I think we may have an abnormally high level of investment and the economy has to adjust itself to a lower level of investment, a lower level than we have had in the past few years.

Mr. RICH. Do you not think it is lack of confidence in their Government which is one reason why they fear the investment in business because the opportunities seem to be going away from business enterprise? I get letters now from manufacturing concerns who fear the importation of, for instance, tool steel, closing down the tool steel plants, and they have asked me to do something, if possible, with the administration to try to regulate the tariff so they can protect our high standard of living. I said I could not help them, that they would have to get the labor unions to go to the Chief Executive and get that help, because the Chief Executive does not want to help business.

Mr. SMITHIES. I would put it this way: I think lack of confidence in business could reduce investment in a critical time, and it could prevent investment from recovering, but I do not think that confidence alone could increase investment with the absence of other favorable conditions.

The CHAIRMAN. I think we are going to have a very interesting discussion on policy later. The desire was to first get a quick view of the outlook. We naturally jump ahead to policy. I wonder, Mr. Burns, if we could begin with you and then go rapidly around the table and get a statement from each participant on what he conceives the outlook to be. Would you be good enough to state your position?

Mr. BURNS. Yes, Senator. I would like to confine the few remarks I wish to make to two broad conclusions reached in the President's report. One is that our economy is definitely recovering from the recession that started in the fall of 1948. The second conclusion is that it is highly probable that our economy will continue to expand over the next few years and at a faster rate than in past decades.

With reference to the first conclusion, I am cheered up by the Council's summary of recent events, but I do not see the statistical picture in the same way. During 1949 gross national product declined quarter after quarter. So did some of the leading components of the gross national product, for example, consumers expenditures on nondurable goods and producers expenditures on plant and equipment. Personal income declined quarter after quarter, both before and after taxes.

As far as unemployment is concerned, you should take it on a seasonally adjusted basis. It appears that unemployment rose throughout the year except for the last 2 months, and the decline in these last 2 months was slight.

As for the volume of employment, if we take the figures compiled by the Bureau of Labor Statistics on unemployment in nonagricultural establishments, it appears as follows: Between December 1948 and July 1949 there was a drop in employment of 1,570,000, and the next 2 months there was an increase of 370,000. Between September and October there was a decline of 810,000. The next month, November, there was no change. I have not yet seen a December figure.

Senator DOUGLAS. Mr. Burns, there is a December figure just out as of last night.

Mr. BURNS. I think that is the Bureau of the Census figure. There is, unfortunately, a conflict between the employment figures of the Bureau of Labor Statistics and the figures of the Bureau of the Census. The conflict is very serious indeed, and I have no opinion as to the cause.

Senator DOUGLAS. Simply for the sake of completeness of the record, you might be interested in the figure of total unemployment given by the Bureau of the Census for December. It is 3,489,000, or an increase of 80,000 over November.

Mr. BURNS. Thank you very much. That is the figure for unemployment, I know. I now wish to turn to another side of the statistical picture. It is a side that has been quite properly brought out in the Council's report.

The Federal Reserve index of industrial production reached a low point in July or on a quarterly basis in the third quarter. The Bureau of Census series on nonagricultural employment likewise shows early improvement. The physical volume of construction apparently advanced materially during the entire past year; so did consumer expenditures on durable goods.

Taking the evidence altogether, what I see is, first, a certain degree of statistical inconclusiveness and, secondly, a variety of cross currents. I find it difficult to say what the current direction of aggregate economic activity actually is.

Let me now say a word about the Council's conclusion concerning the outlook for the next few years. This conclusion, as far as I can see, is based on very slight evidence. The only thing I can find definitely in the report is the statement that capital equipment has recently expanded materially, and that marked technological improvements have taken place. It seems impossible to draw any inference from these broad and general statements, perfectly valid though they be.

Now, in making these remarks, I do not wish to raise a sharp disagreement with the Council's judgment of the short-run and long-run economic outlook. I mean merely to assert that the current direction of economic activity is uncertain and that the future course is more uncertain still. Economists have not yet evolved, if they ever will, a technique for making dependable forecasts; and it follows from that, as I see it, that both business and Government must make their plans so as to allow for various contingencies.

Now, as to my judgment concerning the economic outlook, I rather feel that in view of the rise that has recently taken place in construction contracts and in orders for durable goods, a pick-up in business activity can be expected over the next few months. Beyond that I would not venture a definite opinion.

The CHAIRMAN. Then, during the year 1950 you expect a pick-up?

Mr. BURNS. During the first few months of that year.

The CHAIRMAN. Beyond that?

Mr. BURNS. Beyond that I would have to guess without having much basis for that guess.

The CHAIRMAN. Thank you, very much. Now, Mr. Gainsbrugh, would you be good enough to give your statement on the outlook?

Mr. GAINSBRUGH. I have brought with me today two recent Board surveys which bear upon the outlook for 1950. I reported on these before the joint committee last year, and I would like to repeat the presentation this year, if I may.

The first is the Business Outlook, 1950, as seen by the Conference Board Economic Forum, and the second is the business outlook for 1950 as seen by the men charged with executive decisions with executive management in business.[1]

Some of us in the Conference Board Forum are extremely concerned about the wave of optimism and, in my own opinion, undue optimism which has developed over the extent of recovery that should be forthcoming in 1950. The unanimity of public opinion, even for the first 6 months, I think, is unparalleled. The only parallel I can draw is the optimism that prevailed around the time when Governor Dewey was nearly elected. I do not know if that is a correct parallel or not, but that is the last time I saw so much of it.

Actually, the results of our Economic Forum particularly and even the views of businessmen lead to the conclusion that recovery is based predominantly and preponderantly upon temporary stimuli such as refunds on veterans' insurance, the inventory shortage arising from the steel strike, and the shrinking remainder of postwar backlogs in the automotive and construction industries.

We see definite problem areas ahead by mid-1950. These include the stimulation of sagging capital expenditures, the adjustment of agricultural production to existing levels of demand, and the creation of additional productive jobs for the new entrants into the labor force.

Virtually every professional forecast that I have seen, particularly those given at the recent professional meetings, stresses the trend toward a lower level of activity by the year end than that prevailing currently.

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[1] The survey, Executives Optimistic on Business in 1950, will be found on pp. 205 to 214.

Let me first summarize the findings of the Conference Board Economic Forum, and here I can give you some pertinent statistics. We asked the Forum members to give us a series of estimates for the second half of 1950 as well as for the first half. Virtually every business indicator supplied us by Forum members is pitched at a lower level for the second half of 1950 than for the first half.

The CHAIRMAN. From whom did this come?

Mr. GAINSBRUGH. The names are shown on the first page. The discussion leader was Murray Shields, and the rest are Jules Backman, Solomon Fabricant, Martin R. Gainsbrugh, Edwin B. George, A. D. H. Kaplan, Malcolm P. McNair, Sanford S. Parker, Roy L. Reierson, Clyde L. Rogers, Merryle S. Rukeyser, Helen Slade, Bradford B. Smith, and Rufus S. Tucker.

The CHAIRMAN. These are all business economists, are they?

Mr. GAINSBRUGH. Yes; as well as academic or private research.

The CHAIRMAN. No Government economists there?

Mr. GAINSBRUGH. All outside Government, and, hence, I think their views are pertinent to your problem this morning.

The CHAIRMAN. Very.

Mr. GAINSBRUGH. For GNP the estimate for the closing half is placed at $248,000,000,000 as compared with $255,000,000,000 currently. The physical volume of production (FRB) is likewise estimated at 174 for the second half as compared with 177 for the first 6 months.

The third and the most significant finding, Senator, is that nonagricultural employment in the closing months may be slightly lower than currently. This would result in an unemployment total of about four and one-half million, or a million higher than currently, because of the entrance of new workers into the labor force during the course of the year.

The CHAIRMAN. You say "because of the entrance of new workers?"

Mr. GAINSBRUGH. Some 750,000 will enter the labor force this year. If we do not create new jobs for them, we will then have 750,000 plus the slight sag for the current members of the labor force.

The CHAIRMAN. In other words, an expanding economy would be necessary to prevent that increase of unemployment due to increased labor force.

Mr. GAINSBRUGH. That is correct. Why this decline? The major factor contributing to this lower level of activity, according to our Forum, is the probability of a further shrinkage in capital expenditures by business. In addition, some of the Forum felt an increasing number of consumers will be priced out of the market because of high labor costs which would rise even higher in 1950 through expanded pension provisions as well as further direct wage increases. As a group, however, the Forum participants did not believe this change in the pattern of business activity late in 1950 would be a forerunner of drastic depression or prolonged readjustment.

Instead, it was felt that we have not yet struck a sound balance between prices, wages, and profits, and that after the slump late in 1950, we would emerge with a better balance among prices, wages, and profits and thereby provide a sounder foundation for sustained activity in subsequent years.

So much for the Forum's views. I can give you some of the other Forum estimates if you like.

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The CHAIRMAN. Briefly, I think you have given us the answer to your opinion of the outlook.

Mr. GAINSBRUGH. That is for the economists' group. I would like however, to point up the businessmen's viewpoint on this by referring to the second document entitled "Executives Optimistic On Business In 1950." This is the result of a survey we have just completed on what business expects in the first 6 months of 1950. It has some very pertinent findings, particularly in connection with Mr. Burns' comments. This survey shows first, if you look at table 1 in our exhibit, that the inventory situation in manufacturing is now far better than it was 6 months ago. Eighty-eight of the 131 companies reporting say that their inventory position at the start of the year was now normal. They had largely worked off their excessive inventories.

The new order position, too, is extremely bright. If you look at table 2, showing the estimated new orders compared with 1949, you will find that 73 of the participating companies indicate that their new order position is higher than in 1949 and that only 43 report the order position is lower. Those are all on the optimistic side.

A pessimistic or sobering conclusion, however, is to be found in the profit picture. Looking at what business expects in profits in 1950 as compared with 1949, we find that two of every three companies anticipate that profits will be the same or lower in 1950 than in 1949. In fact, two of every five companies anticipate that profits will be lower in 1950 than in 1949, in the first half.

The CHAIRMAN. What significance do you give to the recent announcement of Mr. Sloan of General Motors that its profits of some $600,000,000 in 1949 have established an absolutely new record? Is that at all characteristic of industry in general?

Mr. GAINSBRUGH. It is not. The profit picture for industry, as reported by the Council, turned downward in 1949. The automobile industry is one of the largest remaining segments of postwar backlog. Mr. Wilson stressed the strong character of General Motors outlook for the first 6 months of 1950. But even his press release at the 1950 showing of General Motors cars did have to concede that the outlook for the second half of 1950 was not so good as in the first half of 1950. There is a rather extensive statement in the Forum report by Rufus Tucker, economist for General Motors, on the outlook for automobiles in the second half of 1950. I think that the Department of Commerce recently reported in its own survey that automobile production in 1950 would be down 10 or 15 percent with the decline primarily concentrated again in the second half of 1950.

The CHAIRMAN. Now, is it fair to say, in summary, that your economists generally agree that the outlook is not so rosy for 1950 but that your business executives, on the other hand, feel that it is rosy?

Mr. GAINSBRUGH. With this important distinction. The economists would agree that the pattern for the first 6 months of 1950 is favorable and that it assumes an unfavorable cast for the second half of the year. Last year, as I remember it, you pressed me for the answer to a somewhat similar question. You asked what the pattern would be throughout the year. I said at that time that if industry was let alone—and that led to a discussion we then had about drift—that by the end of 1949 there would be a fairly well established recovery throughout all of industry.

This year in contrast to the drift policy of last year we may need a program of action in the second half of 1950, not to stimulate consumption, nor even to stimulate Government activity into the housing field—and this perhaps bears on the second part of the program—but rather an integrated program to stimulate private investment.

The CHAIRMAN. May I skip the two representatives of Harvard, left and right, and call upon our Princeton representative. Mr. Strayer.

Mr. STRAYER. Senator, I can say what I want to at this point very briefly. I think Mr. Burns showed how difficult it is to make predictions. I believe that we cannot predict very far beyond the current period. There are too many uncertain forces operating.

I think if we turn to the record of the Council, if we turn to the record of other forecasters, we can see that as often as not—I would like to see some statistics on it, some statistical compilation—and I think maybe more often than not, their predictions have been wrong. You can refer to the 1949 January report of the Council for some evidence.

In view of this difficulty, which is generally recognized in view of the record, I would say what we have to think about is being able to act to meet known circumstances when they arise. It does not mean we do not worry about how we are going to correct for investment slumps or for durable goods consumption slumps. I think we should worry about possible qualitative credit control, the sort of thing Regulation W involved. We should worry about much more flexible and rapidly acting fiscal policy, but I think the whole story—and this other part comes up later—is that we do not know enough to make plans a year ahead or, as required in the budget very often, a year and a half ahead at this point.

The CHAIRMAN. In summary, do you wish us to understand that you do not regard the outlook to be as rosy as it has been pictured by some?

Mr. STRAYER. I am sure it is not rosy, because I think it can turn either way. I think we can get a renewal of inflationary pressures or we can get a depression and a growth in unemployment. I think we are in a very uncertain situation, coming out of what has been emphasized, this period of postwar adjustment, with replacement demands looming so large. We do not know what is going to happen on the international front. There may be great demands for increased outlay there. I do not think we can plan in January to do what may be needed in June or July, and I would like to emphasize that fact so that we might get flexibility and acceptance of the viewpoint that would permit rapid action rather than trying to be wise men in January and finding that you have to retrace your steps or admit your errors of judgment and slow up the process of adjustment that may be necessary later in the year.

The CHAIRMAN. Do you mean that if future developments which none of us can predict should bring about such a change in the international scene that we would not have to make expenditures for national defense upon the scale now projected, or expenditures for economic rehabilitation, international objectives on even the reduced scale now projected, that that would bring a turn-down? But are we to assume that for the next 12 months we will have to proceed upon that basis? Do you care to express an opinion on that assumption?

Mr. STRAYER. No, because what will happen to private investment, what will happen to these dollars that are being paid out for the insurance dividend, I cannot predict. I just want to be able to act whichever way the facts require when we know. In other words, I am emphasizing that in January I do not want to go on record saying anything more than that January is a pretty good month, probably February will be pretty good, but beyond that I want flexibility.

Mr. HARRIS. What do you do as a businessman having to make plans for the next half? If you are dealing in durable goods, it calls for a large commitment.

Senator FLANDERS. Are you suggesting that Congress should keep in continuous session?

Mr. STRAYER. No. This gets me into my policy conclusions. What I am saying is you should give sufficient flexibility to the executive branch of the Government so that they could act within limits established by Congress to correct for maladjustments, and as far as the businessman is concerned, I would say if we had such a policy, then he would have much greater assurance of favorable markets, which would do a lot to maintain investment, for example, at a steady level, than he does at the present time.

I do not think our predictions help him. I would like to be able to say, maintain income payments within a range or that if unemployment grew beyond a certain amount, then you would act.

The CHAIRMAN. Of course, it is inevitable, Mr. Strayer, that the decision of Government, whether in the Congress or in the Executive, and the decision of business must depend upon a judgment now as to what the next 3, 6, 12 months will bring forth.

Senator FLANDERS. Would you feel that the flexible provision written into the Public Housing Act was along the lines that you are thinking about?

Mr. STRAYER. I do not know the actual language in that.

Senator FLANDERS. The maximums and minimums were set as to expenditure within the judgment of the President, seeking advice from the Council of Economic Advisers.

Mr. STRAYER. That is certainly along the line that I am thinking, also unemployment insurance, if we increase coverage and increase the size of the payment, would be another step in this direction. It would work rapidly and pretty much automatically.

Mr. RICH. Mr. Strayer, you recognize, I presume, that all good business in this country does its planning not for a month ahead or for 2 months or a quarter, but they plan for a year or maybe 2 or 3 years ahead, looking forward to doing good business. They have the first responsibility of taking care of their labor; they have the responsibility to their stockholders; they want to forecast and plan for years ahead. That is only good business in my judgment.

Now, when it comes to the operation of the Federal Government, then, you mean that you want the Government to have a plan only in case of an emergency to take up the slack that might be attainable if business is unable to keep its force working all the time?

Mr. STRAYER. That is correct, I think. I want the Government to be able to step in, which should certainly help businessmen plan.

Mr. RICH. Only in case of emergency?

Mr. STRAYER. I do not know how you define "emergency."

Mr. RICH. Only in the case you have, as the gentleman said, 5 percent of the people unemployed? You figure on a certain percentage of people not employed all the time, and when you get above that point you want the Government to act?

Mr. STRAYER. That is correct. This does not mean I do not want to consider aid to education or housing or rehabilitation of veterans or other things, but I do not think they can be varied rapidly. A lot of them stand on their own feet. They should be done or should not be done according to our decision as to the long-run need.

Mr. RICH. You do not expect the Government to be helping everybody all the time?

Mr. STRAYER. I do not think it does.

Mr. RICH. I think it has helped pretty nearly everyone. If anybody is left out, I would like to know who it is.

The CHAIRMAN. Mr. Wendzel.

Mr. WENDZEL. Senator, I am very much pleased by the attempt in the President's report to set the proposed actions for the coming year in long-range perspective. I would agree also that the long-range outlook is very bright. I am apparently in sharp contrast with the previous speaker and some others, who seem to feel that you cannot look far into the future.

It seems to me, as a matter of fact, that the foundation of employment depends on a long look into the future; namely, making a business investment. When a man sets up a factory or a farmer plants an apple tree, he must look 10, 20, 30 years into the future.

Such a long-range outlook is taken every time an intelligent businessman make a long-range capital commitment. It seems to me that if we as economists are going to try to help enterprise and Government adjust activities that will contribute to a high and stable level of investment, we must attempt to take a long-range view. I believe it can be done. There are those who are trying to do it.

No lesser light than Sumner Slichter, of Harvard, published an article, How Big in 1980, in which he attempts to consider the underlying factors over the past several generations which are pretty likely to continue for the next 10 or 20 years.

I have myself attempted to predict forward into 1970, and I believe you can come out with a picture that, while perhaps it is not quite as optimistic as that of the Council of Economic Advisers, still seems to me to show a rather strong outlook for the long-range future within which to set our judgments concerning where 1950 does fit.

I think the reason their outlook is somewhat too rosy is simply because they are thinking in terms of a level of employment which, as Mr. Bassie pointed out earlier, is probably somewhat too high. It does not seem to me within reason that you can expect to hold unemployment at two or two and half million or anything like it over a long period of years.

That brings me to the other point which worries me in the report, and it is the assumption that you can hold the short-run fluctuations to anything as close to zero unemployment as the report assumes. In other words, two or two and one-half is pretty close to frictional unemployment, so that you are really trying to hold cyclical unemployment pretty close to zero.

Well, again, if you take a long look at history, it is pretty obvious that the kind of an economic system we have, if it is going to make progress, makes progress in waves, and if we are going up, we are also bound to come down a little bit.

Now, that does not mean we have to have 1930's or anything of the sort, but it does seem to me to say we are not likely to get by this year or next year, certainly not for several years, without having unemployment in excess of two or two and one-half million. As a matter of fact, I think we would get farther in trying to put 1950 into the long-range picture if, instead of trying to look at unemployment only, we looked at the relation of employment to population. Everyone here recognizes a figure of unemployment does not have too much significance unless you relate it to the labor force.

Now, we have a terrific labor force at this time, and a labor force which probably is well above the long-time average. It is certainly above the long-time average we have had in the past, and I believe it is above the long-time average that we can expect in the future in terms of the ratio of labor force to population. Not too much, but slightly above. It is just enough to make a difference, so that a million or two or even three of unemployment beyond the two million here would not be an absurd amount with respect to a fairly normal long-range situation.

In other words, it seems to me that in attempting to hold unemployment within a reasonable range, it is necessary to recognize that it is bound to fluctuate somewhat more than is assumed in the President's Report. Then, if you come back to appraising where we are in 1950, I should say that 3,500,000 unemployed does not suggest any signs of alarm. We are not at a high level of unemployment relative to labor force, and in terms of the relation of employment to population. The ratio of employment to population is still well above the prewar average, we are even well above the 1900 to 1929 average and, as a matter of fact, I expect the ratio is above the long-time average of the ratio of employment to population that we are going to have in the long-range future.

Even if we allow, however, coming back to the long-range forecast—and I have made forecasts to 1970 in these terms—a level of unemployment slightly larger than that which exists now, or, to put it another way, if we allow a somewhat smaller ratio of employment to population than we have today, we will still come out with a tremendous increase in national income and output over the next 10 or 20 years simply because trends of productivity are sufficiently strong, it seems to me, to warrant that assumption.

So then, in sumary, I would say the long-range outlook is very good, the short-range outlook is still fairly good, but we cannot assume that we can hold our levels of unemployment to anything like the narrow range that the Council of Economic Advisers seems to have in mind.

I should like to call this committee's attention once more to my long-range study, entitled "Perspective for Business Expansion," which was published in August 1949 and which considers the economic outlook to 1970. While it was written primarily for Kalamazoo businessmen to read and does not carry the full quota of supporting data that technicians may desire, it does, I believe, illustrate the feasibility of taking a long forward look. It also presents evidence that will at least raise some doubt in your mind concerning the demoralizing tendency of many to assume that our economy has lost its internal powers of expansion. Incidentally, this report also emphasizes the importance of moving toward an expanding economy through promoting economic understanding among individual businessmen at the local, grass-roots level. I would like to have this statement included in the printed report at this point.

The CHAIRMAN. It will be included.

(The statement referred to follows:)

PERSPECTIVE FOR BUSINESS EXPANSION—A MEMORANDUM TO KALAMAZOO BUSINESSMEN [1]

(By Julius T. Wendzel, August 1949)

INTRODUCTION

All would agree that sound business expansion is necessary to good profits, high-level employment, and community stability. We have attempted, through a study of past economic trends, to develop perspective concerning the prospects for profitable business expansion now and in the future.

Our studies suggest that the period 1949–70 is likely to be characterized by rapid growth and high average levels of income, employment, and effective demand. On this basis we conclude that Kalamazoo businessmen who are considering the establishment or expansion of enterprise in the years immediately ahead face a generally favorable market in the longer-run future. We believe this long-run perspective should be given heavy weight in decisions concerning business expansion during the next few years.

In the pages that follow we shall present our basis for believing that the period 1949–70 is likely to be characterized by a high average level of effective demand; and we shall attempt to indicate the general course which businessmen may expect effective demand to follow between now and 1970.

The long, broad look

The long look.—In considering whether or not to expand capital and business enterprise in the near future, we believe it important for Kalamazoo businessmen to fasten attention on the economic outlook for the long-run future. The probability that an investment made in 1950 will prove profitable depends heavily on the level of economic activity over a long period in the future. The products of a plant built in 1950 will come onto the market in 1955, 1960, and 1970. Capital expansion involves long-run commitments and should be considered in long-run terms.

Perhaps because information concerning the long-run economic future is so limited, there is a general tendency for businessmen to be influenced excessively, in planning capital outlays, by short-run slumps and booms. We hope that by presenting information concerning the long-run economic future we can minimize the tendency to postpone, during the current business slump (which could continue for some time), expansion programs that, viewed over the long run, might wisely be started soon.

The broad look.—In considering the prospects for profitable expansion, we believe it important also for Kalamazoo businessmen to take a broad look. The level of demand for the product of a specific farm or factory in Kalamazoo depends to a considerable extent upon the level of economic activity in the country as a whole. The market for many products produced in the Kalamazoo area is not in this immediate area but throughout the Nation. The demand for all products tends to be buoyed when income and employment in the country as a whole are high and tends to be depressed when income and employment in the country as a whole are low.

All commodities will not, of course, be affected alike by changes in the level of effective demand in the country as a whole. A high national income may result in only a moderate increase in the prices and sales of paper, while it results in a spectacular increase in the prices and sales of fur coats. When

[1] Published by the W. E. Upjohn Institute for Community Research, American National Bank Building, Kalamazoo, Mich.

considering business expansion every individual businessman must attempt to determine the impact of changes in the economy as a whole on his specific line of business. It remains true, nevertheless, that a broad look at activity in the economy as a whole is usually fundamental to sound calculations with respect to business expansion in Kalamazoo.

Thus, the long, broad look is vital when considering the establishment and expansion of business enterprise.

THE OUTLOOK FOR NATIONAL ECONOMIC ACTIVITY

To develop the long, broad perspective which we believe desirable when considering business expansion, let us indicate the long-range probabilities, as we see them, with respect to the general trends of economic activity in the United States as a whole for the period 1949–70.

Total national income and income per capita

The best composite measures of economic activity are those indicating the levels of national income. The national income is the sum of the products of our Nation's individuals and groups, such as laborers, bankers, and business firms, organized for productive purposes. The outlook for national income, corrected for price changes, is really the outlook for production and employment and indicates, in a general way, the level of effective demand for the products and services of individuals and individual firms in this community and in communities throughout the Nation.

For many purposes the income per person in the population is more significant than total national income. The total national income could, for example, increase rapidly with an increasing population while efficiency and product per person were not increasing at all. In such a case an increasing national income would show neither a healthy economy nor a strong potential demand for the products of the average individual firm. Increasing income per capita, on the other hand, especially if population is also growing, is an indication of economic health. We shall, therefore, attempt to indicate the probable trend of income per capita as well as of total national income.

Appraisal of elements

To determine the outlook for total national income and income per capita it is necessary to anticipate the future of (1) population, (2) employment, and (3) product per employed worker.

Population.—The Nation's population continues to grow, although the percentage rate of growth has been decreasing for many years. There has been a considerable spurt in population growth during and since World War II; but it is generally assumed that the rate of increase will again decline considerably between now and 1970.

The Bureau of the Census has made various estimates of the probable future population of the United States. On the basis of these original estimates and supplementary data published currently it is possible to project population growth to 1970 without the probability of large error.

The latest census estimates suggest that population reached about 149,000,000 by mid-1949. The Bureau of the Census has also made forecasts of future population under alternative assumptions concerning fertility, mortality, and net immigration which provide a basis for estimating the percentage increase in population between now and 1970. The apparent actual increase in population since those estimates were made suggest that the census estimates based on high fertility and low mortality, with a slight adjustment for net immigration, provide the best basis for estimating population growth to 1970. On this basis we estimate that population will reach 151,000,000 in 1950, 157,700,000 in 1955, 164,100,000 in 1960, 170,800,000 in 1965, and 178,100,000 in 1970.

For perspective we may point out that our population estimates reflect increases of about 8.5 percent for each of the decades 1950–60 and 1960–70. These increases compare with increases of about 15 percent for the decades 1910–20 and 1920–30, slightly over 7 percent for the depression decade 1930–40, and a probable increase of about 14 percent for the decade 1940–50.

Employment.—A study of economic growth in this country leads us to believe 1910–20 and 1920–30, slightly over 7 percent for the depression decade 1930–40, are relatively high.

For the period 1900–1941, excluding the war years 1917 and 1918, the number employed, on an average, was equal to 37 percent of the population; and for the period 1900–1929, excluding the war years, the number employed was, on an average, equal to 38.5 percent. It seems likely that employment will, on an average for the period 1949–70, tend toward the higher of these two figures.

The average rate of capital and business expansion for peacetime purposes, for the period since 1929, has been well below the long-time average. This has led some to believe that the 1930's marked the beginning of a long-time downward trend in economic growth and employment. This conclusion seems to us unwarranted. Data on income and capital formation running back several decades before 1900 show no tendency toward declining growth, relative to population, previous to the 1930's; and it hardly seems reasonable to interpret a decade or two of relatively slow growth as indicative of a permanent trend.

There is also strong historical evidence indicating that the Nation's economic growth, while rapid on an average, has occurred in alternating waves of relatively high and relatively low economic activity. The deep depression of the 1930's and the relatively slow recovery (except for war activities) in the 1940's were to be expected after the long upswing usually dated as beginning around 1898. Similarly, unless economic history suddenly changes its course, it is to be expected that, during the period 1949–70, capital formation and employment will tend, on an average, to be at relatively high levels.

Given this historical setting, we believe it reasonable, for the purpose of gaining general perspective, to assume that the number employed will tend to average 38 percent of the population for the period 1949–70.

Productivity.—All authorities agree that the productivity of our economy per man-hour worked has increased rapidly throughout our Nation's history. Estimates by the Department of Commerce and various independent writers indicate an increase in product per man-hour of around 2.5 percent, compounded annually, for as far back as 1900, and rough data running back much farther indicate that some such rate of increase had been maintained on an average throughout the preceding century. We see no reason to doubt that this rate of increase will continue throughout the period under study. Increasing productivity depends basically on the increase of knowledge and its embodiment in more and better plant and equipment, better organization and more effective work processes. In short, increasing productivity depends on the march of science. We see no prospect of a decline in scientific progress. In fact, with the current emphasis on education and research, the decades of the fifties and sixties might well bring another scientific and technological boom.

During the period of the 1930's many persons lost all hope of scientific and technological advancement such as had characterized our economy since its beginning. This happens normally in deep depressions. There are some who still carry this pessimism. We can excuse those who, during the despair of the 1930's, were prone to feel that no great new scientific discoveries would be forthcoming. It would hardly be good judgment, however, to permit such pessimism to form the foundation for appraising the scientific and economic future.

For simplicity we will estimate the future growth in productivity of our economy in terms of product per worker employed rather than in terms of product per man-hour. The two measures would be equal if the normal workweek remained constant. Since it is likely that the normal workweek will decrease somewhat during the next 20 years, the rate of increase in terms of workers employed may tend to be less than in terms of man-hours employed. In attempting to develop perspective, therefore, we propose to adopt a figure of 2 percent, compounded annually, for the rate of increase in product per worker employed, for the period 1948–70.

National income trends

Our analysis of past growth and growth prospects with respect to population, employment, and productivity lay the foundation for perspective concerning probable future trends of national income and income per capita. In table 1, columns 5 and 6, we present data showing the income trends that would be indicated by our assumptions for population, employment, and productivity. For convenience, these factors are also shown in columns 2, 3, and 4.

The income estimates are expressed in 1948 dollars. Thus, the estimates of increases in income are really estimates of the increase in physical volume of production. In comparing these income estimates with actual income figures in the years ahead, such actual figures should be adjusted for changes in the general price level.

TABLE 1.—*Estimated trend of national income and national income per capita, United States, in 1948 dollars,[1] 1948–70*

Year (1)	Population July 1 (million) (2)	Persons employed (million) (3)	Product per person employed (4)	Total national income (billion) (5)	National income per capita (6)
1948	146.6	60.7	$3,697	$224.4	$1,531
1950	151.0	57.4	3,846	220.8	1,462
1955	157.7	59.9	4,246	254.3	1,613
1960	164.1	62.4	4,688	292.5	1,782
1965	170.8	64.9	5,178	336.1	1,968
1970	178.1	67.7	5,718	387.1	2,173

[1] Data for 1948 are preliminary. Employment figures include members of the armed forces and income data include payments to the armed forces. The estimated figures for the years 1950 and after are on the basis of civilian employment and income.

From table 1 it will be noted that, over the entire period from 1949 to 1970, very substantial increases in national income and income per capita are indicated. In terms of total national income (column 5 of table 1), which was $224,000,000,000 in 1948, a rise to $387,000,000,000 is indicated—an increase of 72 percent. Income per capita (column 6) is shown as rising from $1,531 in 1948 to $2,173 in 1970—an increase of 42 percent.

The income data in table 1 can perhaps be more easily visualized in chart form. The solid lines in chart 1 show the estimated trend lines for national income and income per capita.

Observations concerning trend indications

It should be evident that we do not present these indications of income trends as firm predictions of future economic activity in our Nation's economy. It is possible that the actual trends in national income and income per capita will be either somewhat higher or somewhat lower than our estimates. It will be helpful to indicate the factors which may lead to higher or lower income trends.

More favorable factors.—Several factors might make the outlook even more favorable than our estimates suggest. It is conceivable, for example, that the percent of the population employed may average 38.5 percent or over for the period. There has long been a tendency for the proportion of the population wanting work (the labor force) to increase. If this should continue, and if the rate of capital formation should pick up as rapidly as economic opportunities seem to warrant, employment may average well above our assumed 38 percent of the population. Similarly, if scientific invention and innovation move forward at something more than an average pace during the years under consideration then our figure of 2 percent for the rate of increase in productivity per employed worker may be low.

Population may increase somewhat more rapidly than we have assumed. This would tend to push the trend of total income above our estimate, although it would have little effect on the trend of income per capita.

Less favorable factors—It is possible, on the other hand, that actual trends of total income and income per capita may be somewhat lower than our estimates. Ever since 1929 our economy has been retarded by an undercurrent of pessimism concerning the future. While we believe this pessimism to be quite unwarranted, we cannot overlook the fact that it has played some part, and may continue to play some part, in placing a drag on capital formation and employment for peacetime purposes. It is possible that businessmen, having in mind the disasters of the early 1930's, may start more slowly than we anticipate on the road back to high-level investment. This is especially likely if social and governmental attitudes and institutions are such as to dampen the spirit of freedom and adventure among men of enterprise.

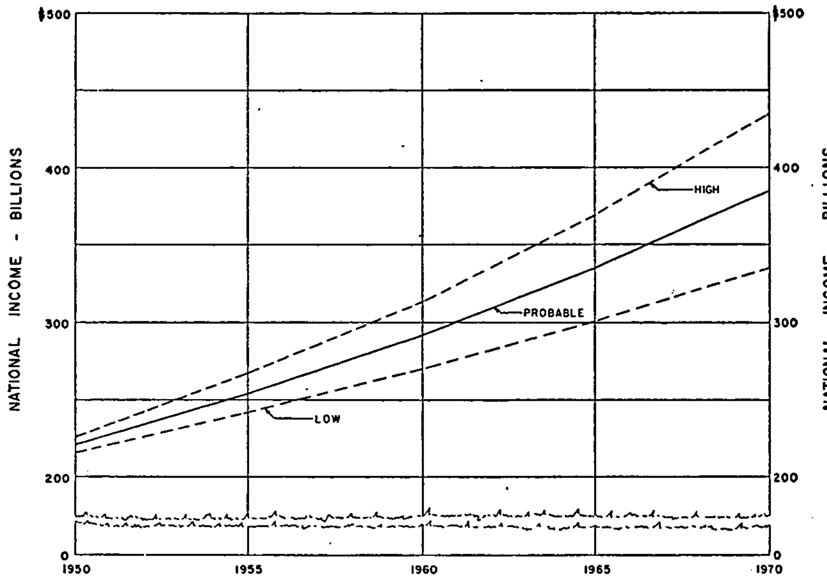
It is possible also that population growth will be slightly less rapid than we estimate. Our estimates tend toward the high side in terms of the assumptions made by the Bureau of the Census. A slower rate of population growth would tend toward a somewhat lower total national income, but would have little effect on income per capita.

High and low trend possibilities.—It may be conducive to perspective if we indicate the extent to which the trends of national income and income per capita

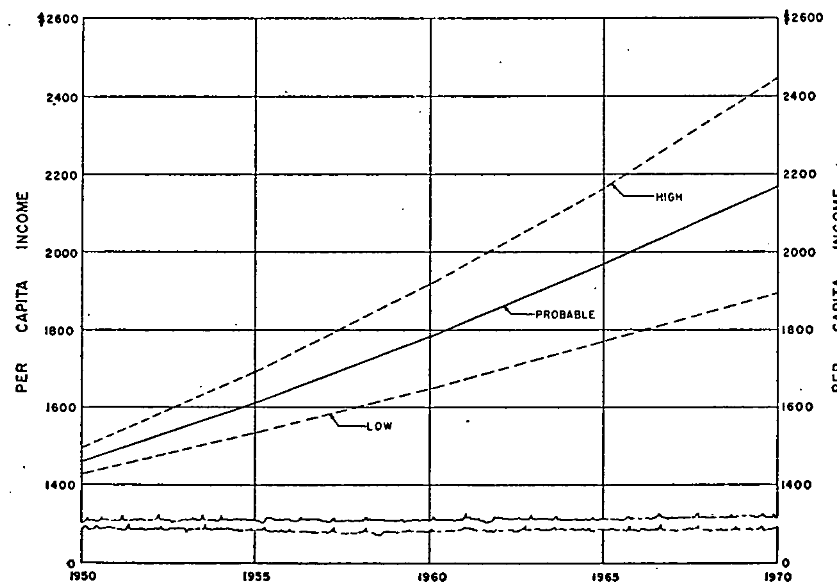
CHART I

ESTIMATED TREND IN TOTAL & PER CAPITA NATIONAL INCOME (IN 1948 PRICES) - UNITED STATES 1950 - 1970

A.-TOTAL NATIONAL INCOME



B.- PER CAPITA NATIONAL INCOME



would tend to be above our estimated trends if employment and productivity should move at what we might call "optimistic" rates; and also to indicate about how far below our estimated trends the trends of national income and income per capita would fall if these background factors should tend to lag. The broken lines above and below the solid trend lines in Chart 1 show these high and low trend possibilities.

Short-period deviations from trend.—It should be emphasized that the figures shown in our table are not meant to indicate the levels of income for those specific years. The figures for specific years are merely indicative of the general direction of movement. There will undoubtedly be shorter-run cyclical and irregular variations in employment and business activity which would result in considerable short-period deviations from the general trend indicated by our data.

In this paper we are not attempting to indicate either the timing or the magnitude of short-run flights and dips in the longer period under consideration, although we may mention that our longer-run studies point strongly against any such long and deep depression during the period 1949–70 as characterized the 1930's. Our purpose here is to emphasize the importance of developing long-run perspective when considering business expansion; and, by presenting long-run estimates, to aid Kalamazoo businessmen in developing such perspective. Business expansion geared to long-run trends is apt to be both more profitable and more stable than that which is influenced excessively by short-run swings.

We realize, of course, that short-run timing is important. Once a businessman, viewing the long-run, has decided to expand within the next few years, it is important to decide whether it is best to begin in 1949, 1950, or some other year. For this purpose data concerning the probable timing and magnitude of deviations from expected trend, in the near future, are important. Such shorter-run forecasts can, of course, be made, but they require quite a different type of analysis than that here presented.

Reasonableness of estimates.—While we emphasize the need for caution in viewing our estimates, we wish to emphasize also that they are well within the realm of reason. To many they will seem high. Standing here today it is hard for all of us to visualize the Nation's potentialities tomorrow. For perspective, however, let us glance again at past history.

Annual income data are not readily available before 1919; but the National Bureau of Economic Research has developed decade averages as far back as 1869–78. These data leave no doubt that the average annual rate of increase in national income which we suggest for the period 1948–70 (3.3 percent), was considerably exceeded, in dollars of constant purchasing power, for every two-decade period previous to the decade 1929–38. It is, of course, logical to anticipate a somewhat slower increase in total national income for the period ahead, since the expected rate of population increase is significantly less than in those earlier periods.

Let us now look at income per capita. Our estimated increase in income per-capita for the 22-year period 1948–70 is 42 percent, or an average of 1.9 percent per year. This is just slightly under the rate of increase in income per capita, in constant wholesale dollars, that held, on an average, for the two two-decade periods previous to 1929-38. Placed in historical perspective, our estimated increase in income per capita appears well within the range of probability and, incidentally, well below the potential achievement of our economy. The expected slower rate of population increase during the period 1949–70, as compared to earlier years, tends to strengthen the likelihood of a relatively high-level income per capita during that period.

Significance

Our estimates indicate a strong long-run undercurrent of growth in economic activity, and suggest, therefore, that business expansion, undertaken in the near future, can expect to face a high and growing average level of effective demand during the long-run future.

In addition, our estimates indicate about how rapidly national income and income per capita are likely to grow; and thus provide a general gauge against which to determine the amount of capital and business expansion that is likely to be profitable.

SOME CONCLUDING SUGGESTIONS

Individual businessmen in Kalamazoo and everywhere may well capitalize on both the favorable long-run outlook for the Nation as a whole and the apparent general tendency in the Nation as a whole to be cautious with respect to long-run commitments. The favorable long-run outlook, generally, promises a good future market for the products of business firms in Kalamazoo. The possibility that business leaders in the country as a whole may proceed with their investments more slowly than potentialities would warrant will enable individual business leaders with courage to move out ahead of competition. Courageous and rapid enterprise and capital expansion by Kalamazoo businessmen would tend to be profitable and to provide high-level employment in this community.

Specific industries and general trends

The long-range outlook for specific industries is, of course, quite different from that for the economy as a whole. High and increasing levels of income per capita and effective demand in the Nation as a whole tend to brighten the prospects for expansion in all lines of business; but they tend to brighten the prospects for some much more than for others. Only with good understanding of the manner in which individual business lines are affected by general trends in income and activity in the economy as a whole can an individual, interested in a specific line of business, make full use of data concerning such trends.

It is possible, by a study of past relationships and appraisal of the current situation, to develop a good deal of information concerning the probable impact of various levels of income in the economy as a whole on the demand for specific products and on the prospects for expansion in specific industry lines. It is possible, for example, to determine within reasonable limits the extent to which expected increases in national income are apt to affect the future demand for houses, book paper, dairy products, or farm machinery.

In the future, we hope to make more intensive studies of the outlook for particular lines of industry which are of interest to businessmen in Kalamazoo, and of how such industries are affected by changes in general economic trends.

Expansion by Kalamazoo businessmen

In every industrial area there are lines of industry so well situated that a favorable outlook for the economy as a who'e is all that is needed to warrant expansion. Although we have not made a close study of individual industries in the Kalamazoo area, it is highly probable that there are several lines in this area for which the favorable long-range outlook in the economy as a whole is all that is necessary to provide strong inducement for business expansion. There are other industries, generally those in which competition is more severe, for which a careful appraisal of the competition is also necessary.

Regardless of the specific industry, however, and regardless of the state of detailed knowledge concerning specific industries, we believe that our studies indicating high average levels of effective demand in the Nation as a whole between now and 1970 should encourage all businessmen of Kalamazoo to consider the possibility of capital expansion—even during the current slump.

Mr. STRAYER. Senator, could I put in a point?

The CHAIRMAN. Yes.

Mr. STRAYER. I do not think there is as much disagreement between the last speaker and myself as was indicated. I think certainly as you try to act to maintain high employment and to prevent inflation, you ought to recognize that there is long-term growth. I think we have to be able to contain either inflation or depression to realize that long-term growth. I am focusing on the short-run problem, and he was focusing on the long run. I think we can do something very substantially better in the next 10 years than we have done before, but to do that we have to be able to act quickly in the short run.

The CHAIRMAN. Whether there is going to be private investment, on the one hand, to bring about an expanding economy, or public investment, on the other, somebody has to reach a decision.

In other words, the development of the future depends upon judgments which are exercised in the present.

I would like to ask this of Mr. Wendzel. On what type of judgment do you base your forecast?

Mr. WENDZEL. I think if one takes really a long look at the ratio of investment to national income, he does not necessarily get the impression that private investment is declining. I think we have been so terrifically impressed by the excessive pessimism of the 1930's that we have assumed that we have actually had a change in trend. We tend to project that trend from 1929 to 1941 or something like that. If you start your trend back with 1860 and then carry on through, it seems to me you have no conclusive evidence that there is a downward trend of private investment in our economy. It seems to me unless we can get much more conclusive evidence than the few years of the thirties, which were obviously abnormal, there is no reason to believe we have a downward trend of private investment.

Mr. GAINSBRUGH. I have some pertinent figures here in a study published by Mr. Burns' organization entitled "National Income, a Summary of Findings," National Bureau of Economic Research, 1946. The author is Simon Kuznets. He has analyzed the trend of capital investment commencing with 1869 and running through 1938. The results definitely show a downturn by decades or by 20-year periods from the initial through the ending period. Net capital formation was as low as 1.4 percent of total national income in 1929–38, but even in 1924–33 such outlays were 6 percent, and in 1918–28, 10 percent as compared with 14 or 15 percent in the early decades.

(The table referred to is as follows:)

National income, percentage distribution between flow of goods to consumers and net capital formation, 1869–1938

Decade	Current prices		1929 prices	
	Flow of goods to consumers (1)	Net capital formation (2)	Flow of goods to consumers (3)	Net capital formation (4)
1. 1869-78	87.9	12.1	86.3	13.7
2. 1874-83	87.0	13.0	85.6	14.4
3. 1879-88	86.8	13.2	85.4	14.6
4. 1884-93	85.9	14.1	83.9	16.1
5. 1889-98	85.9	14.1	83.8	16.2
6. 1894-1903	86.4	13.6	85.2	14.8
7. 1899-1908	87.4	12.6	86.4	13.6
8. 1904-13	87.9	12.1	86.9	13.1
9. 1909-18	87.5	12.5	87.0	13.0
10. 1914-23	87.6	12.4	88.6	11.4
11. 1919-28	89.1	10.9	89.8	10.2
12. 1924-33	93.3	6.7	94.0	6.0
13. 1929-38	98.0	2.0	98.6	1.4
AVERAGES				
14. Lines 1-5	86.7	13.3	85.0	15.0
15. Lines 5-9	87.0	13.0	85.9	14.1
16. Lines 9-13	91.1	8.9	91.6	8.4
17. Lines 1-5	86.7	13.3	85.0	15.0
18. Lines 4-8	86.7	13.3	85.3	14.7
19. Lines 7-11	87.9	12.1	87.8	12.2

NOTE.—Calculated from estimates in National Product since 1869, table II 16, cols. 1, 3, 6, 8.

Source: Kuznets, Simon, National Income: A Summary of Findings, table 16, p. 53.

I think the historic projective drawn by the Council in its very significant charts on pages 76 and 77 of the report—they are very important charts, if you will look at them—needs very careful examination.

If I may, I would like to go on with this for a minute or two.

(This discussion was continued in the afternoon session.)

The CHAIRMAN. I wanted to ask Mr. Woodward to give us his views of the outlook, and then we will get to this.

Mr. WENDZEL. I think if you look at those statistics you will find that the downswing in investment only starts if you average in some of the downswing years of the late twenties, and that up until 1920, at least, there is no such evidence.

Mr. HARRIS. May I say one word there? I think Mr. Wendzel should take into account the fact that we became a capitalistic nation during this long period, and obviously you have a large amount of investment during that period, and we cannot count on that kind of windfall again.

The CHAIRMAN. That leads me to interrupt Mr. Woodward by reading from another Harvard economist. This is the report of Sumner Slichter, which was published in full in the Commercial and Financial Chronicle of January 5. He made a review based upon several points, the seventh of which was that the need for investment-seeking funds will represent a smaller part of the net national product than in the past. "This result," he said, "will be produced by the slower rate of population increase."

In the past, over half of the private investment has been necessitated by the rate of population increases. If capital per worker and output per man-hour increase about as rapidly as in the past and if the labor force increases in the next generation by about one-fifth, roughly 6 percent of the national product will be needed to devote to increasing plant and equipment. Between 1879 and 1929 nearly 9 percent of the national product was used for these purposes.

The editors of the Commercial and Financial Chronicle undertook to summarize the forecast of Professor Slichter in these words:

> Harvard economist foresees rapid rate of technological progress, fairly slow population growth in the next 50 years, looks also for broader participation in corporate ownership, reduction in corporate savings, and decrease in use of bank credit by business. Holds Government policies will be inflationary and forecasts continuation of large concerns dominating industry. Contends incomes will increase fast enough to maintain high-employment level and there will be no outright planned economy.

Senator FLANDERS. Mr. Chairman, there is an old saying, which all of these gentlemen across the table are familiar with, that if you laid all the economists end to end, they would never reach a conclusion.

The CHAIRMAN. Fortunately, we do not have them in a horizontal position yet. [Laughter.]

Senator FLANDERS. I have always wondered at Sumner Slichter's perfect willingness to predict and reach a conclusion, and I have suggested to one or two economist friends that it might be interesting to have a research project on his predictions for a doctorial thesis. I think it would be a public service to have that done.

Senator DOUGLAS. Mr. Chairman, now that my colleagues are giving vent to witticisms of their own, I hope I may be pardoned if I repeat a witticism of someone else, not my own.

The CHAIRMAN. That might be better.

Senator DOUGLAS. Listening to this variety of counsel from Harvard reminds me of the saying of the late William James, some 45 years ago, that at Yale they had a school but no thought; while at Harvard they had thought but no school.

The CHAIRMAN. Mr. Woodward, let's have a little sanity now for a change.

Mr. WOODWARD. Thank you, Senator. I would like to do this crystal ball act very briefly because the policy questions are rather more interesting, and I have some things to say about them.

It seemed to me that 1949 was a year substantially of inventory readjustment and that we are now rallying from this readjustment, and the effect of the steel strike. I believe, with some others that have spoken, that 1950 will be down at least a little from 1949, subject always to the complete uncertainty of some international upset, of course.

I expect that decline to occur because of a decline in business investment, in net exports, in automobile sales, and in agricultural income. I expect that the first half of the year will be better than the latter part, but all in all, it will be a good year. We seem to be still under the influences of the effects of war and our real problems are not yet upon us of moving from a war stimulation into another kind of economy. I think we should be a little bit careful about drawing conclusions on 1947, 1948, and 1949. I am willing to take the still longer look, the 25 or 50 or 100 years, if you like, and believe that we have a very bright outlook indeed if we do not stop ourselves from having it.

As I say, I make this crystal ball act very brief because the policy questions to me are much more important.

The CHAIRMAN. We are about to get to the policy questions, but first I want a brief word from the others on their outlook for 1950.

Mr. Bassie, may I ask you in a word to say again what your outlook for 1950 is.

Mr. BASSIE. I never quite got around to that in my previous statement. I would like to express views somewhat at variance with those stated here by other speakers. In the first place, let me say that on this concensus for a decline in the latter half of 1950 I do not agree. I might also say that I do not think that consensuses of this type are of much forecasting value.

We have here a dozen economists who agree. As an indication of what that is worth, I would like to refer you to an article by Mr. Livingston, who has been conducting this kind of survey with about three dozen economists, in which he shows that the majority practically always gives an outlook picture that is set in terms of the current conditions. When conditions are looking bad, the outlook is bad; when conditions are looking good, the outlook is good, at least for a temporary period. That is the kind of thing we have here.

Now, I think you get little out of summing up the remarks of any such group of speakers. It seems to me the essential effort has to be to evaluate their remarks and select what is correct and what is not correct. The concensus of businessmen, I think, is of somewhat greater value, not for what it shows, but as for indicating an attitude on the part of business. I would like to come back to that a little later, because businessmen are optimistic at this point.

I think the view has been correctly presented that this current upturn is primarily due to certain temporary factors such as reversal of inventory policy and expenditures from veterans refunds. Those will not continue.

But let me say that the effects of those factors introduce rather delicate problems of timing. I have attempted to analyze them at some length, and on that basis I come to the conclusion that they will not necessarily introduce a let down in the second half of the year. In fact, I think the second half of the year will be higher than the first half.

The CHAIRMAN. What is the reason for that?

Mr. BASSIE. That is what I want to come to now. The idea that business is going to be lower in the second half of the year is based primarily on the decline in capital expenditures, as Mr. Gainsbrugh phrased it, sagging capital expenditures, and projecting that trend. I think, as Mr. Smithies pointed out, capital expenditures had been built up to a level somewhat above normal, but I do not think that in the 1949 decline, that was the only factor. Capital expenditures are always responsive to changes in the total picture and there was this additional factor, that businessmen were pessimistic in the spring of the year. The shrinking of capital expenditures reflects that pessimism, with some lag, and we were getting near to the low now.

I think with businessmen being optimistic and the economy moving up in the first half of 1950, the movement will again tend to reverse, and I would look for capital expenditures to be higher rather than lower in the second half of 1950.

Now, on the agricultural adjustment, which has been mentioned——

Mr. GAINSBRUGH. May I ask in which particular areas of industry you look for expansion?

Mr. BASSIE. I think we might get into a long diversion at this point if we try to get into detail. I wish to continue my summary, if I might.

On the question of agricultural adjustment, it seems to me that there is no conclusive answer. There is a fairly wide range of prices and farm income in which the agricultural situation has very little effect on the general economy. If prices should go down a little more, and farmers' incomes go down still more, because of rising costs as well as falling prices, consumers, generally, will get the benefit of the lower prices and will have opportunity to spend more money in other ways, sustaining activity elsewhere.

Now, let me point out also, that the view expressed in this concensus is somewhat inconsistent. It says that consumers will be priced out of the market through rising costs, which implies rising prices also. But if the economy is going down, why will prices be rising? That is hardly consistent with the rest of the position taken there. In fact, it seems to me prices will tend to be relatively stable.

Also, on the profit side: with prices stable, with productivity increasing volume of sales perhaps somewhat higher, I would think that the tendency would be for profits, exclusive of inventory revaluation, to increase; and since profits in 1949 were depressed by negative inventory revaluation, the actual increase in profits should certainly be significant in 1950, perhaps in the neighborhood of 15 percent, on a rough estimate.

One additional point: at the end of the year, we should be on a fairly stable basis. In other words, I am presenting here a rather optimistic outlook about the next year or two. However, I do not think that that optimistic outlook is one which will hold indefinitely, and

I would like to say to this extent, in agreement with Mr. Harris, there is a prospect over the longer run that there will be a let down and a significant one, a very significant one.

Whenever we are operating under boom conditions, as at present, there is a prospect that the expenditures maintaining the boom will decline. That is true of Government expenditures as well as private. In a boom period Government expenditures are built up partly by their relation to private expenditures. That is true, for example, of public building and of highway building. People want their highways now. They want schools when their children are growing up, not when school buildings are needed to compensate for a decline.

There are important factors in the Government budget of a temporary nature, and I speak of the war-connected expenditures primarily.

The CHAIRMAN. I might interrupt to say that the papers today in Washington tell us that the Governor of Virginia is asking for an expenditure of $45,000,000 of State funds to build new schools in the State of Virginia. The reports gathered by the Bureau of the Census on State government show that all through the United States there is a rising level of public expenditure by the States of State funds for the construction of various facilities—hospitals, schools, roads, and other community facilities—that were very much neglected during the war. So I would think that factor will certainly continue to have some effect.

Mr. BASSIE. I think that is correct, sir. I think the demands of the people for those facilities are wholly reasonable and cannot be ignored by the Government bodies responsible for undertaking them. But there are certain limitations on how many schools and hospitals and post offices we build over a period of time.

The CHAIRMAN. That again is governed by population and brings us back to the point of view expressed by Professor Slichter, that population growth governs economic expansion.

Mr. BASSIE. Yes, but I do not see how you could come out with a long-run optimistic conclusion on that. We certainly are going to be undertaking a volume of school building in this period immediately ahead that cannot be sustained beyond 5 or 10 years at the outside and, thereafter, there will have to be a reduction in that activity.

I agree with Mr. Strayer's point. We have to be open to changes in the kind of program we are undertaking from time to time, but I do not think we can change those programs on the spur of the moment. Any attempt to operate on a day-to-day basis will result in being "too little and too late" with measures specifically designed to compensate a change in private economy.

Mr. WENDZEL. Could I raise a question on this population thing for a moment?

The CHAIRMAN. Yes.

Mr. WENDZEL. It is obvious with the population increase slowing down, that you are not likely to have need for as much capital formation as you would if the rate of population increase were more rapid. But is that the significant point or is the significant point the ratio of capital formation to population? In other words, is our rate of investment and capital formation per capita going down? That, I think, is the essential question when you are judging long-range outlook for the private enterprise economy and investment in it.

Mr. BASSIE. I was not speaking of long-range outlook over a period of 50 years, but rather one over what we would consider a cycle, and you get a different point of view as you look at it from each of those positions. Now, it seems perfectly clear to me that we have a labor force, resources in general, and an economy productive enough to expand the supply of capital goods and construction during any limited period beyond what can be sustained over an indefinite period. That is the essence of the cycle. I think it is essentially the lack of restraint in pushing investments during the booms which is the dominant factor in making the decline practically inevitable, and I do not think anything in our present situation runs counter to that proposition. This is like other boom situations.

Senator DOUGLAS. I do not want to anticipate your policy conclusions, but is this the impression that I gather from your comment: That on the whole you think it might be well if the Government withheld some of its projected capital improvements for this year, diminished its appropriations for rivers and harbors, post offices, and highways, and so forth, and held those off for a period of possible depression?

Mr. BASSIE. I do not know if the Government could do that.

Senator DOUGLAS. If it could do it, would you do it?

Mr. BASSIE. Let me say I do not think that the high level of Government expenditures and the deficit is a consequence of any plan or theory about our economic position.

Senator DOUGLAS. We are trying to introduce reason and rationalism into this budget, so that it will not be merely a "topsy."

Mr. BASSIE. But there has to be a balance between economic considerations and other social considerations.

Senator DOUGLAS. I understand, but on economic considerations would you favor some tapering off of governmental construction in fiscal 1950–51?

Mr. BASSIE. I have reviewed the budget and I personally do not feel that I could recommend any great volume of that.

Senator DOUGLAS. Do you mean you could not recommend a large volume of construction?

Mr. BASSIE. No, of tapering off.

The CHAIRMAN. I take it that your position is that we should use reason rather than rationalism in governing these expenditures, and that such expenditures as would promote business activity, as contrasted with expenditures that do not promote business activity, are the ones in which we might reasonably make reductions.

Senator DOUGLAS. I would say to my dear friend from Wyoming, whom I love and revere, that some time off the record I would like to have him discuss the difference between "reason" and "rationalism."

The CHAIRMAN. Let me say on the record that I make the distinction that he who rationalizes tries to argue to support a conclusion based upon pulling the rabbit out of the hat; whereas, he who acts according to reason gets his facts first, and then reaches a conclusion.

Mr. RICH. May I ask Mr. Bassie whether he believes we should economize to the extent that we try to have a balanced budget?

Mr. BASSIE. I would say, Don't watch the deficit! That cannot be a sound basis for action as to the economic aspects of this problem.

Mr. RICH. You think then, also, that we can continue on, as was said by Mr. Harris, with a deficit without paying any attention to it?

Mr. BASSIE. At this moderate level, yes. We have no deficit here—let me say——

Mr. RICH. We have no deficit here?

Mr. BASSIE. We have a deficit, but I interrupted my sentence. I meant to wind up the sentence with another statement. I would like to withdraw that part of the sentence.

Mr. RICH. I would rather you would wind up your sentence because you will wind up the Government if you keep up with the deficit. I would like to know how you and Mr. Harris can continue the deficit and figure that your country will be solvent. How will we continue?

Mr. BASSIE. I do not think we should continue. I started to say we do not have a deficit here of a size that will produce inflationary pressures in the economy. Now I wanted to take a somewhat different approach to that statement, and that is why I interrupted it. I pointed out that this deficit does not appear because anybody is planning to bring about certain economic changes. It appears because of other forces, postwar needs, fears, and tensions in the international situation, and things of that kind, which are not necessarily a permanent part of the economic picture.

Mr. RICH. I would say it appears because there is nobody trying to balance it. If we in the Congress, and the President of the United States had a mind to try to balance the budget, we would do it, and we would not interfere with our economy a great deal, it seems to me, because of the pick-up we could have in business enterprise.

Mr. Chairman, I would like to ask you to have these economists ask each other questions because we will get our ideas together. I would like to hear these men ask each other questions for the remainder of the time on things they have said, because I would like to get their version of where they differ.

The CHAIRMAN. I think you are quite right.

Mr. RICH. You and I do not agree altogether.

The CHAIRMAN. And we do not differ very much.

Mr. RICH. We get together all right.

The CHAIRMAN. Mr. Smithies.

Mr. SMITHIES. Mr. Chairman, in my earlier remarks I did not have a chance to address myself to the question of the economic outlook because I was busy straightening Mr. Harris out.

Mr. HARRIS. He straightened me out by agreeing with me, I thought.

Mr. SMITHIES. I would like to say something about the outlook specifically. It seems to me that the basic decisions that the Congress will have to make in the next month or two relate to the year 1950–51, beginning next July, and most of the definite comments that have been made relate to the first few months of 1950, and for that reason will not be particularly useful to you.

The basic decision to be made is what assumptions should be used for the fiscal year 1950–51, and there I find myself somewhere between Mr. Gainsbrugh and Mr. Burns and Mr. Bassie on that point. I do not think we have enough evidence to commit ourselves to the rather definitely pessimistic view of Mr. Gainsbrugh, and I do not think we have enough evidence to commit ourselves to the optimistic view of Mr. Bassie, and I do not think it is practical, if I understand the congressional process at all, to adopt the completely agnostic point of view of Mr. Burns and Mr. Strayer.

The CHAIRMAN. You are quite right about that, Mr. Smithies. Yesterday we had the Director of the Bureau of the Budget before us, and he told us the story of the method of preparing the budget. Now, the outstanding fact and its relationship to what is being said here this morning is that the preparation of the budget, which was submitted to the Congress by the President in January 1950, began in January 1949.

It simply had to be so. It could not have been otherwise. So that whether you are talking about Government or whether you are talking about business, whether you are talking about big business or little business, there must be a judgment before there is an expenditure; there must be a plan before there is a policy.

The problem is to decide how those judgments and plans may best be reached in the public interest of all, it seems to me.

Mr. SMITHIES. I, therefore, do think, although one cannot make and should not make a precise forecast, one has to narrow the range because there must be a basis for practical action. My own view, in the light of this discussion and in the light of my own investigation, is that you can rule out some possibilities. I have heard no evidence today and no other evidence that we are likely to embark upon a period of inflation in the next fiscal year. I do not think anything has been said today to indicate that. Mr. Strayer said it might happen, but I take it that was not on the basis of an explicit forecast, but because he wanted to cover any possibility. I think that can be ruled out. Again, I think no one has suggested—and I know of no other evidence—that there might be extreme depression in the fiscal year 1950–51. We can, therefore, reduce the possibilities to a reasonably narrow range.

The CHAIRMAN. There are so many school people here I feel I should announce that that bell you just heard was the 15-minute bell calling us to the floor of the Senate. So I am going to begin at the end of the table and call each of you to state in a very few words, if you care to do it, what your concept of policy is, and when we come back at 2:30 this afternoon, we will launch upon a discussion among you gentlemen as to what it should be. We would like to follow the suggestion of Congressman Rich.

Mr. WOODWARD. Senator, the Council, it seems to me, has singled out the concept of growth as the primary factor that it wants to talk about, and I think that is a very appropriate factor on which to focus our attention. No one could disagree with that. The Council in its approach bases a great deal upon the increase in productivity of 2 to 2½ percent a year that has prevailed over a long time.

Now, my first problem about policy is this—that I should have thought if one wanted to assure a continuation into the future of some trend that has prevailed in the past, this trend of increased productivity, one would seek to determine the conditions which caused it to prevail and then suggest measures to assure the existence of those conditions in the future, with improvement to lessen instability, if it is possible.

Now, I assume that the Council must have made some such studies as to the causes of productivity in the past, and must have specific reasons for proposing the legislation that it does as providing assurance for a continuation of those trends. It seems to me we are rather in the dark in talking about the Council's policy until and unless we can have that study.

There is a related point there. The Council implies that productivity at present is within a few percent of the maximum that is possible under the present hours and equipment and resources. It does not offer evidence on the existence of that happy state of affairs, and my impression is that the economy is producing considerably less than is possible with present equipment and hours and resources. It was only a year ago that production was substantially higher than it is at present, and at that time we had a smaller working force and we did not have the many billions of dollars of machinery and equipment that has been installed since then. So I think the Council has not in this case given us adequate evidence on which to discuss its proposals.

Now the Council quite correctly, to my mind, places great stress on business investment, and expresses some apprehension about it, and says it must be maintained. The Council offers five proposals to reverse the trend of declining business investment, at least as I count them: Enlargement of consumer markets, extension of RFC maximum loan maturities, provision of equity capital for small business, some tax adjustments as yet unspecified, and liberalization in State regulatory standards and valuation concepts and in the policies of many of the fiduciary institutions themselves.

But unless the tax proposals are of a very different nature than the press reports, I doubt that they will prove sufficient to reverse the downward trend of business investment. The tax proposals as reported are some reductions in excise taxes, partly offset by some increase in corporate tax rates. I doubt that that kind of action will reverse the declining trend in business investment.

Now the aid to small business would affect only a part of the business sector, and I am rather afraid that that action will not proceed very fast. I am also afraid that the action toward liberalization in State regulatory standards will not proceed very fast. So I am left with rather marked doubts as to the efficacy of the measures in regard to business investment.

I have one other point. That third point concerns the budget. When I first came to Washington, Senator, the theory was that the budget should and must be balanced annually, and that was virtually unquestioned. Since then the view has been increasingly altered to a cyclical or compensatory budget with a rise in public expenditure and decline in taxes and creation of a deficit when business was down and the reverse when it was up. That was a very plausible theory and very persuasive to many of us.

Now, what bothers me is that here the first time when the compensatory or cyclical theory has been put to a test it is discarded. This is an action that seems to validate the forebodings of many who said, "Yes, that is a very attractive theory, but it won't work because when the deficit appetite is sufficiently built up, deficits will recur and some other rationalization will be made for them."

Now, even more disturbing, there is not any suggestion that I can find in the Council for any criteria for budget balancing. The Council's discussion is inconclusive and the President relegates it to a vague future time. That is true of the budget message also. The Council does not discuss, as I should have expected it to do, the possibility of cutting expenditures despite the very detailed and explicit proposals made by such people as Mr. Bell, the former Budget Director, Senators Douglas and Byrd, and the Hoover Commission.

It is not that a deficit for a year or two is so dreadful, although at this level of business deficits are bad enough. What is really distressing is the abrupt abandonment of a standard built up over many years, and failure to provide any real standards or criteria for fiscal management in place of those abruptly thrown overboard. So far as I can see, the reasoning, the conception that is left, could be used to justify budget deficits almost indefinitely. And that we know, or most of us think, although Professor Harris seems to differ, is the way to more inflation with all the harm that it brings, it is the way to economic instability instead of stability, it is a deterrent to business investment, and it is an obstacle to rising productivity.

Now, as I said earlier, I thoroughly agree with the Council when it says, and I quote—

> The general growth of the American economy can create within less than a generation a truly good standard of living for all,

but on the three basic subjects that I have mentioned I believe the Council's analysis could be improved. That is a matter of policy.

Mr. RICH. That is a very good statement, Senator. [Laughter.]

The CHAIRMAN. Mr. Wendzel.

Mr. WENDZEL. I will remain very general. It seems to me that in terms of policy it would be helpful to review each of the suggestions in the President's report for action in 1950 in terms of what I believe to be a fundamentally sound long-range look, even though it seems to me a bit too optimistic.

Then, if that is done, it would be wise to recognize the probability that in such long-range terms you cannot expect to hold the fluctuation in employment in as narrow a range as is suggested by the Council. In other words, it seems to me quite unrealistic to assume that we can reduce unemployment to two or two and one-half million in 1950. I would, therefore, attempt to look carefully at each of the proposals in terms of whether they will contribute to the long-range rise that can be brought about and is likely to occur on the one hand, and whether they are designed to bring about reasonable stability on the other, without attempting to hold the unemployment line on a razor's edge.

The CHAIRMAN. Mr. Strayer.

Mr. STRAYER. It seems to me the conclusions I drew as to our ability to forecast do not require us to operate, as Mr. Smithies suggested, without a plan. I think one approach to this that is very interesting and useful is that of the Committee for Economic Development, which has proposed that you assume high-level employment, adjust your budget receipts and expenditures according to this assumption, and then let the market do to tax yields and variable expenses, particularly on unemployment compensation, what it may.

I personally feel that we need more than that, but there you have a consistent body of thinking. You can plan ahead what Government is going to do and you can plan, anticipating varying economic conditions. I would urge that we should strengthen the powers of the Federal Reserve Board to control credit and control monetary conditions according to known facts.

The subcommittee report on "Monetary, Credit, and Fiscal Policies" I have not read, but from what I saw in the newspaper account, it struck me as being the sort of thing we ought to put much more emphasis on.

Finally, I would stress in this very brief statement that we ought to worry much more about the institutional structure, both governmental and private business, worry about questions of monopoly as they affect the likelihood of price difficulties. I am concerned about a long-run inflationary danger due to monopolistic wage and other price policies followed by monopolistic industry. We have to face those issues directly, and I think they are very important, not only in the short run but in the long run. So I would urge institutional reform as my final point.

The CHAIRMAN. Mr. Smithies.

Mr. SMITHIES. Mr. Chairman, I do agree entirely with the Council of Economic Advisers that the basic program of the Government should be planned on a long-range basis, and I do want to emphasize that as strongly as I possibly can, but, nevertheless, it has to be planned on a short-run basis as well.

In two sentences my opinion for the 1950 program is that it should be planned with a recognition that the economic situation is likely to be precarious in 1950–51 and nothing should be done in planning the 1950–51 program which would be likely to touch off a depression or recession. The second point is that I think preparations should be made to meet a recession if it does arise in the fiscal year 1950–51, and the specific thing I would have in mind would be an emergency program to reduce taxes in a way that would hold up consumer purchasing power as an emergency short-run measure, but I would like to elaborate them.

Mr. RICH. May I ask one question there? You speak about reducing taxes. If you reduce taxes and we keep on spending, then where do we head?

Mr. SMITHIES. I think in the event of a sharp reduction, you have to choose whether you prefer a balanced budget or the depression.

Mr. RICH. In other words, instead of giving it away, you want to save it for the individual rather than give it to him.

The CHAIRMAN. Mr. Harris.

Mr. HARRIS. Senator, I am glad to see Professor—pardon me—Senator Douglas, who has done more than anybody else to reestablish the prestige of economists and professors in Washington, because I would like to start on a point dear to his heart.

The CHAIRMAN. That is assuming prestige was lacking.

Senator FLANDERS. I also presume that is a compliment, is it not?

Mr. HARRIS. That was meant as a compliment to Senator Douglas—that is, preliminary to attacking his position. Shall I continue?

The CHAIRMAN. Just briefly. I think we can just finish this.

Mr. HARRIS. I think Senator Douglas has done a lot of good work emphasizing the point that we ought to economize in public expenditures, get the most for our dollar. I do not think it follows from that that we ought to cut expenditures drastically now. Incidentally, that is one reason it is so difficult for economists to make a forecast, because we do not know what the Congress is going to do on taxes and spending. I suggest one of our difficulties is that there is a public-debt neurosis in the country. I think Congressman Rich shares in that neurosis. [Laughter.]

Mr. RICH. I have some other economists here that I think agree with me.

Mr. HARRIS. You have a majority that agree with you.

Mr. RICH. You do not agree and I do not agree with you.

Mr. HARRIS. I say that I am not particularly worried by the national debt. I did not say I have no concern. I say I am not as worried about it as you are, for example.

Mr. RICH. I was under the impression from your statement that you did not even consider it.

Mr. HARRIS. That is not exactly right. I do not go that far. The point I make is this: That there is this neurosis that has a bad effect on the economy. People are worried by the rising debt. It is the job of the economists and, perhaps, psychiatrists to explain what the national debt means.

My point is, nevertheless, that you have to take account of this neurosis. Therefore, I say we ought to keep our national-debt growth down as much as possible, because of this neurosis. Now, then, you come to Senator Douglas' point—that you have to cut spending now and perhaps balance your budget now because this is a period of prosperity.

Assuming you are going to get an X deficit in the next 50 years, or in the next 20 years, probably this is not a good time to increase your public debt. Therefore, to that extent I agree with Senator Douglas. If Senator Douglas shared my lack of worry about the national debt, he probably would say, "Let's have a $5,000,000,000 deficit today," but since he does not, I would say to Senator Douglas the thing to do today is to try to balance our budget, not because we are so terribly afraid of the national debt, but because we can have a somewhat larger deficit later on when we need it more.

That would agree with Senator Douglas' position at least 50 percent anyway. As I have said before, if you are going to have an economy that requires 78 percent of gross national product consumed, you have to depend more upon Government participation. I would like to say one word on the problem of forecasting.

Some time ago there was an investigation made of the number of times forecasting services were right and the number of times they were wrong, and it was discovered that they were right less than 50 percent of the time, which means they did a worse job than somebody could have done by tossing a coin.

I agree that forecasting has to be done. I think you have to make plans. I think this particular investigation should be a warning to the Council that they ought to be very careful in this business of forecasting. One thing that was proved was that your forecasts were more often right when made in a period of prosperity than when made in a period of depression. I think it is partly because in the case of business institutions they do not want to worry their customers too much, and in the case of Government the Government, as noted early in 1949, is afraid that the forecast of the Council may have had a depressing effect on the economy.

The CHAIRMAN. Mr. Gainsbrugh.

Mr. GAINSBRUGH. I subscribe to the forecasting approach. I am perfectly willing to concede it is not perfect, but I think it is being improved year after year.

On the question of policy I have these two statements to make. First, that in the minds of business we are faced currently with a fiscal crisis. Increasingly as we fail to solve that fiscal crisis, we lose rather than restore business confidence. I would say what is needed in 1950 and 1951 is a genuine attempt on the part of the Federal Government to bring its expenditures into balance with revenues or to at least decrease its deficit, rather than add to it.

If it is impossible to do that, then I think it must alert its citizenry to the dangers we as a Nation face through a continuance of deficit financing and perhaps even say at some time through the Council of Economic Advisers and other official groups that our people cannot have all they want until we produce more. There I depart from the Council's sponsorship of the let's-grow-up-to-the-size-of-our-Government school of argument.

We have just completed a survey of a half century of Government spending at the board since the start of this century to date. We find that race has been won decade after decade by Government rather than by the size of our national product.

Secondly, I say that we should all be concerned about the outlook for 1950–51. I have heard nothing here which suggests expansion in 1950 and 1951—perhaps stability at present levels, but that is not our target—our target is expansion. To me, then, the most desirable approach is the direct one of the facilitation of private investment. That would include a reorganization of the tax structure, elimination of double taxation, liberalization of depreciation and replacement policies, a more liberal or at least clearer interpretation of section 102, and other measures which have been advocated by business. Those barriers to investment are those listed by Secretary of Commerce Sawyer upon his return from a field trip meeting with business groups all over the entire country.

I would advocate that type of policy.

Mr. RICH. Senator, he is certainly talking down my alley. [Laughter.]

The CHAIRMAN. Mr. Burns.

Mr. BURNS. I think the time is too short to say anything now about weighty problems of policy. I shall, therefore, quarrel a little, if I may, with my academic friend, Seymour Harris, on the subject of the record of economic forecasters. I do not know what study he refers to, but I believe that the record is simply this:

Economists are fairly well able to forecast business conditions a month or two or three ahead. Their long-range forecasting is bad. If you examine the records of forecasters you will find that they do better in periods of prosperity than in periods of depression. The reason is that most of us are tinged with optimism, so during a period of prosperity we tend to forecast a continuance of prosperity and during a period of depression we forecast prosperity as well. Of course, during a period of depression there does come a time eventually when optimism leaves us.

I think that is the broad record of the forecasters.

Mr. HARRIS. I am referring to the Cowle's study.

Mr. BURNS. I think the most authoritative study was never analyzed adequately, the study made by Garfield Cox. I have done some work in this area, and the statements I have just made are borne out by Cox's study and by other records of what forecasters have accomplished. They are not much good in judging turns, but they are not as bad as they have been pictured.

The CHAIRMAN. Mr. Bassie, do you care to make any comment?

Mr. BASSIE. There is little I could add on this. I might continue on this last point. First, I agree the record of forecasting is not good, as is said. I also agree with Mr. Burns' statement that we cannot have dependable forecasts, if he means what I would mean by that. I do not think there is any field of economic activity where you can make a forecast and then depend on things to come out just that way. You have to keep in touch with the situation and change your ideas as the situation changes.

However, I do not think forecasting is impossible. I think, on the contrary, we are improving, definitely improving, and I think the Council is on the right track in that respect.

I also think, coming back to your earlier statement, a rule of reason should apply in settling many of these questions of Government policy. Now, I would just like to point out, there are different kinds of reasons that can be followed from one time to another. From the standpoint of economic stability, the kind of reasons you have to be looking for are rather long-range kinds, kinds that will call for planning programs years ahead, not 6 months or even 2 years, but much longer than that; and you have to be prepared to hold down certain kinds of programs in a boom period, as Senator Douglas points out. I certainly have no quarrel with the point I think you were making, Senator Douglas.

If my earlier statement seemed contrary, the reason is just the quantitative one that in the budget the kind of construction that could be appropriately postponed is not so large; whereas, most of the programs like highways and schools, and so on, I think will be needed in the fairly near future and, therefore, for other than economic reasons, I come to a somewhat different conclusion.

The CHAIRMAN. Well, gentlemen, we will reassemble at 2:30. But I should like to say to you who have listened to this discussion this morning that there are two thoughts uppermost in my mind which, it seems to me, must be developed if we are to attempt to deal realistically with our economic problem.

The first of these is: What sort of world policy do we want the Government to follow, and should we regard our international policy—which includes fighting the cold war, which includes therefore national defense, which includes international obligations, and so forth—should we regard that as more important or less important than balancing the budget?

The second question is: What should be done about wage-price policies? I gather from what has been said here today that everybody agrees that the relationship between wages and prices is one of the most important relationships in the entire economic outlook. I merely mention these two and suggest that we attempt to discuss them at the afternoon session.

We will reconvene at 2:30.

(Whereupon, at 12:10 p. m. the hearing was recessed until 2:30 p. m. of the same day.)

AFTERNOON SESSION

Present: Senators O'Mahoney (chairman), Douglas, Taft, Flanders and Watkins.

Also present: Theodore J. Kreps, Staff Director, Grover W. Ensley, Associate Staff Director, and Fred E. Berquist, Economist for the Minority, Joint Committee on the Economic Report.

The CHAIRMAN. I think we are all assembled, are we not? If the members of the round table will be good enough to take their places, we will begin the discussion. I think we are all here.

Senator FLANDERS. It is the queerest shaped round table I ever saw. [Laughter.]

The CHAIRMAN. This morning I interrupted Mr. Gainsbrugh as he was about to make a statistical analysis. Perhaps we had better let you finish your statement, Mr. Gainsbrugh, if you will.

Mr. GAINSBRUGH. Thank you. I referred particularly to two historic charts which are presented for the first time in the Economic Report at pages 76 and 77. These are, in my mind, two of three major contributions toward improved economic knowledge which appears in the Economic Report.

The third is the income distribution which is adjusted for underreporting, and which shows what marked changes occur in the lower income groups after allowance for underreporting is entered in the distribution.

The chart, which appears on page 76, gives for the first time, at least in my knowledge of the field of national accounts, a completely integrated set of gross national product figures in constant dollars since 1890.

The CHAIRMAN. Where is the first one?

Mr. GAINSBRUGH. The first one appears in the appendix containing statistical tables relating to the distribution of income and personal savings, page 140.

Just to comment on this briefly, the table on page 140 shows that using the unadjusted distribution, 17.4 percent of all families and single persons had incomes of less than $1,000.

If you look at the adjusted distribution, you find that proportion is cut almost in half. It drops to 9.8 percent of the income distribution as compared with 17.4.

Senator FLANDERS. Tell us what the adjusted distribution is.

Mr. GAINSBRUGH. The adjusted distribution is not too satisfactorily defined. The Report says, at about the middle of the closing paragraph, page 140:

> Separate adjustments were therefore made in the three types of income for which separate estimates of income coverage in the survey were available: for understatement of wages and salaries, for understatement of net entrepreneurial income and for understatement of all other income, raising each of these to the appropriate aggregate for that source.

Senator FLANDERS. What was the cause?

Mr. GAINSBRUGH. The census concedes when people report their income to them, they are inclined to under state some types of income. That under reporting was known to exist long before this final survey was made but not previously incorporated. Now it has now been made and it has two effects.

First, it improves the income status of the lowest sector of our population, and secondly it steps up the income of the top bracket, also inclined to under report for census purposes.

I wish we knew more about this adjustment. That is one of the defects of the Economic Report to which I will refer subsequently. The description is incomplete, particularly for a technician who would like to follow it as closely as possible.

There ought to be—and this was recommended last year—available to the technicians in the field technical monographs or memoranda which the technicians could study and thereby appraise the validity of the Council's material. I am particularly unhappy about the statement here because it still does not give us one other factor, and that is the nonmoney income which might be accruing to the lowest sectors of our population.

Perhaps by implication that is now in this corrected income distribution, but if so, it is not stated.

Senator FLANDERS. Do you classify as nonmoney income food raised on a subsistence farm?

Mr. GAINSBRUGH. That is right. It is a substantial form of income for the farm population. Food grown on the farm and consumed by the farmer is not included in money income.

Senator FLANDERS. Yes.

Senator TAFT. Is not this survey a very important way of getting the information?

Mr. GAINSBRUGH. It does give us a better framework for determination of the change in income than we would have without it. We can then match this survey against income tax returns, for example, or against our national accounts, to see where the discrepancies arise, and as shown here make some of the necessary corrections.

Senator TAFT. This median-income family figure is $3,420. I thought the average income was about $3,000. This puts the median higher. That might not be the same, of course, but is that not high? Is not the average income about $3,000?

Mr. BURNS. The average would be still higher——

Senator TAFT. Is that not too high? Is not the gross, when you take the total icome divided by families, about $3,000?

Mr. BURNS. It is higher than that.

Mr. GAINSBRUGH. It would be higher than that on the average because we have 45–47 million income units, including single individuals. We have 212 billion personal income. The average would come closer to $4,500, or $5,000 on a family basis.

The CHAIRMAN. It may be worth remarking at this point that we had a subcommittee which devoted some time to the study of the low-income group. I am advised that this committee did take into consideration the nonmoney income of the families studied. And it was precisely because of the inadequacy of any standard measurement to measure nonmoney income that the committee did not attempt to define what a low-income family is.

Mr. GAINSBRUGH. I am cognizant of the report. This is, I think, a new body of data released since that report was prepared.

The CHAIRMAN. It is; yes.

Mr. GAINSBRUGH. And is hence a very important addition to our statistical knowledge.

Senator FLANDERS. The report of the subcommittee that refers to the low-income groups is not yet printed or in circulation. You are referring to the statistical basic report—that is something else.

Mr. GAINSBRUGH. The other two major additions to statistical knowledge are now shown on pages 76 and 77. For the first time, as I said earlier, there is an attempt to deflate our total dollar output, to state the results in terms of constant dollars. This in itself is a valuable addition to our knowledge. Secondly, the Council builds up from it a series of productivity figures showing output per man-hour for the years 1890 to date. This, too, is an interesting series, one again which requires explanation but no explanation is forthcoming.

Look at the chart itself. It would appear that output per man-hour rose at a constant rate over time with no change in any particular period. It seems as if this were simply a straight line from 1890 through 1940 or 1941, not varying in any particular stage of the cycle.

It seems to me as if, when the chart were prepared, someone had a figure for 1890 and another figure for 1941, and fitted a straight line to those two points. We need to know more about that particular series.

Then look at the performance for the subsequent years. There is a very sharp rise in output per man-hour. I do not have the exact data. They were not available when they were asked for, at least through our office.

Just by inspection it would appear as if we had a 25 to 30 percent increase in output per man-hour within the past decade. If so, that departs completely from what those who have worked in the field of productivity have had to say about productivity trends within that decade.

Senator FLANDERS. How can you get any statistics on output per man-hour when the work during at least part of that period was so largely on war production?

Mr. GAINSBRUGH. I do not know the answer to that, but I think it is hinted at in this approach to productivity. There are two approaches to productivity.

One is the relationship of physical quantities to man-hour input, to determine what changes in physical quantities have accompanied the changes in labor input. The other is to use gross national product, to correct it for price change, and then to divide gross national product corrected for price change by labor input and call that a measure of productivity or output per man-hour.

To this date within the circle of productivity technicians, there is considerable debate as to what meaning is to be attached to a gross national product figure when it is deflated and used for this purpose.

Senator FLANDERS. It would seem as though that second approach would be invalid during wartime.

Mr. GAINSBRUGH. That has been the general feeling of the productivity technicians thus far. No one would really subscribe to underwriting any set of figures for the war period.

However, they do appear here. I stress these points particularly, however, because they then fit into the general framework of projection which the Council uses for the next half decade, in fact, for the next half century.

We are shown here the effects of things that went on in our national economy over the past half century, and it is then implied that the same rate can be used for purposes of projection into the future. We are not, however, shown the causes which led up to these effects during these particular decades.

I think in subsequent work the Council ought to attempt to explain why it was that output per man-hour showed this marked increase in the past. Perhaps an analysis of capital invested might be pertinent to the increase in output per man-hour.

Senator FLANDERS. I do not want to delay you, but I would like to ask another question. It would seem to me that in all questions relating to increased output and capital investment, we should separate in our minds two factors, the use of the two.

One is the increase which is called for solely by population increase and has no effect on raising the standard of living.

The other is the investment in equipment of greater productivity which is the sole means of raising the standard of living if you keep working hours and similar conditions the same.

Now, the one means no social advancement; it means holding your own. The other means an advance, an increase in the standard of living. I have been somewhat concerned in the field with which I am most familiar—the machine-tool industry. Although some expansion is taking place, there is very little investment for the sake of increasing productivity; that is, replacing obsolete equipment with higher productivity equipment. I cannot speak from personal knowledge for any other field.

Mr. GAINSBRUGH. That is the general report that we have from our sources, too, in industry. I would like to come back to that when we get to the question of policy. I do not know, though, how you can break out of productivity figures the items that you have mentioned.

Senator FLANDERS. You can, however, see whether there is any net increase over that required by increase of population. While that does not give you definite information, it gives you perhaps a slight clue.

Mr. GAINSBRUGH. Well, throughout this period under survey it is quite evident that the output per man-hour was moving forward much more sharply than was the rise in population. I have been talking about cause and effect relationships. I want to stress one additional point.

The concentration here, as it is in much of our current economic analysis, is upon changes in income. It is extremely difficult from that approach to determine what changes in debt or what changes in wealth may have accompanied these changes in income and in GNP even on a deflated basis.

It is quite conceivable that some of this rise, particularly in the last decade, was accompanied by very significant changes in our national balance sheet, had we one. We do know that within the past decade marked changes have occurred in the structure of our Federal debt. In deflating GNP you are in a sense assuming that the product of Government and the product of private industry contribute on a par to a greater national welfare.

Senator FLANDERS. What is GNP?

Mr. GAINSBRUGH. The gross national product.

Senator FLANDERS. I have it. I think I will remember it.

Mr. GAINSBRUGH. I think that the Council might very well be asked to explore what changes in debt accompanied this increase in gross national product to see whether that has any significant bearing upon the development over the past decade, and defer the extension of this projection into the future until after such an examination.

In closing, I would offer one general comment about all of this. The approach is still too general and the basic data still too undefined to be accepted as a basis for extrapolation or policy-making for the future. Some material that has already been released suggests that income has not shown a constant rate of increase over time. The increase was most marked in the early decades, and has been slowing up ever since.

If we take an average rate of 2 or 2½ percent as being warranted for projection purposes, we may be very seriously overstating the future rate because we are allowing the very rapid increase in the first decades to have too much influence in the average finally selected for projection.

In the main, what I would plump for would be for more description and for more discussion of the series that are cited on pages 76 and 77, and perhaps by next year we can speak more informatively about the conclusions based on this material.

The CHAIRMAN. Now that is the point that you wanted to develop this morning.

Unless there is some further discussion of that by members of the round table, suppose we proceed to recommendations with respect to policy. Shall we begin as before on the right, Mr. Bassie?

Mr. BASSIE. I will, if I may, confine myself to some rather brief remarks at this point. In looking over the recommendations in this report, the general feeling I have about them is that they are not designed so much to introduce a positive program to achieve something definite, but rather as a set of somewhat less integrated measures, which are consistent with various subsidiary objectives but reflect a certain amount of uncertainty with respect to business outlook. There are certain recommendations designed to bolster or support the economy. There are others, particularly the one referring to monetary policy, which seem to have the implication that we will have to control activity or in some sense restrict it, to prevent inflationary developments, if you will. It is somewhat of a mixed program, therefore, not one that is all out in either direction.

As I see it, some of these items might have practically no immediate effect on business conditions. Hence, I come back again to the question of the general outlook for controls. I think that controls by themselves cannot assure stability, that stability requires programing for long periods in advance, which is not part of present policy. Therefore, I take somewhat of a view that we are not prepared to counteract a major recession or depression when it occurs, although there has been a fairly substantial agreement of opinion here that the Government should do something under those conditions.

I made the point this morning that we have to do some things for other reasons, and that we cannot again do those things in the situation that would require action to compensate a depression. Some of these recommendations are of that nature. Others are of a longer-range type that would fit into the other kind of programing I am talking about, such as certain parts of the Columbia Valley and the St. Lawrence Seaway development recommended; but these are minor.

My view of the situation is that we have got past the point where we have to fear inflationary pressures. That could reappear if we build up military expenditures much higher, and it seems to me that is the primary danger of an inflationary development.

The point was made that we have been in a postwar period. I think in a sense we are now out of the postwar period and into one in which we are getting the effects more typical of a prewar period than a postwar period. I am not attempting here to predict war. In fact I am inclined to think the possibility is somewhat remote. But nevertheless we have those characteristic effects in the expansion of the military and international programs.

Now, if they are not going to continue up considerably more, then it seems to me we do not have the prospect of continued inflation, and the normal expansion of the economy can take care of whatever there is in prospect in the way of additional demands.

The CHAIRMAN. Do you mean, assuming the release of pressures of the struggle to stabilize the world so far as war is concerned, that military expenditures may be reduced or even eliminated, and that then an expanding economy of itself would operate to obtain the objectives we have in mind, and to prevent recessions leading to depression?

Mr. BASSIE. Oh, no; that is not what I meant. In what I said about this, I was not contemplating an actual reduction in the military expenditures. I think the program calls for some increase, and I say the amount of increase that is called for is not large enough to be an inflationary factor, and only if it were greatly expanded, that is, advanced at a more rapid rate, would it become inflationary.

Senator TAFT. Why is the military program any more inflationary than any other Government expenditure?

Mr. BASSIE. I am not saying that it is any more than any other. I merely say that that being the biggest program in the budget, and the one that has been growing, that it is a very important factor on that side. The growth of the Federal budget was pointed to this morning as a very important influence in maintaining the economy during this past period, but I want to indicate that it merely maintained the economy during these past 2 years and was not inflationary. Today, prices are, if anything, a little bit lower, and unemployment has grown. There is, in other words, room for expansion which we have not had.

The CHAIRMAN. It is that expansion that I would like to have you develop. You spoke of normal expansion, which I take to mean expansion which is generated by the civilian activities of the people.

Mr. BASSIE. Well, no; I was thinking of a normal rate of expansion in the sense to which Mr. Gainsbrugh was referring to the subject a moment ago. With our labor force growing at a certain rate and productivity growing at a faster rate, the economy can turn out a greater volume of goods every year, not necessarily every single year, but on the average. We should have a continual advance in output from those sources. That rate of advance in output means that we can meet additional demands for goods without having any pressure on prices.

Now, as I look at the situation, I do not see anything in the picture on the demand side except the possibility of an enlarging military program which would call for demands in excess of the rate that goods can be produced. In other words, I do not see that there is a situation of an inflationary character which requires immediate action of a control nature.

On the other hand, as I pointed out, it seems to me that the situation is strong otherwise, and not one on which we have to go all-out to counteract a recession in, say, the next 2 or 3 years, so that I think we are, in other words, in the kind of a period where, from an economic point of view, it is not important for the Government to undertake very drastic programs for affecting the business picture.

The CHAIRMAN. In other words, you are saying that the rate of increase of population and technological improvement are such that they, themselves, without specific Government action, will develop an expanding economy which would be a bar to recession or depression, is that right?

Mr. BASSIE. No; I think that in the next year or so, summing up all the factors in the situation, it looks like a period of continuing prosperity. Those factors, some of them, are temporary.

I think that if those forces are dissipated and we begin to move into a recession at some future time, which I do not think will be within the next year, that certainly we shall have to consider the kind of measures that will be appropriate to counteract it, and I think on that point we are generally in agreement.

The CHAIRMAN. Well, then that means that expenditures for national defense, expenditures for international obligations, expenditures for veterans, their premium refunds and the like, and payment of interest upon the national debt, all constitute factors which, with normal expenditures on the part of the Government and on the part of business and the people, generally, will maintain a stable economy during the next year?

Mr. BASSIE. Yes.

The CHAIRMAN. And you say that you think there is general agreement on that point?

Mr. BASSIE. Oh, no, not on that point; on the point that the Government has a responsibility for attempting to counteract a recession if it does appear. Moreover, in the sense that some of these recommended measures are preparatory rather than measures to be used immediately, I think there can be little objection to them.

The CHAIRMAN. Well, irrespective of what the Economic Report recommends are there any suggestions that you have to make as an individual? Have you any policy recommendations?

Mr. BASSIE. My recommendation was basically a negative one, to the effect that I do not think it important for the Government to undertake large economic measures at this time.

The CHAIRMAN. Mr. Burns.

Mr. BURNS. I think I see two broad postulates underlying the program of the Council. One is that business firms and the Government have both learned how to cope with economic depression. Therefore, if one should develop, the situation will be righted fairly promptly.

The second broad postulate is that it is virtually certain that we will have no problem of inflation to contend with in the next year, or perhaps a little beyond that.

I think there are some grounds for skepticism with respect to these two broad assumptions.

As far as I can see the principal basis for the first assumption is that the business decline that we experienced last year was moderate.

Now, I think it is only fair to give due credit to governmental agencies for what they did in contributing to the maintenance of employment last year, but it is also important to point out that the high rate of governmental spending was not all planned; it was partly forced upon us by international developments. In the second place, in the private business sphere, we had expanding employment and output in two major industries, the automobile industry and the housing industry. They are big providers of jobs, and their high activity was largely due to war-induced shortages which had not yet been made up. So that our success in curbing depression last year can hardly be ascribed or cannot exclusively be ascribed to definite knowledge we have gained concerning techniques of curbing business declines.

With respect to the second broad assumption of the Council, namely, that inflation is unlikely, it rather seems to me that if the Council's forecast concerning the trend of business activity turns out to be true, we will have rising prices and wages in this country. Historically business activity and price movements have gone together by and large. When production and employment pick up prices are likely to go up as well.

Now I think that these two broad assumptions are responsible for the emphasis that is placed in the Council's report on long-term policy. I think a great deal of what the Council has to say on that subject is admirable, and I find it very easy to agree with substantial parts of it.

However, I do have some questions and criticism. I wish, for one thing, that some parts of the program had been explained more fully.

I was able to find only a single sentence on the subject of rent control in the Council's report. Then I wish that some parts of the program had been based——

Senator TAFT. What do you think they ought to say about rent control?

Mr. BURNS. I do not find that very easy to answer, Mr. Taft. But to be told merely that rent control ought to be continued for another year, does not provide the intelligent public with a sufficient basis for either favoring or opposing that recommendation. I think recomendations concerning policy should be carefully reasoned and based on facts.

Senator TAFT. Have you any views on it, I wonder, yourself?

Mr. BURNS. My own view would be, Senator—I have not looked into the question at all systematically—that the sooner rent control can be abandoned, the better. I am inclined to think that if we are to avoid the kind of experience some European nations have run into, where housing has become virtually a public industry, we cannot continue rent control indefinitely.

Senator TAFT. Well, I agree to that. I wondered if you thought we had reached the point where we could take it off. There would always be some repercussion, but I mean without any serious repercussion.

Mr. BURNS. I do not feel qualified to express a responsible opinion on that.

To return to the Council's program, I wish that some parts had been based on sounder economic facts and reasoning.

I find, for example, that the report is lyrical about the abundance of investment opportunity in this country. At the same time the report urges a redistribution of income, among other reasons on the ground that investment may be inadequate in relation to intended saving. That, I think, is a highly arguable proposition of Keynesian economics.

Again I find that the Council urges a stable volume of housing construction. It is a little difficult for me to see how that could possibly be attained in an economy where the rate of population increase is very unstable. The thing that is important with respect to residential construction is not the size of the population but the increments in that population, and that as I say is a highly variable quantity.

I also wish that the report had contained a systematic discussion of which parts of the program would be effective in controlling the business cycle and which parts would be of slight aid in that respect, but would nevertheless promote growth and welfare.

Then again since different parts of the recommended program will all cost money, I rather wish that the report had said something definite about priorities.

I found myself wishing that the report had shown how much the recommended program would cost. I looked in vain for a figure in the report. I finally located a table in the construction of which the kind of figure that I thought necessary must have been used, but that figure was not explicitly given. When I tried to deduce it from the table, I was able to do so only within a margin of $30,000,000,000.

Senator DOUGLAS. What table is this, Dr. Burns?

Mr. BURNS. It is the table that gives the projections for 1954.

Senator FLANDERS. In the early part of the report somewhere.

Mr. WOODWARD. Is that the one on page 85?

Mr. BURNS. I think that is the one.

Mr. GAINSBRUGH. Table 13.

Mr. BURNS. You see that table shows the gross national product, and it goes on to show two components of the gross national product, namely, personal consumption expenditures and gross private domestic investment.

Now the excluded parts of the gross national product are three: First, inventory investment; second, foreign investment; third, governmental purchases of goods and services.

If you look in the column for 1954 you find the gross national product is shown within a range running from 300 to 310 billion dollars. Personal consumption expenditures and private domestic investment are likewise shown within a range.

Well, if you assume that foreign investment and inventory investment can both be regarded as negligible, assume that for a moment, then you can compute from this table the implicit figure for governmental purchases of goods and services. The implicit figure, in view of the ranges given, runs from $32,000,000,000 to $62,000,000,000.

That, of course, is not the whole story, because in order to get at the full cost of the governmental program you would have to add in so-called transfer payments. My main point, Senator, is that the figure for which I was looking must have been used in deriving table 13, and it would have been a service to professional students and also to the general public and to the legislators if that figure had been explicitly given.

Senator DOUGLAS. In other words, that is a concealed minor premise.

Mr. BURNS. Well, it must have been used. Now it would be better if in the future implicit statistics were abandoned and explicit figures cited.

Senator DOUGLAS. Do you not think this figure for 1954 is highly conjectural anyway?

Mr. BURNS. Of course it is, but that applies to all figures in the table. The program that is set down, I take it, is not conjectural. More or less definite recommendations are made.

One ought to know what the cost to the Government would be if those recommendations were adopted. I think that is the responsible way of saying it.

Now, then, once you know what the cost of all these items is, you go on and reach the best judgment that you can as to whether or not the whole program or only certain parts of it can be adopted.

Senator DOUGLAS. I hold no explicit brief for this report. But differences, slight differences in totals, when you subtract one total from another, produce great changes, and that simple fact coming from subtraction rather than any artful attempt to conceal may account for the result.

Mr. BURNS. Oh, I did not mean to imply any effort at concealment. I mean only that there has been inadequacy in the reporting.

Mr. GAINSBRUGH. Mr. Chairman, I would like to add one thing there. This traces back to something we discussed last year.

The Council at that time suggested that for purposes of stability 70 to 75 percent of GNP should go to personal consumption expenditures, and if you look at the 1954 figure, you will find the figures given for personal consumption expenditures have a range of 70 to 75 percent.

Again the Council suggested last year that about 12½ percent plus or minus should go into gross private domestic investment, and the figures given for 1954 are in the range of 12½ to 14 or 14½ percent. They apparently are working with a model. Whether it is a sophisticated or naive model, we do not know as yet.

They have not described its components, and as Dr. Burns has correctly stated, until we see the whole model, we cannot begin to evaluate the parts.

The CHAIRMAN. I was going to say, let us assume that these figures are incomplete. Nevertheless, in spite of that, what do you gentlemen suggest as a policy, if you suggest any policy at all? The discussion as to whether or not a statistical table is well thought out, whether it is drawn in implicit or explicit terms, is something off the beam of the practical problem that confronts the Congress upon the one side and business upon the other.

Mr. BURNS. It is precisely the practical problem, namely, the cost of the recommended program, that led me to look in this report for a figure indicating what that cost is.

I may have read this report imperfectly, but the table that I cited came closer to giving me an answer than anything else in the report, and that answer, as I indicated——

The CHAIRMAN. Well, of course this round-table discussion includes discussion of the report itself. But we also want any suggestions that you gentlemen feel at liberty to make with respect to the over-all problem on the basis of your own statistical information. You are all experts in this field.

Senator DOUGLAS. I would like, if I may, since the issue of this table has been injected, to point this out:

I am sure Dr. Burns did not mean to give the implication, which possibly some might have inferred from what he said. The volume of personal consumption is mentioned, the volume of gross private domestic investment is shown. From Dr. Burns' comments, it might be inferred that he believed these figures had been determined in part because of a wide range of assumptions on the volume of governmental expenditures; whereas Mr. Gainsbrugh's explanation seems to indicate that what they took was a percentage, around 13 percent of gross national product for investment, and he correctly says from 70 to 75 percent for personal expenditure, and then the rest would be assumed for government.

Since they could not get a pin-point degree of accuracy on a prediction of what income was, that of necessity caused fluctuation in estimates of personal consumption expenditure and gross private domestic investment. So that the consequence of this is that you would have a magnified variation in the residual, and I think it is as simple as that, rather than uncertainty in the minds of the Bureau of the Budget as to whether governmental expenditures should be 32 billion or 62 billion. I think Mr. Gainsbrugh's explanation really is the answer.

Mr. HARRIS. May I just raise one point there? I think it is quite proper that the Council should not be too specific on the cost, because the theory is that you relate your public expenditures to your private outlays. They do not know obviously how much the Government should expend in 1954.

Mr. BURNS. The table we have been discussing is based on the assumption of something like full employment in 1954.

Mr. GAINSBRUGH. I was going to suggest, Senator Douglas, that there is substance to this approach. What Mr. Burns is trying to get at is what it is going to cost us to get to the target outlined by the Council for 1954, and roughly the outlines here would appear to range from 35 to 60 or 65 billions of dollars.

That then becomes one approach, and against it might be set other kinds of approaches and other programs which might cost less and yet come up possibly to this same or a higher total of national output.

Senator DOUGLAS. I do not want to belabor the point, but I think what Mr. Harris has touched on is a basic question: Do you get full employment through private industry, or do you attempt to get full employment despite a depression in private industry by high volume of governmental expenditures? It is as simple as that.

Mr. SMITHIES. Could I add a word on those lines, Senator? As a former official in the Executive Office of the President engaged in preparing tables such as this, I can readily understand what gave rise to its construction.

I think it is really a pedagogical device on the part of the Council. I think they might well have said this to themselves:

On the basis of present policies, present tax laws, and so forth, consumption might well be expected to be, say, 75 percent of the gross national product and similarly investment may well be expected to be, say, 12 percent. They project the gross national product figure on the basis of productivity trends, and full employment.

They present these three figures in this way in order to raise an issue, and the implication of the thing is that if nothing is done about consumption and investment between now and 1954, then the gap has to be filled in by Government expenditures.

On the other hand, if you do not want the gap filled in by $60,000,000,000 of Government expenditures, something has to be done to increase consumption or increase investment. I think that is all there is to it.

I do think, without any knowledge whatever, that it would be unfair to the Council to regard this as an implicit estimate of the cost of the Government's program.

Senator TAFT. Mr. Burns, one thing there at the bottom of the page, the estimates contemplate over the 5-year period a growth in consumer buying at a more rapid rate than the growth of business investment. The analysis indicates that this is necessary to maintain maximum employment and production in a growing peacetime economy.

Do you agree you have to have a constant increase in proportion of consumer expenditure against investment?

Mr. BURNS. I know of no factual basis for that assertion.

Senator TAFT. I rather doubt it. I do not know just why that would be.

Mr. BURNS. The best evidence, as I know it, indicates that up to the 1930's investment and consumer expenditures grew approximately at the same rate.

Senator TAFT. I would suppose there would be a balance that should remain approximately the same, if you want to have full operation in both fields of capital goods and consumer goods.

Mr. BURNS. Well, I do not think that can be argued theoretically, Senator Taft. I think it is a question of fact.

Senator TAFT. But you doubt this?

Mr. BURNS. I do not know of any facts which support that statement.

Senator TAFT. In these estimates for 1954 of $300,000,000,000, it seems to me that it assumes we are on an entirely normal basis today. By 1954 I would hope we would not have a Government deficit. We probably cannot have a give-away foreign policy.

You have had an increase in consumer credit of about three billion dollars in 2 years, which must be an abnormal thing. You cannot do that forever. Therefore you have certain factors in the present economy that are abnormal. You have to take up the slack in those as well as go forward with a general increase in consumption.

Do you think that is true? Do you not think, in other words, just to reach $300,000,000,000 by saying that we are going on for the next 5 years, at the rate we have gone, say, the last 40 years, assuming that we are now in a perfectly normal position, and I doubt if we are——

Mr. BURNS. I feel you have stated the assumption made by the Council correctly. Whether we are or are not in a "normal" position is, I think, a debatable question. But there can be no doubt about your having stated the assumption of this calculation correctly.

Mr. BASSIE. I think if I may add, Senator, the implication of the figures is that gross private investment is already at a relatively high level, and one which they would not expect to be appropriate to a full-employment situation 5 years hence.

Therefore, they do not expect it to grow at the same rate, whereas they expect consumption to go up in the manner in which it is ordinarily related to total output or income.

Senator TAFT. Well, in other words, they think that the gross private domestic investment today is abnormally high in percentage. That is what they said a year ago, as I remember it, but I was never sure they were right.

It seems to me that perhaps there should be an effort to keep that going, that is one of the most important things to do, to keep the capital goods industries operating at full speed.

Mr. HARRIS. Senator, may I say a word there? It seems to me I saw a study that came from Washington last year which said that if business investment continued for 10 years at the rate of 1946–48, all our business plant would be replaced.

Now it seems to me this is important—and especially since we can have so many capital-savings investments—that we may reach a saturation point in terms of investment quickly. I think the Council itself took this position because it felt that investment had been at such a high level for several years that the current rate could not be maintained for many years without turning out a tremendous supply of consumption goods. The country would then have the problem of finding a market for these consumption goods, and I think that is a real problem.

I think that is why some of us believe that it is going to be very difficult unless you have a very radical change in price and wage policy, to do the job of full employment or almost full employment without some Government help.

Short of very important institutional changes in our pricing and wage-making process, and in view of the tremendous effectiveness of our investment plan, it is a serious problem as to whether we can count so much on investment as we have in the past.

Senator DOUGLAS. I must apologize to the group again for laboring the question at this table, but I think Mr. Burns perhaps did not quite realize that the lower estimates of personal consumption and gross private domestic investment by the Bureau of the Budget were intended not for conditions where the gross national product was higher, but where the gross national product was lower. Thus if you take the 300 billion gross national product and then, as shown in table 13, take the personal consumption expenditures on that assumption as 210 plus the gross private domestic investment of 38, the total is 248 billion. Subtracting that from 300 leaves 52 billion. Now, on the second assumption with the gross national product at 310, personal consumption is 225, gross private domestic investment is 43, if my arithmetic is correct, and that gives a total of 268.

268 from 310 is 42, and therefore the discrepancy is not one of 30 billions but one of 10 billions between 52 and 42, so that the range of error is considerably reduced.

Now again I must apologize for this, but arithmetic has a part in this too.

Mr. BURNS. May I say a further word on arithmetic. I do not have one word of disagreement with what the Senator has stated. I have sought to bring out that if we take the explanations as they are given in the report, the range is as I indicated it to be. Once you begin interpreting the table, as the Senator has, and I have no quarrel with his interpretation, the range will be reduced, as he has pointed out, from 30 billion to 10 billion. I want to make one further comment.

Several Members here, including Senator Douglas, have said something about model building which underlies the estimates that are here given. There is a statement on page 86 of the report which throws some light on this question, and the statement reads as follows:

> Fifth, the estimates contemplate programs in the govermental sector based upon the assumption that some programs such as those for veterans will decline. They assume moderate extension of certain accepted programs such as social security upon foundations already established, and also allow for some new programs in domestic and international fields. But they do not assume an intensification of international tension * * *. By 1954 this outline of peacetime growth would lead to the Government sector accounting for a smaller proportion of the total gross national product than in 1949.

Now what this means to me is that in preparing this table the Council had specific figures, arrived at somehow. It would have been better, more informative if those figures had been put into the record, and that is all that I have tried to say.

The CHAIRMAN. Now, with respect to policy, what do you wish to say?

Mr. BURNS. I have already taken a good deal of time, and I will content myself with two brief additional remarks.

First, I wish that this report had been old-fashioned enough in its spirit to urge the maxim of an annually balanced budget. I say that, knowing that I am taking a grave risk of being misunderstood.

I do not mean by this that I believe that an annual balance is economically desirable. On the contrary, I urge the maxim of an annual balance because I think that if we hold an ideal of that sort before us, we may attain a balance within the approximate period of a business cycle; while, on the other hand, if we urge the maxim of a balanced budget over a business cycle, or of a balance at the earliest date consistent with the welfare of the country—the last phrase is quoted from the report—we are likely, I fear, to get a budget that is permanently out of balance.

That may not make good sense, but I believe that people are like that. We are apt to go on with deficit spending in a period of depression because we need it, and in a period of prosperity because we can afford it.

I have one further remark, and that is that I rather regret that more emphasis is not given in the report to the problem of intensifying the key of competition in this country. I think that competition is a great producer of investment.

I think, also, that insofar as we have small-business enterprise on a flourishing scale, once the country does get into a period of depression, it is likely to recover faster and easier. There are many reasons for that. I shall mention one.

Assume that you have an industry consisting of a single enterprise, and that the industry is facing a period of depression. It is operating, let us say, at 50 percent of capacity. At a time like that you are not likely to get much, if any, new investment.

But if you have an industry operating at 50 percent of capacity, that industry consisting of 1,000 small firms, the 50-percent figure will be a national average. Some firms will be operating at 10 percent of capacity, others at 90 or 100, and those that have gained in the competitive struggle will be increasing their investment, creating jobs, in contrast to the situation that you are apt to get when industry is predominantly large scale.

The CHAIRMAN. What specific emphasis would you like this committee to place on competition?

Mr. BURNS. I do not have any good proposal to put before you, Senator. But it does seem to me that the heart of the question is taxation.

As long as the tax system is at anything like the present level, small-business firms will probably continue to be very small, or may go out of existence entirely. The kind of tax system that we have favors, I think, large-scale enterprise.

The CHAIRMAN. Well, let me put the question this way: During the war when our every effort was concentrated upon winning the war, we conscientiously and deliberately turned aside from the civilian-economy production for civilian purposes, which was completely subordinated, to production for military purposes.

Now that the shooting has stopped, we face another program, and Congress has—and I think with the support of the people as a whole—undertaken a program which is designed to support the United Nations, to rehabilitate western Europe at least, to promote the North Atlantic Pact, to arm certain nations of western Europe, and so forth.

Now, do you in your own mind conceive that there is any priority between the national policy of promoting peace and the balancing of the budget?

Mr. BURNS. I find that extremely simple, Senator. I would sacrifice the budget to a sound international economy without any hesitation.

The CHAIRMAN. Then, assuming that the international program will tend to be less expensive—the current budget calls, for example, for $1,000,000,000 less for ECA than was expended or was authorized during this fiscal year—and assuming for the purposes of the discussion that we are getting away from expenditures of that kind, do you see the civilian economy expending out of its own forces?

Suppose we get competition operating, will it have self-generating power?

Mr. BURNS. I believe that our civilian economy does have a great deal of self-generating power. After all, this Nation has grown that way.

The CHAIRMAN. Well, I take that to be the assumption on which these charts have been drawn.

Mr. BURNS. I am not entirely certain on what assumption those charts were drawn.

The CHAIRMAN. Well, that is neither here nor there, what the assumption might have been. The object is what we are getting at.

Senator DOUGLAS. I would simply like to make this comment, and then ask Dr. Burns a question, if I may. I am very glad that you touched on this matter of competition.

I was struck with the fact that there was not much emphasis upon either the preservation or the enhancement of competition in the report, with the possible exception of the paragraph on page 100. How can we get a greater degree of competition in American life? You say one of the best ways is an alteration of the tax policy.

I wonder if you can give any consideration to the question of basing points which the Senate will have before it.

Mr. BURNS. I do not know enough about that, Senator, to express an opinion.

Senator DOUGLAS. If it were to develop that the basing-point system is the method by which a few large firms suppress price competition in an industry, and if the abolition of the basing-point system were to induce a greater degree of price competition, would you favor the maintenance of the basing-point system or the lessening or the abolition of the basing-point system?

Mr. BURNS. If it could be established that the basing-point system favors monopoly, I would enthusiastically favor its abolition.

Senator DOUGLAS. Of course, monopoly has many definitions.

Mr. BURNS. Favors large-scale enterprise.

Senator DOUGLAS. Or reduction of the price competition.

Mr. BURNS. I would again enthusiastically favor its abolition.

Senator DOUGLAS. I can count on you as a supporter.

The CHAIRMAN. Mr. Harris.

Mr. HARRIS. Well, on this issue of competition I might just say a word about that. For example, take the British steel industry. I think one of the arguments that has been used to nationalize the steel industry is that the steel industry in Great Britain has restricted and kept down investment.

There may have been truth in that charge, and I agree with Arthur Burns when he says more competition means more investment, but one must not forget it might conceivably mean more wastage because of the great many bankruptcies, and so forth.

I am critical of the Council for the way it has made almost a complete turnabout on this monopoly issue. My own view is that the Sherman antitrust law has been very helpful. It has not been as helpful as it might have been, but it has been a restraining influence.

In the first December report of the Council there is a general philosophy that bigness is fine, and all that sort of thing, and we have to know more about it, and so forth and so on. I think that was unfortunate.

The CHAIRMAN. I really do not think you can read into this report——

Mr. HARRIS. Not the large one. I mean the small one. I went back and read it over this morning.

The CHAIRMAN (continuing). Or the small one—an abandonment of principal competition in opposition to monopoly. I would be alarmed if I thought that the Council of Economic Advisers had changed front on that.

Mr. HARRIS. Senator, you will find a passage in this which says specifically, "We believe in the Sherman antitrust law," very carefully stated. There are also passages in there which say, "We do not know too much about bigness. Let us get on with business. Let us coddle," and so forth and so on.

I think there definitely is a change of position there. I could quote you passage by passage where that particular viewpoint prevails in the small report.

It may not have been intentional, but I was annoyed about it, and I do not feel nearly as strong, Senator, about this issue as you do, but I still think we ought to have as much competition as we possibly can have.

The CHAIRMAN. I am delighted to have that expression. Now, let us assume that we all want competition. Let us assume that we are all against monopoly. Now, what do you recommend as a policy here? What are we going to do with the immediate issue of price-wage relationship?

Mr. HARRIS. Well, I would like to say a word about that. My colleague, Professor Smithies, said a good deal about it, and I agree with almost everything he said. You have to have a sensible price and wage policy.

Supposing, for example, you have a deflation, a deflation because wages are not high enough relative to prices. Now, that is one possibility.

You could also have another possibility that wages may be too high relative to prices, and you may have some inflation, but let us assume you have the former. Now then, you have a fall of prices. If you do have a fall of prices, then you run into the problem of deficit spending. In other words, in that situation you produce too much for your purchasing power.

Then you put a terrific burden on fiscal policy. You have to reduce taxes in depression, and there is a limit as to how far you can go in reducing taxes, and you have to increase expenditures, and there is a limit even there in view of the political situation.

Therefore, it is quite correct, as Professor Smithies says, that we have to have sensible wage and price policies, and if we do not, then, of course, you have to depend more and more on fiscal policy, and I would go so far as to say if your wage and price policies are too bad, there is no fiscal policy that can really do the job, and you are putting too much of a burden on it.

Now, I am not too hopeful that we ever will get the right wage and price policy. Certainly, recent history does not suggest that, and if you go back 150 years you find that general history reveals that the gains of progress are not taken in the form of falling prices, but in the form of rising income.

I think Senator Douglas himself has made one of the best studies that has ever been made in this whole area of price-wage history, and a good deal of my information comes from his study along with others, so I say to these people, like Mr. Nourse of the Council of Economic Advisers, and also to the Council itself, fine, let us get a sensible wage and price policy, and if we do, we will not have to depend so much on fiscal policy, but I say also I am skeptical.

You have got to show me that you can have a sensible wage and price policy. Until you can, then there is no other alternative, as

Professor Smithies said, but control, which most of us do not want, and therefore the other alternative is to depend more and more on fiscal policy.

The CHAIRMAN. Well, what is a sensible price-wage policy?

Mr. HARRIS. That would be one that would, for example, tie up wages with changes in average productivity, something of that sort, not assuming that the laborer should get all the gains of progress, but that capital should share in these gains as well as all elements in society.

I think the way things are moving there is some danger that labor may be getting too much. I think there is some danger that the farmers may be getting too much. I think there is some danger that the entrepreneur is getting too much, and the rest of us, who have relatively fixed wages, are being squeezed pretty hard.

I would like to say one word about fiscal policy. I am sorry Congressman Rich is not here. If he were, I would apologize for having classified him in the debt-neurosis class.

I still would like to say a word, because I hope I can have a little influence on my distinguished ex-colleague, Senator Douglas. There is a great deal of concern, and in terms of policy I feel this way about fiscal policy:

You go back to the 1930's, the governments were spending relatively little. Now they are spending $60,000,000,000 a year, and that looks perfectly terrible, and yet when you compare the proportion of the output of goods and services taken by all Government in 1948 or 1949, it is only one-seventh of the total output of goods and services as compared to one-sixth in the early thirties.

That would suggest that people worry too much about what proportion the Government takes, and since we are producing about three times as much, I would suggest that the one-seventh that the Government takes at the present time is a relatively small burden on the economy, and therefore that we should not worry too much about it.

Senator FLANDERS. Where do you get the one-seventh? I thought it was nearer one-fifth, so far as the Federal Government is concerned.

Mr. HARRIS. I think perhaps, Senator, we are talking about two different things. I am talking about the use of goods and services by all governments, not the total amount of taxes levied, because, as Professor Burns pointed out, there is a difference between transfer payments, which do not use up resources but have certain psychological effects. I am perfectly willing to admit the burden of taxes, but also to distinguish that from the burden measured by drain of goods and services, and I say that we always ought to keep that distinction in mind.

I know, Senator Flanders, that you are a great admirer of Professor Slichter.

Senator FLANDERS. I will be, after I get this doctoral thesis, maybe.

Mr. HARRIS. Senator, I want to tell you there is a journal to which I contribute occasionally, which has wide circulation. The editor of that paper told me one day they like articles from Professor Slichter because he is always right on his forecasts.

Let me quote Professor Slichter. He says that in 1975—I think that is the year—we would have a national income of $418,000,000,000. Somebody raised the point, how do we know that we are going to have this rise.

I think it is largely a question of how much we gain relatively in science, which is certainly progressing more rapidly than ever before, as against how much we lose because of a less effective relationship between population and resource.

Professor Slichter said we would have this $418,000,000,000 income in 1975 or 1980, and he assumed a 30-hour week. If that is true, we can increase our national debt by $10,000,000,000 a year, if my figures are correct—I made this estimate sometime ago—and if we do, the increased cost of the national debt would be only 7 percent of the rise of income. I simply draw from this the conclusion—not as Congressman Rich said that I do not care about the national debt, or I have no interest in it, because I think the public debt does matter—that with a rising income we can suffer an increase in debt.

I would say as far as the Council's statement is concerned, I was disturbed to see the Council and the President both say the debt ought to be repaid. They may have said that for political purposes, and it may be good politics to say that, but if the President also says we are going to have a $900,000,000,000 income in the year 2000, then I say he ought to be consistent and say, well, what is a $250,000,000,000 debt in a $900,000,000,000 income, a cost of one-half of 1 percent of the income in the year 2000.

Senator FLANDERS. You and I had a little colloquy up at Harvard a month or two ago and I suggested that we ought to consider the ways and means by which the national income was raised and to consider whether they, with the increase in the national debt at the time, were of a sort that helped or hindered growth in the national product.

Mr. HARRIS. Yes.

Senator FLANDERS. Or national income, whichever way you might put it.

Mr. HARRIS. I agree with that, Senator. My only real suggestion is that you must not talk about the rise of the national debt or the rise in the total amount of the spending, and leave out of account what is happening to all the other variables.

Now, two famous English writers about 125 years ago pointed out that you should not talk about the rise of national debt without talking about the rise of total output. I think that is something that we all ought to keep in mind. I think they stated the positions as effectively as any economist could state it today.

I also want to say this as a matter of policy. If we have to have a balanced budget, this is the time to have it. I would certainly agree with that, and to that extent I agree with Senator Douglas.

I would say also that since the 1949 situation was a difficult one, if it had not been for the change from a surplus of seven to a deficit of three billion dollars in Government finance, we would have had a much more serious depression. I say that in 1950 we ought to go carefully both in cutting expenditures and raising taxes.

I do not think there is much danger of a rise in taxes. I also suggest, as Mr. Strayer did this morning, that we ought to have more flexibility so that if the forecasts prove to be wrong, we can change quickly.

We have that, as Senator Flanders said, in the housing legislation. We also have a similar provision in the reciprocal trade agreements, and I hope that Congress, especially since the party in power is now also the party in command in Congress—at least, I hope so——

Senator DOUGLAS. There is some question about it.

Mr. HARRIS. I would hope very much that there would be some greater degree of discretion given to the Executive within limits so that if, for example, it suddenly appears that the unemployment index is going up by a million, the Federal Government can announce that for the next 3 months the pay-roll tax will be down by one-half of 1 percent, or something of that sort. I think that would make a very important contribution.

One more point and I am through. I know these gentlemen at the other end of the table are getting a little impatient here, and I would simply make one other suggestion. That is about the foreign situation.

I said this morning that unless you continue foreign aid, the pressure, the burden put upon consumption expenditures and investment expenditures might be too large to assure a high level of employment.

I agree with what Professor Burns said, that the foreign issue is a terribly important one and may even transcend the issue of the national debt or deficit financing, but besides that, I have a very strong conviction that in the years to come we will need support for our economy from the increased demand resulting from foreign aid.

Unless we want to sacrifice our export industries, unless we want to lose something like $10,000,000,000 worth of markets, which is the difference between the 1947 situation and the situation we would have with no foreign aid—certainly the exporters, including the farmers, would not agree to the cut in exports—we shall have to continue foreign aid, and foreign aid would have this advantage.

It would increase the market for United States exports to the underdeveloped areas; this would increase the market for western European exports, and therefore supersede the Marshall plan to a certain extent, and provide the United States with raw materials that are necessary if we are going to get the raw materials we need to have an effective industrial and a military machine.

I therefore think not only may it be good for us economically, but also there would be a reduction in political tensions and military tensions if we continue foreign aid for a number of years. What there may be, as a matter of fact, is a lower Federal budget rather than a higher budget, especially when we take into account the effects of unemployment.

Now, Senator, you are going to ask, What do I suggest for public policy? My main suggestion is in terms of the fiscal policy.

I agree with what you and Professor Burns said about competition in general. I would like to see a greater degree of flexibility. I hope we can continue foreign aid. If we can get these miraculous changes in wage and price policy which will give us a more stable economy, then we can depend less on Federal intervention.

The CHAIRMAN. Mr. Smithies.

Mr. SMITHIES. Mr. Chairman, I propose to address my remarks to two matters which I think are the urgent ones. They are the ones which you raised before lunch, namely, the question of the defense and foreign-aid programs versus the balanced budget; and second, the wage-price question.

In my own thinking about the question of a balanced budget, I make a very sharp distinction between the financial aspects of the budget and its administrative aspects. From the point of view of the administrative aspects, I share the concern of everyone who has spoken here today, and particularly Mr. Woodward who spoke just before lunch.

We have rejected one standard for budgetary performance, and we have not yet contrived to replace it by another standard. I am not at all clear that adhering to the balanced budget rule, when we admit it has to be departed from over the cycle, will give us that necessary criterion for a standard of Government performance. A new standard is needed and it can only be provided by revision of Government procedures and reconsideration of our fiscal processes.

On the financial side, which I distinguish entirely from the administrative aspect of the matter, I just cannot see any reason for the great concern about the $5,000,000,000 deficit that we have this year. I think the expressions of concern about that deficit are usually related to the administrative aspect of the budget; the financial and the administrative aspects are usually discussed in the same breath.

The CHAIRMAN. Well, how do you distinguish between the two?

Mr. SMITHIES. I distinguish between them in this way; that the rule of an annually balanced budget is a traditional rule for Government performance. If the Government is going to face up to the fact that it has to pay in some way for the resources used in Government programs, you have to have some kind of a rule that relates expenditures to taxation.

Now, the traditional rule is annual balance. If you were convinced that every year there should be a deficit, you may be able to establish a rule that the budget should be 90 percent balanced, but that would have to be adhered to with the same rigidity as we hope to adhere to the balanced-budget rule, in order to get a good standard of Government performance.

The CHAIRMAN. What I really meant, Mr. Smithies, was what is the distinction, in your mind, between the administrative aspect and the fiscal aspect?

Mr. SMITHIES. Well, the fiscal aspect merely relates to the burdensomeness of an increase in the national debt when you have an increase in the budget, and I think basically the burdensomeness of the national debt consists of the fact that you make interest payments that involve transfers from productive sections of the community to unproductive sections of the community, and undoubtedly if the size of those transfers grows in relation to the national income, incentives to production and progress diminish. On the other hand, if the amount of those transfers grows no faster than the national income, I cannot see how the economic health of the country is impaired.

In this report the President has set himself the standard of an annually balanced budget, and has not adhered to it, and I think he is open to criticism on those grounds.

From the point of view of the economics of the deficit, I do not think he is open to criticism because I do not think a $5,000,000,000 deficit this year is going to impose a serious burden on the economy.

Senator DOUGLAS. That is for 1949–50.

Mr. SMITHIES. Yes; and I go so far as to say, if anything like the rate of economic growth, or even a smaller rate of economic growth, that is contemplated in this report continues, we can stand a $5,000,000,000 deficit from now until the end of time in the financial sense.

The CHAIRMAN. But this is the point that concerns me. The budget which is presented to the Congress this year calls for about $5,400,000,000 to pay the interest upon the national debt. If I remember correctly, it calls for about $4,700,000,000 for international obligations.

Now, saying nothing about the $15,000,000,000 for national defense and $6,000,000,000 for veterans, and the comparatively small proportion for social security and the like, it is obvious that you could balance the budget by cutting international obligations or by cutting the interest on the debt.

In other words, if you were to make some payment upon the debt, you would thereby decrease the annual charge for carrying the debt. Also if you were to reduce the cost of national defense, reduce the expenditures for the air force—as Louis Johnson is trying to do by refusing to spend the money which Congress appropriated for a 70-group air force, thereby cutting some two and a half to three billion dollars out of the bill which Congress O. K.'d for national defense—all of that would reduce expenditure and help to balance the budget. But the House of Representatives this last session, because it believed that the international situation was such that for the protection of the country we ought to have an A–1 Air Force, with jets and all of the latest planes that cost hundreds of thousands of dollars to build, appropriated far more than the administration was willing to spend. It was willing to throw the budget out of balance for that purpose.

Mr. SMITHIES. That is what I want to come to now. I made those remarks as background for what I now say.

The question I now want to focus on is whether a surgical operation should be performed on the budget in the sense of cutting our foreign aid or reducing military expenditures in order to bring it into balance. My view is most emphatically that such a surgical operation should not be undertaken.

I cannot see that the country is faced with the prospect of a financial calamity as a result of the unbalance of the budget, and I very much doubt whether a drastic surgical operation this year would solve the long-run problem which I have described as the administrative problem, which is setting standards of performance and adhering to those standards of performance.

I think there would be great danger that if the foreign-aid program, and the defense program, were cut, our international policy would be jeopardized for the sake of a gesture toward getting better standards of performance in the budget that would not in itself do the job.

As I said before, I think the real problem of getting proper standards of performance is a long-run problem that must receive much more comprehensive consideration from the Congress and from the executive branch of the Government.

Of course the other way of balancing the budget would be to raise taxes, and I would be opposed to attempting to raise five billions of additional taxes at the present time, because I feel in view of the uncertainties of the economic outlook that we discussed this morning, such a sudden increase in taxes might precipitate a depression.

There is one kind of economy that I think would be thoroughly appropriate at the present time, and that is an economy directed toward improving the efficiency of government and achieving better administration. I certainly would not subscribe to the idea that we must necessarily have the expenditures provided in this budget to the last billion or two to maintain prosperity.

If the Congress could cut $2,000,000,000 off the budget, by improving the administrative performance of the Government's program, I would welcome it very much, but I certainly think it would be a most unwise course to damage our essential security programs in order to attempt to achieve balancing the budget. I would also agree with Senator Douglas' point that if public-construction programs could be deferred to a subsequent year, that that would also be a constructive course.

The CHAIRMAN. All public-construction projects?

Mr. SMITHIES. I would include all public-construction projects that the Congress found it feasible to defer. [Laughter.]

The CHAIRMAN. Even though it might be productive of new business and revenue?

Mr. SMITHIES. Frankly, I do not think there is much danger of deferring too much, Senator. [Laughter.]

Senator FLANDERS. Mr. Chairman, I would like to ask Mr. Smithies a question. If it were possible to decrease our military expenditures and our foreign-aid expenditures without harm to the international situation—this is just a pure supposition—do you feel that it would introduce difficulties in maintaining our present rate of employment and production?

Mr. SMITHIES. I am very glad you asked me that question, Senator, because I feel very strongly that we should not regard our foreign policy as a domestic-employment device.

I think one of the dangers that we confront is using it as a domestic-employment device. It is much easier to dump agricultural surpluses abroad than to dispose of them in the internal market, and we have got a constant tendency to do that kind of thing. It may be politically easier to embark on a foreign-aid program than on certain domestic social programs.

Senator FLANDERS. You think there can be a domestic equivalent?

Mr. SMITHIES. Yes. My own strong conviction is that our foreign policy should be determined in the light of our international relations and our international policy, and that our domestic policy should be adjusted to a stable and consistent foreign policy. I recognize that may be a harder course from a domestic point of view, but it seems to me it is exceedingly important that we adopt that point of view.

Senator FLANDERS. I have one other question I would like to ask. In connection with the national debt, you expressed a degree of complacence with its increase, provided it did not increase too rapidly.

You also, as I remember, said that one of the questionable things about increase in national debt was the increase in the diversion of cash proceeds to nonproducers, that is, holders of bonds and so forth. You gave me the impression you felt that could be carried to an unfortunate extent if the debt increased too greatly.

Do you have the same feeling with regard to the diversion from personal consumption and such on the part of governmental taxes—Federal, State, and local? Can they increase to a point where they cause too much of a diversion of income?

Mr. SMITHIES. That again depends on the rate of growth of the economy.

Senator FLANDERS. I am talking about whether there is anything in the nature of a critical percentage of the gross national product going into total governmental taxation which would begin to unfavorably affect the economy.

Mr. SMITHIES. I would not subscribe to any fixed percentage, but I would subscribe to that doctrine in general. I think you can have a relation of Government activity to total activity that definitely militates against the progress of the civilian economy.

Senator FLANDERS. One of your fellow countrymen said 25 percent.

Mr. SMITHIES. I purposely did not give a definite figure because I have noticed that that 25-percent figure has gained currency in these halls, and I do not think it would be wise to adhere to any particular figure, but I would like, in further answer to your last question, to turn to the second point I wanted to make one or two remarks about.

It relates to the wage-price issue, and I would like to draw the attention of the committee to what I regard as the most significant sentence in this report. It occurs on page 75 at the end of the first paragraph:

> We have stressed the fact that only through such growth could the various economic groups in this country prosper and progress together instead of engaging in bitter and hopeless conflicts to obtain for themselves larger shares in a static national output.

Now it seems to me that sentence deserves the utmost consideration. I am inclined to think that most of the Socialist literature in favor of redistribution grew from the English classical economics which assumed diminishing returns, and the point that is made here is just not included in the traditional doctrine that motivates the left wing of this and other countries, but of this country, fortunately, far less than of other countries.

If every year we have to have a fight between labor and management in what I think is probably a vain struggle to redistribute income through wage-price bargaining, I do not think the country is in serious danger of getting involved in the type of controlled economy that will in fact hamper economic growth.

The only solution that I can really see for the redistributive problem is through growth. If money wages increase no faster than productivity, that would be consistent with price stability and stable growth. Economics have frequently said that is what ought to happen to wages, but it is frequently not practical politics from the point of view of trade-unions which, whatever the national leadership thinks, have to press at the local level for increased money wages.

My feeling about the wage-price struggle from the wage side at any rate is that labor does have to reorient its attitude and attempt to make political gains in the form of greater social security as the economy grows.

Now I think from this wider point of view, we do have to contemplate in the years to come a much extended field of social activity on the part of the Federal Government, and I think in the course of the next generation we have to contemplate the enactment of practically the entire social program, envisaged by the President.

My own opinion is that the specific recommendations in the Economic Report, if the President thought they would all be adopted, probably go too fast. He possibly makes some allowance for the fact that not all the recommendations are likely to be adopted in one particular year, but as I say, I think the real solution to the labor-management problem is for labor to divert its attention to pressing for social gains through Government programs, and in that way to reduce the pressure of its membership for attempts to redistribute income through trying to squeeze wage-price margins. I do hope the sentence I have quoted will receive the attention that it deserves.

Now, of course, I have only talked about one aspect of the wage-price problem.

The other aspect of it is to persuade business to charge reasonable prices. I do not want to go into that. I would just like to subscribe in general to what Mr. Burns and Mr. Harris have said on that point.

The CHAIRMAN. Well, now, let me ask you this additional question, Mr. Smithies. I have asked it of others.

Is it your opinion that the civilian domestic economy contains within itself the factors which will generate expansion, growth of population, improving technology, and the like?

Mr. SMITHIES. I do not think one can possibly answer that question in advance, Senator. I think one has to keep an open mind and be prepared to take Government action as the time comes. I personally feel that in the future we should contemplate Government action——

The CHAIRMAN. I may be utterly naive, but frankly I have cherished the feeling for a long time that if Government were to take such a course of action to promote competition and at the same time to promote the investment of private capital in new industry—particularly in competitive industry and local industry—that those two objectives, if encouraged and fostered by Federal legislation and State legislation, would have a tendency to stimulate the expansion of a competitive private industry without too much reliance on Government contributions of money and investment.

Mr. SMITHIES. I certainly welcome everything that can be done to promote the health and expansion of the private economy. I think some things that are advocated in that name do not always produce the results that are desired.

I do regard it as essential, for instance, for the expansion of the private economy that we retain a free price mechanism, and I have frequently heard proposals for fairly comprehensive price control extending over a wider field than natural monopolies, as methods that will promote the health of the private economy by increasing consumption.

I think there is a danger, because of what Mr. Harris calls a neurosis about fiscal devices, to go much too far in the attempt to control directly and to manipulate the private economy.

Now my view would be that competition should be stimulated to the fullest extent possible, but that the price system should be left free, apart from the exceptional cases that have to be controlled.

The CHAIRMAN. When you say "they should be left free," you mean free from what?

Mr. SMITHIES. Free from direct control.

The CHAIRMAN. By Government?

Mr. SMITHIES. By Government, yes.

The CHAIRMAN. By monopoly?

Mr. SMITHIES. No. I say we should do everything we can to stimulate competition, but after these indirect methods have been exhausted, one should not attempt to go further, in my view, and attempt to control prices directly.

I think that is the point where one has to resort to fiscal policy, and I do believe that those of us who describe ourselves as conservative in our approach, should be prepared to adopt a fiscal policy at the right point, because it seems to me that there is a serious danger of getting into an elaborate system of controls that may actually frustrate the growth of the economy, because we are not prepared to——

The CHAIRMAN. Well, you are thinking of Government controls?

Mr. SMITHIES Yes.

The CHAIRMAN. Well, I am thinking also of private controls which are put into effect through the operation of the private managerial device in concentrated industry. Do you see any danger of price control through monopolistic effort?

Mr. SMITHIES. Yes, I think there is a serious danger of price control through monopolistic efforts.

The CHAIRMAN. So you do not absolve monopolistic controls when you condemn Government?

Mr. SMITHIES. No.

The CHAIRMAN. I just want to have that clear on the record.

Mr. SMITHIES. I want to have it clear, too. I think indirect controls to promote competition—I am not subscribing fully to the controls we presently exercise—should be vigorously used but I do shudder at the idea of Government controls over prices except for the well-recognized field of natural monopolies where it is hardly controversial that Government controls should be exercised.

The CHAIRMAN. Mr. Strayer.

Mr. STRAYER. I would like to speak first on a point Mr. Smithies made that bothers me a little bit. I agree with his general position but was disturbed when he said now is not the time, we are running a deficit, to raise taxes, because that might cause a depression.

I am afraid that is always going to be true. If you have a growing Government program, it is never easy to raise taxes, and I would suggest that if we had the proper type of fiscal control we certainly ought to try raising taxes if we cannot cut the budget down to size in face of current demands.

If we find there is difficulty, then we might consider reversal of policy, but there is always good reason not to raise taxes.

Now, this bears on your point. I certainly would maintain the international program at almost any price, but I do not see why we have to pay the price of potential inflation if added to that is growing military expenditures and other things that we cannot cut back.

I think there is a way in which we can meet it, and it is by proper balanced fiscal policy under full employment, which would require taxes to pay for international programs. I think we are apt to find a rationalization for not doing what consistent policy calls for.

I would admit you may get the repercussion, which Mr. Smithies suggested, but you are not certain that you would. If you know that you have got to raise taxes you might find some of these economies which are so difficult to achieve today a little more possible. Greater economy in some nonessential sphere should be possible, and I think there in terms of some of the veterans' programs which I am certainly fearful may mushroom to a level that makes current payments seem small, I am thinking of the "Fanny May" operation which grew so rapidly, increasing the mortgage purchases of Government. I am reluctant to say now, even though it is an uncertain period, that we cannot balance the budget within current receipts, that we let it ride.

Secondly, I want to address myself to wage-price policy which the Council has emphasized since its origin, and which is heavily emphasized in the current report. The Council seems to me to have accepted as inevitable monopoly or monopolistic organization of industry. I do not see why that assumption is an assumption which must be accepted as a given fact.

The CHAIRMAN. I am interested to hear you say that. On what do you base the statement that this report assumes monopoly?

Mr. STRAYER. Monopolistic industry in the technical term, that is large-scale administered prices, large-scale industry, that——

Senator FLANDERS. Do you take into your account also monopolistic wage controls?

Mr. STRAYER. I certainly do; and I think the two are very closely connected. If you have monopolistic or administrative prices in industry you are almost inevitably going to have monopolistic or certainly sticky wage policy.

You have bigness being met by bigness, and I would be old-fashioned enough to come out and say that bigness itself is something that we ought to be seriously concerned about. I am not afraid of saying it. Sure, we like big things in this country.

Senator DOUGLAS. If I may emulate my dear friend from New Haven, who loves to quote the Bible on such occasions, I would like to add a most hearty "Amen."

Mr. STRAYER. I think the Council has underlying its report this assumption that you cannot do anything about administered prices, and from that assumption it has gone ahead and said that by a policy of education, by exhorting the large-scale industry, the large-scale union leader, we are going to get wise policy, but they have never told us what that policy is; they have never given us any standards that industry or labor can follow, and I am frankly pessimistic that large-scale industry or large labor aggregates will do anything other than what they see in their own interest, so this seems to me to key our whole wage-price policy——

The CHAIRMAN. We have been summoned to the floor by a call for a vote. I am sorry, very sorry to have to interrupt this, Mr. Strayer, before you have finished, and before we have heard from Mr. Wendzel and Mr. Woodward, but we must go. We have to vote. If you three gentlemen will send us in writing what you would have said here this afternoon we will include it in the printed hearings at this point.

Let me thank you very sincerely on behalf of the committee for the presentations here this afternoon. I would be very glad to have each of you supplement what you have said here by written comments, if you care to, and they will be included in the report at the end of today's discussion.

Tomorrow we have a round table in which representatives of business, the United States Chamber of Commerce, the Committee on Economic Development, and others, will appear. That will be at 10 o'clock.

Whereupon at 4:40 p. m. the hearing was adjourned to reconvene on Friday, January 20, 1950, at 10 a. m.

(Statements that would have been made at the Joint Committee on the Economic Report round table with economists, Thursday afternoon, January 19, 1950, by Paul J. Strayer, Julius T. Wendzel, and Donald B. Woodward, if sudden adjournment had not been necessitated by a call to the members of the committee to participate in a vote, follow:)

Statement of Paul J. Strayer

The problem of size is important because concentrated economic power causes political conflict over the share of the total national product going to different groups. This is likely to lead to a struggle for power that will be resolved only after one economic group has become dominant at the expense of the rest of the economy. The first results of such a struggle are likely to be expressed in inflation. Political democracy and concentrated economic power are incompatible. Equal opportunity for all should be our goal.

The hope of the Council is that monopolistic industry or labor can administer prices in the public interest and in such a manner that stability can be maintained. This hope is predicated upon the assumption that some standards can be established that will be generally applicable to the wide variety of industries and labor groups in question and second, that they will follow such a standard voluntarily. Both of these assumptions are unrealistic. There is no standard of price-wage policy that has yet been devised that will meet the test. There is also little evidence that the degree of self-denial assumed on the part of those emphasizing voluntary cooperation can be assumed.

Even if cooperation could be assumed, I am not sure I would like the results. The basic drive which makes the market system work is the drive to maximize profits and to attain a larger share of the market. Voluntary denial of profit maximizing policies in the public interest may not work. Then it would be necessary to enforce the rules by rigid controls. One conspicuous case of a firm or industry that took advantage of its position to the disadvantage of others would invite the break-down of voluntary compliance. On the other hand, the sort of voluntary control that is often envisaged by advocates of this approach suggests the return to the NRA and the denial of the basis of the competitive system.

A further objection is that voluntary compliance with a price policy requiring self-denial in the public interest would give to the cooperating firms or industries a strong claim against the Government in case changes in demand or other conditions adversely affected their segment of the economy. If business can make such a claim stick the basic features of the profit and loss system are completely undermined. Flexibility and incentive depend as much on the negative force of losses as the positive influence of profits.

The position advanced above is often objected to on the ground that it is impossible to get or would be inefficient to get more competition or smaller firms in industry. The inevitability of concentrated economic control is not proven. Until a real attempt has been made to correct current policies tending to encourage monopoly rather than discourage it the case cannot be argued realistically. Certainly there is little question that somewhat more competitive conditions can be achieved by a positive program. Areas where effective action can be taken to prevent further monopolistic growth and to encourage more competitive conditions include the following: Regulation of corporate organization to limit the extent of control that can be pyramided through interlocking corporate and financial management, tax revision to favor the small firm, patent policy, money and credit policy, and finally, organization of the capital market as it affects the availability of risk capital for small business. There is also need for State and local government action to repeal legislation encouraging monopoly.

To make any progress the ultimate objective must be clear. This should be the perfection of the market system to minimize the barriers to flexible adjustment of all elements in the economy. Equally important is the objective of creating opportunity for free entry of new firms into industry and the acceptance of the necessity for some failures in industry if adjustment of the economy is to be achieved without detailed controls and plans.

The problem of labor monopoly is less simple than industrial monopoly. Part of it would be solved automatically with the reduction in the size of the dominant firms in any industry. However, the inflationary bias of large-scale industrial unions has to be considered and a means of controlling them or finding a substitute for control devised. One hope is that if industry were more competitive the resistance of employers to inflationary wage boosts would be much greater and the danger of Government support of a constant wage-price inflation much less.

My final point is that it is essential to give much greater role to fiscal, monetary, and credit policy than that yet conceded by the Council. The excellent report of the Subcommittee on Monetary, Credit, and Fiscal Policies of the Joint Committee on the Economic Report covers most of my thoughts on this matter. Adequate control of money and credit can help prevent serious situations from developing and is necessary to restore normal conditions once some disturbance has arisen. Fiscal policy is not a panacea but it does have the advantage of permitting positive action to correct for either inflationary or deflationary tendencies without requiring detailed regulation of individual prices or business decisions.

The emphasis of the subcommittee on the necessity for coordination and flexibility is excellent. I would like to see the subcommittee and the Council and others interested in this problem develop this point to give more attention to the question of the political and administrative reforms that may be required to gain such a coordinated, flexible policy. The relations of the executive and legislative branches of the Government must be reviewed if the sort of policies suggested are to be achieved. There is also a major problem of coordination within the executive branch where a variety of economic philosophies and programs are often in conflict. Finally, the voter seldom is offered a clear choice when he exercises his responsibilities. My own inclination is to stress the need for more responsible party organization and the recognition that effective, positive government requires much greater party discipline today than when the significance of Government economic policies was much less.

As an immediate suggestion, I would like to propose for your consideration a recommendation that the functions of the Council of Economic Advisers be restricted to the questions of stabilization plans and programs and that the function of coordination of long-range economic programs be delegated to another agency within the Government. Stabilization strategy is an important and complex job. Leave that to the Council. The other equally important job of coordination of long-run plans and programs and maintenance of consistency within Government's economic activities might well be given to the Bureau of the Budget or some new agency that would cooperate with the Council but maintain a long view and set the general direction of policy for growth and realization of long-term gains.

STATEMENT BY JULIUS T. WENDZEL

I should like to point my remarks concerning economic and governmental policy toward two general spheres: First, policy pertaining to long-range economic expansion; and, second, policy pertaining to shorter-run cyclical stablization.

With respect to policy pertaining to long-range expansion, let me preface my remarks by giving my answer to a question raised several times by Senator O'Mahoney today. His question has, in essence, been: Does our American economy have sufficient generating power from within to sustain continued economic development without more or less regular deficit spending and without an ever-growing public debt? I believe definitely that our American economy has such generative power.

Several participants in this discussion expressed or implied doubt concerning our economy's generative power. In the main such doubt seems to stem from a belief that private investment is not likely in the future to be sufficient to support a rapidly expanding economy and to provide employment for available labor.

This belief seems to stem from a tendency to give excessive weight to the relatively low rate of capital formation and private investment in the 1930's. The tendency is to assume that the slow-down in investment in the 1930's was the beginning of a new downward trend in the willingness of businessmen to invest. This conclusion seems quite unwarranted. Data on income and capital formation running back several decades before 1900 show no tendency toward a declining growth of private investment and economic expansion, relative to population, previous to the late 1920's. I do not believe that 10 or 15 years of relatively low business investment following several generations of dynamic private investment policies is a sound basis for concluding that there will not be dynamic private investment in the years to come.

Because I believe the private economy will tend to generate a high level of private investment, it seems to me unwise as a matter of general fiscal policy to think, in terms of public investment, more or less regular deficit financing and, therefore, a permanently increasing national debt as a means of bringing about an expanding economy.

We simply do not need a policy of continuous deficit financing to bring about rapid economic expansion. In fact, our adherence to a policy of extensive deficit financing, by creating fear in the minds of businessmen, may have had considerable to do with retarding the rate of private investment in recent decades and a persistent public investment and deficit financing policy could retard somewhat the rate of private investment if not the Nation's total investment in the future.

I would say the basic policies needed to bring about a healthy expanding economy involve mainly the creation of an environment favorable to men of enterprise and lessening of restriction and monopolistic power wherever it may exist. If extremes of direct governmental controls can be avoided and extremes of private-monopolistic controls by both labor and various business spheres can be overcome, unbalanced wage-price adjustments would become less of a barrier to a permanently self-generating expansion in our economy. It is particularly important to strive for greater freedom and greater possibility of entry by new and small firms.

Permit me now to discuss briefly the matter of policy concerning shorter cyclical swings in business and employment. It is certainly difficult to quarrel with temporary deficit financing for purposes of helping to avoid extremes in short-run cyclical swings. Basically, however, the policy should be one of keeping cyclical swings of business and employment within bounds rather than one of attempting to prevent practically all fluctuation in employment as is implied in the President's report. Perhaps the greatest difficulty with a policy of attempting to keep unemployment within the narrow range implied by the President's report is that it is pretty certain to fail with the result that many would lose confidence in stabilization measures which if manned with a loose rein might be quite effective.

I would like to suggest the desirability of replacing the tight-rein policy implied in the President's Economic Report with some such formula as the following: Note the average ratio of employment to population during the past half century after excluding the deep depression years and the war years and then attempt to make that average ratio of employment to population the lowest ratio of employment to population in the future. I indicated in my earlier testimony the advantage of establishing criteria in terms of the ratio of employment to population rather than in terms of numbers unemployed. At this time may I observe that such a formula as I have suggested would permit fiscal measures to be used when really needed and would be compatible with the moderate amount of business and employment fluctuation that is bound to characterize a dynamically progressive economy.

Finally, as to policy with respect to 1950, I believe unemployment is not and will not be sufficient during 1950 to warrant public investment or spending of any sort primarily to create employment.

It is, of course, likely that a deficit will be necessary for the next fiscal year due largely to our huge military and foreign-aid programs. As long as these expenditures are basically necessary to redevelop Europe and assure peace they must be tolerated even though a deficit results. I believe, however, that in this coming year, in the next year, and indefinitely, such expenditures should be carefully watched to assure that they are not or do not become merely a means of continuing indefinitely a deficit spending program on the theory that this is necessary to maintain full employment at home.

Statement by Donald B. Woodward

As I said earlier today I should think that if one wanted to assure the continuation into the future of a trend which has prevailed in the past, one would seek to determine the conditions which caused it to prevail and then suggest measures to assure the existence of those conditins in the future, improved to lessen the instability which has often prevailed in the past. The trend being discussed was the growth in productivity which the Council of Economic Advisers wishes to have continued.

Page 16 of the Economic Report of the President summarizes legislation which is recommended by the President and these recommendations are supported by the Council. The Council does not explain how these recommended actions are supposed to contribute or be related to the objective of encouraging a continuing advance in productivity. In four cases the relationship seems to me understandable: tax revision (though one cannot be sure about this until the details are known), continuation of the foreign recovery programs, approval of the charter of the International Trade Organization, and authorization for technical assistance to undeveloped countries. The relevance of the other eight recommendations is conjectural to varying degrees in the various cases. Six of them apparently would entail additional expenditures and probably sooner or later heavier taxes than would otherwise be the case; furthermore, as was pointed out by other participants, the amount of expenditure entailed is at no place revealed. With the tax burden already so high on productive enterprise, I doubt that the additional burden would contribute to higher productivity: at very least evidence ought to be produced that this would be the case.

The proposal for a large new housing program for middle-income families seems to me particularly dubious. The program would entail subsidies which means taking funds away from one group to give to another, and I am not clear that the middle-income group requires subsidy. Furthermore, the objective of the housing program is stated to be construction of 1,500,000 units per year. This is something like three times the number of families that will be formed net, during many years to come. The realization of such an objective would run real danger of oversaturating the market and of contributing to future economic instability. No evidence is offered for the need for such a program nor that adequate housing is not being or will not be produced for the middle-income group by existing institutions.

As to the other two proposals, I doubt that extension of rent control for another year in unchanged form will increase productivity or encourage investment. And the proposal for additional credit-control measures seems quite unrelated to productivity and to be inconsistent with the Council's finding that there is no danger of inflation.

I said this morning that further decline in business investment seems to be likely and that the proposals recommended by the Council seem inadequate to halt or reverse that trend. It seems to me that this condition calls for more basic consideration of the factors affecting business investment. One of these is the treatment of depreciation by the tax law. Greater flexibility should be allowed to business institutions in this matter. Another is the incentive to management to carry on business investment. Present tax and labor policy both need reexamination in this connection. I should suggest consideration of especial allowances in taxation for research and for new investment. And, finally, I think there should be more attention to costs which involves both tax and labor policy.

Several of us participants have questioned the level of Government expenditure and the position of the budget and this question may be clarified a little. There is sometimes a tendency to use debaters' tactics in such discussion and charge those who propose the possibility of reduction of taking a position of weakening the defense program or foreign policy. This certainly is not what I mean and I doubt that it is what the other participants mean. We most certainly want adequate support for the Nation's foreign policy, for defense, and for other obligations and requirements of the Government. But we do question whether all of the domestic programs that are being carried forward or being proposed are literally necessary. Students like Mr. Bell, former Budget Director, Senator Douglas, and the Hoover Commission are not proposing a weakening of the country's foreign policy or national defense but they find room for considerable saving. What we are asking is serious consideration of those proposals. For myself, I have begun to wonder whether the shoe, indeed, is not on the other foot: whether the mounting domestic programs may not be causing an undue limitation on foreign aid and, perhaps, defense.

Furthermore, I would like to question the position taken by our two Harvard colleagues, Professors Harris and Smithies, on the budget and the public debt. The arithmetical exposition that interest on the national debt requires no greater share of gross national product or national income than at some earlier period, or alternatively, that the debt is small in relation to some assumed future level of national income or gross national product, seems to me to omit important considerations. The public debt and deficit operations have considerable influence upon monetary affairs, the significance of which is not at all indicated by these arithmetical exercises. The availability of a large volume of Government securities may provide a haven for capital that might otherwise contribute more affirmatively to private investment and economic growth. The existence of the debt has already demonstrably curtailed the scope of operations of the monetary authorities and limited their ability to curtail the forces of inflation when they develop. In short, I feel that the public debt-deficit question is much more complicated and cannot and should not be so easily dismissed.

Finally, may I say a word on the price-and-wage question which has been so much discussed today. I do not know of any evidence to support the gloomy forebodings which have been expressed that the market cannot be cleared of goods in the future without a large foreign give-away program or very heavy Government expenditure. Technological advance has been stated to be more rapid now than at any previous time, and I agree with this statement. This is a way to bring down prices and historically has been highly effective over a wide range. If, over time, wage increases are made at something less a rate than increase in productivity, the increase in purchasing power is or can be generalized through the community. If at the same time taxes can be held down, or, better still, reduced, the purchasing power of the community will, I think, be further enhanced by lessening of the necessity to withhold funds in the form of tax reserves. These factors could well, and I think probably would, proceed in a more constructive way than the forebodings have indicated. Furthermore, it should be observed that the American public is already very well supplied with liquid assets and that the elasticity of demand for a very wide range of goods is being demonstrated day by day. Even very small reductions in prices bring about very considerable increases in demand. The accelerated pace of technological development also means intensified competition and consequent courtship of the consumer through better pricing and more attractive products. I think we should be very slow, indeed, to accept the thesis that prosperity and growth in the United States require continued artificial respiration from Government expenditure, either at home or abroad. The patient has a great deal of natural strength which is more likely to be impaired than aided by prolonged artificial respiration.

(The following statement was filed pursuant to the request of Senator O'Mahoney by Dewey Anderson for inclusion in the record:)

THE COUNCIL'S ECONOMIC REPORT (A BRIEF ANALYSIS AND CRITICISM)—STATEMENT OF DEWEY ANDERSON, EXECUTIVE DIRECTOR OF THE PUBLIC AFFAIRS INSTITUTE

The committee has asked my comments on the Economic Report of the President and the Annual Economic Review of the Council of Economic Advisers. I appreciate this opportunity for I know how important are the findings of the committee, and how much weight they carry both with the Congress and the American people.

The economic report of the President is contained in 15 pages, followed by a page setting forth 12 legislative recommendations which in his judgment should be enacted by the Congress to insure economic stability and continuous growth, and to provide Government assistance to regions and people. This brief report must be judged, as intended, as a political-economic statement. It seeks to generalize the economic situation, which it does with commendable brevity and understanding. All 12 legislative recommendations seem to me as a private citizen concerned with the welfare of all our people to be highly desirable. Some of them have a direct bearing on the economic stability and growth of the economy.

It is the Council's report, covering 100 pages of text and 67 pages of technical appendixes to which as a member of this panel of experts I wish to address my remarks. We have a right to expect the Council's report to embody an adequate assembly and interpretation of economic data. The President, who must rely upon this Council's work for his own guidance and that of the Nation, has the right to expect that its report presents in understandable and unequivocal terms the soundest judgment possible in this complex field of economics. It is in such terms that I propose to make a brief examination and appraisal of the Council's report.

THE COUNCIL'S APPRAISAL OF THE ECONOMIC SITUATION

This report is an extremely difficult one to evaluate, because of the wide range of its subject matter. One has to seek the "tenor" of its remarks, the "overriding" expression, the "controlling" point of view. In doing so, he is apt to have some other section of the report quoted back at him as carrying another connotation allowing quite different conclusions.

The dominant tone of the report seems to be optimistic, both about the way in which we rode through the incipient depression of 1949, and the prospects for continued high levels of prosperity in 1950, with the further prospect that if we all pull together we can achieve such economic stability and growth as will give us a $300,000,000,000 gross national product by 1954.

I subscribe to the fine feelings and the hopes of the optimists in the Council, but am considerably disturbed by my reading of the economic facts of life in relation to these fine hopes. I am wondering if the facts warrant any such delightful conclusions.

This doubt is not raised casually, for the implications of unwarranted optimistic observations and conclusions are far too serious for us to be misled now when there is yet time to plan such action as the prospective economic situation really requires.

Such doubts as trouble me, and other economists both in and outside of the Government, are raised, for example, by this summary section of the Council's basis for confidence as 1950 opens (page 67 of the report).

"The first basis for confidence today is that the size of the total decline in economic activity during 1949 was moderate. While drastic in some areas, it did not seriously impair our general strength. From the end of 1948 to the end of 1949, the total output of goods and services measured in dollar terms dropped about 5 percent, but when allowance is made for price changes the real decline was less than 2 percent. Total employment dropped less than 2 percent while unemployment rose from 3 percent of the labor force to over 5 percent. The decline in consumer disposable income was less than 3 percent, in industrial wholesale prices 5 percent, and in consumer prices less than 2 percent. No one should minimize the hardship and suffering inflicted on the unemployed. But one must also give due regard to the high volume of income and employment which persisted. In these circumstances lay the force of recovery."

The Council appears to rest its case for optimism concerning 1949 on this summary of facts. It says, "The decline was not only moderate but also brief. By the second half [of 1949], declining tendencies were supplanted by the forces of revival."

It is my conviction that the Council's optimism rests on the shaky foundation arising out of generalized treatment of key economic indicators. The weakness is that of presenting large generalizations of a quantitative character which conceal qualitative changes that have importance in indicating what is really occurring in the economy.

This is a charge not to be dismissed as a quarrel between economists over the techniques of research. Faults in methodology may lead to wrong conclusions. That is what I believe has happened in this instance. Let me illustrate by showing how the use of qualitative analysis would have brought the Council to quite different and actually disquieting conclusions concerning the health of our free-enterprise economy in 1949, which cast grave doubts on the ability to achieve our 1950–54 goals.

The Council states that "The first basis for confidence today is that the size of the total decline in economic activity during 1949 was moderate."

In summary, we are told that from the end of 1948 to the end of 1949 the total output of goods and services in dollar terms declined 5 percent, adjusted for prices the drop was smaller, less than 2 percent.

This moderate decline of 5 percent in the dollar value of goods and services produced reflects a $15,000,000,000 decline in gross national product—no small loss. However, the gross national product estimates include both private and Government purchases of goods and services. During this period Government purchases increased by $4,000,000,000 at annual rates, or 10 percent.

In order to assess the magnitude of the decline in the private sector it would be proper to measure the year-end 1948 and 1949 changes exclusive of the Government contribution.

If we adjust for the increase in Government purchases of goods and services we find that the dollar value of goods and services supported by the private sector fell by $19,000,000,000, or over 8 percent.

A measure of the extent of the decline in the physical production of goods and selected services is afforded in the appendix of the report, table C–14, page 162.

This table, in which the data are adjusted for seasonal variations, shows that physical output of nonagricultural goods in the second half of 1949 averaged 8 percent below the similar 1948 period and more than 3 percent below the admitted sharply curtailed level of the first half of 1949.

Examination of the components of nonagricultural production of goods shows that industrial production in the second half of 1949 averaged over 11 percent below the similar 1948 period, and almost 7 percent below the incipient depression first half of 1949.

The output of electric and gas utilities was approximately the same in the second half of 1949 as in the latter half of 1948, but in contrast to the 1948 movement had fallen between the first and second half of 1949.

Mitigating the abrupt and quite sharp decline in physical production of nonagricultural goods was a rise in construction of 7 percent between the second half of 1948 and second half of 1949.

However, table C–16 shows that dollar value of new private construction put in place over this period had declined slightly, from $8,000,000,000 to $7,900,000,000. The net increase in construction is attributable entirely to a rise of almost 16 percent in Federal, State, and local—i. e., publicly financed activity.

Turning to the physical output of selected services we find that in the second half of 1949 transportation services had fallen over 10 percent below the second half of 1948 and about 8 percent below the first half of 1949.

This brief review of declines in physical goods and services components demonstrates that the private sector had actually experienced much sharper declines than the aggregate which the Council cited as moderate. More significant, the second half of 1949 had shown no evidence of a reversal in the downward trend, with the exception of private construction.

I submit that this further analysis of the situation respecting the output of goods and services, even though far from exhaustive, is essential in making any conclusion concerning 1949 as a basis for confidence as 1950 opens; and it permits of no such sure confidence as the Council reads into its summary of only a 2 percent real decline in output. The failure of essential elements in the private sector of the economy to recover from the down-slip of the first half of 1949, the continuance of output at substantially lower levels than 1948, coupled with other disquieting indexes particularly the drop in capital expenditures, ought to arouse us to find ways and means of altering the unfavorable prevailing conditions, for the Nation's growth goals are endangered and the prospects of continued prosperous economic conditions are threatened.

Few indicators tell so much about economic conditions so impressively as do the figures on employment and unemployment. The Council is heartened by the fact that employment dropped less than 2 percent, while unemployment rose from 3 percent of the labor force to (only) 5 percent from the end of 1948 to the end of 1949. But careful appraisal of employment-unemployment developments which these generalizations conceal do not allow any easy complacency and optimism about the low level of unemployment and the apparent recovery from midyear unemployment by the end of 1949.

Presumably the Council's 2-percent decline in employment from the end of 1948 to year-end 1949 refers to a decline of total employment as estimated by the Census Bureau of 800,000. However, examination of the components of these employment estimates show rather disquieting developments.

For example, compare private nonagricultural wage and salary worker employment, which is the sensitive employment sector of the economy that reflects how well or how badly the economic forces are expressing themselves in our private-enterprise economy. We find a drop of not less than 2 percent, but a decline of 1.5 million, or almost 4 percent.

The offsets to this substantial decline were in the public sector, where 500,000 more workers were added to the Government work force, and among domestic service and the self-employed. The former added 200,000 workers from 1948 to 1949, and the latter recorded a gain of 300,000. The rise in Government employment is highly questionable. BLS data show little change over the same period. And, as anyone who has worked with this problem knows, on a downswing of the economic cycle when it becomes increasingly difficult to get jobs in industry, domestic-service employment increases, and the number styling themselves "self-employed" grows.

It is extremely doubtful whether the rise in nonagricultural employment of 2,100,000 from the trough in May 1949 to December of that year, which the Council believes indicates a remarkable recovery, is really that at all. It must be remembered that the figures are based upon a census sample of a small number of households. The presumed increase of 800,000 Government workers which makes up a major fraction of the gain is seriously questioned, as noted above, by the Bureau of Labor Statistics series which suggests that little or no change in Government employment occurred during this period of time. Whether the 500,000 gain in "self-employed" measures "real" employment increases in view of the rising rate of business failures, is doubtful. The remaining 800,000 of the 2,100,000 increase in employment during the last half of 1949 are classified as "other private wage and salary workers." Bureau of Labor Statistics data suggest that this increase occurred in the short period July to September, was confined primarily to nondurable goods manufacturing, and coincided with a seasonal expansion in textiles and apparels. The Bureau of Labor Statistics estimates of nonagricultural employment, adjusted for seasonal variations by the Federal Reserve Board, were at the lowest level of the year in December 1949 (excluding the strike-affected months of October and November). The Department of Commerce's private wage and salary receipts data, adjusted for seasonal variations, show continuous quarterly declines throughout 1949. These supplementary data suggest that the Council's conclusion that there has been a substantial real employment recovery in the last half of 1949 is open to serious question.

Now, let us turn our attention to unemployment. In December 1949, after a year in which the rate of exhaustion of employees' benefit rights had doubled, and with the level of private wage and salary worker employment over a million below December 1948, weeks of unemployment claimed, that is—continued claims—averaged 2,200,000 as compared with 1,100,000 a year ago. Even with total employment down significantly, and exhaustion of benefit rights up sharply, these limiting factors did not prevent claims based on continued unemployment to double.

None of the foregoing, of itself, makes untrue the Council's point that 1949 saw continued high levels of employment, and that unemployment was not critical in terms of its effect on the total economy. But they do indicate that there are widening and serious fissures in the private economic structure which have developed despite substantial and growing Government counteraction.

Another measure that afforded the Council satisfaction about how we passed through the crisis of 1949 was the way consumers disposable income behaved. The Council cites a decline from the end of 1948 to the end of 1949 of only 3 percent. Qualitative analysis permits of no complacency concerning this fact. For the generalization conceals what took place in the private sector of the economy. In the fourth quarter of 1948 total private wage and salary receipts, seasonally adjusted, averaged $119,600,000,000. By July 1949, the total had dropped to $115,500,000,000, or over 3 percent. By November, when both the coal miners and steelworkers had returned to work, they had dropped still further, to $113,900,000,000, or over 5 percent below the fourth quarter 1948 average. (Note: The November figure reflects only a partial return of steelworkers and coal miners.)

It should not be overlooked, however, that the decline in total disposable personal income would have been greater had it not been limited by increases in interest, dividend, and transfer payments, and the maintenance of income of nonfarm proprietors.

It is doubtful whether the less than 2-percent decline in consumers prices, which the Council considers healthy and which is one of the factors giving rise to optimism as we face 1950, really serves that purpose. For within that small decline are encompassed substantial and continuing increases in such important nondeferrable budget items as rents, utilities, and transportation rates. These important price increases coupled with the drop in private wage and salary receipts in 1949, have further aggravated the weakened "real" wage position most workers had experienced by the end of 1948.

Thus, subjecting the Council's generalizations concerning the relative strength of the economy at the end of 1949 as compared with the end of 1948 to more detailed quantitative as well as qualitative analysis, it is seen that the economic condition of the private sector at the end of 1949 suggests considerable cause for concern.

The private sector of the economy, despite continuing and substantial Government financial support over the period 1947–49, does not show signs of continuing good health but rather indicates steady weakening.

If the philosophy of the Council as expressed in its December 1949 report, "Business and Government" definitively relegates Government in the future to a passive and facilitative role, it is incumbent upon the Council, especially in view of the disquieting facts of 1947–49, to make known those present and prospective plans of the private business sector which causes the Council to approach 1950 and beyond with such confidence and optimism.

PATHWAYS TO ECONOMIC GROWTH

In chapter III the Council has indicated that it has no definitive knowledge as to the present or prospective plans of the private sector of the economy.

The Council merely notes that in the past we have experienced a doubling of our output every 20 years. Currently we are better equipped than in the past to realize our growth potential, the Council asserts, because of the improvement in our managerial and working skills, better equipment, and so forth.

Consequently the Council concludes, if we face the future with confidence in the expansive potentials of our economy and gear our policies toward such potentials we shall achieve them.

There is, however, one disquieting note. The Council adds: "Gains within our reach depend upon achieving a sustainable balance among the various sectors of our economy" (p. 80).

It is true that on page 85 and subsequently the Council presents "broad relationships among the various sectors of the economy which may facilitate growth without generating disproportions that threaten either inflations or depressions."

Nowhere, however, does the Council intimate that such relationships exist currently (this is demonstrable by the declining trend in investment, the lag in consumption and the growth of unemployment), nor do they explicitly state what measures (other than vague references to affirmative private and public policies) will be needed to achieve them.

One of the most glaring and least permissible omissions is the pointed reluctance of the Council to explain how we are going to get sustainable balance when increasingly each sector of industry and trade has become subject to monopoly control and manipulation. Does the Council seriously believe that an increasingly inflexible price structure; a tendency toward increasing business saving and rigid control of productive capacity are not critical deterrents to achieving both our potential growth objective and sustainable balanced economic relationships?

Former reports of the Economic Council have given important place to such problems, pointing out that the alarming and growing concentration of economic power in a mere handful of financiers and giant business corporations threatens the stability and growth of the economy and makes precarious the life of independent and small business. But a careful reading of this section of the report shows no mention of such problems. Yet this section is intended to point out the pathways to economic growth.

Fundamental to the attainment of that balance which will facilitate growth and stable economic relationships of which the Council speaks are the establishment of policies which will foster significant structural shifts in the economy. If consumption is to rise at a faster rate than investment, then obviously a declining rate of investment will necessarily have to be accompanied by a declining rate of profit and a declining rate of net business saving. Major alterations of wage-price, tax, and fiscal policies will be needed to maximize consumption and minimize the discrepancy between savings and investment. Is it reasonable to expect that such drastic changes are going to be voluntarily self-imposed by private economic groups?

Lest my position be misunderstood, I am not here advocating a particular economic course to be followed but rather stating candidly what I believe to be defects in the Council's approach.

Nevertheless, whatever the approach one chooses—voluntary cooperation, indirect controls, direct controls—the success of each can be measured, and also its advantages and disadvantages. Success in meeting the problem of full employment and sustained growth will require action, and the nature of the action will determine the degree of success. The first step, however, and this is basic, is to recognize that "we can't have our cake and eat it, too." The Council must make its choice, and until it does we are in no position to appraise whether that choice will result in a balanced economy and inevitable growth toward the attainment of the 1954 goals.

NEEDED POLICIES

The Council is at some pains in its December 1949 report on "Business and Government" to disavow any interest in large-scale, inclusive planning on the part of the Federal Government. It says, "Coordination of national economic policy is not 'central planning.' The Council's interest in the orderly evaluation and systematic reconciliation of public policies should not be construed as any leaning toward 'blueprinting the economy' or 'central planning.' " This may be regarded as assurance that the Government is not going to decide the plans of business for businessmen, but will do much in the field of broad policy making. For in the Annual Economic Review which followed the earlier report by a couple of weeks the Council assures us that "Government should also exert an affirmative influence if we are to accomplish the objective of steady economic growth. The Government has become a large partner in the modern productive process * * *."

If I understand the position of the Council correctly, it wants us to know that in laying down broad policy the Government recognizes that the mainspring of incentive and accomplishment in the free enterprise system is the right and ability of the private enterpriser to make his own decisions. The Government will not plan comprehensively, but rather on a "bit by bit" basis, as need requires.

This sort of reasoning may account for the generally unsatisfactory nature of the Council's report dealing with "Needed policies," for this uneven section of the report contains much good exhortation but little that is concrete and comprehensive enough, or whose direct bearing on our economic stability and growth is measured in sufficiently specific terms for the Congress to use in considering legislation to implement economic policy.

Your attention is called to the section on physical resources (pp. 112–115) as an illustration. It contains good descriptive material telling us that the physical resources of the Nation need further development and conservation. But there are few data of an objective character which measure our present physical resource base against our present needs, our future raw material needs, the costs of these essential raw materials, what their growing scarcity means, the role of monopoly ownership in conservation, development, and use of these natural resources, the relationships of the raw materials price structure to processing and consumption, cost of living, and so forth. Nor is there, beyond a passing nod, any appraisal of the economic effects of existing public and private programs which are costing the economy billions of dollars yearly. Take this example of a highly important natural resource, forestry:

"A flexible long-term forest development program should aim to build up the annual growth of saw-size timber to about double the present rate. This would allow for potential needs in a prosperous, expanding economy. Cutting and forest practices on almost two-thirds of our private forest land are detrimental to future growth" (p. 115).

Is this the substance of, or the conclusion from a competent economic study of forestry by which the Council wishes us to establish sound national policy?

This same example of "forestry" is a good illustration of the dilemma confronting the Council as it seeks to show the degree to which the Government should "plan." Any careful economic analysis of our forestry problem would conclude that the area of government policy is a large, and likely a controlling, one. It may well be that we need such a policy as will no longer permit a private forest owner to employ whatever plan of planting, growth, protection, and harvesting he might wish. For this renewable natural resource is of vital necessity for our domestic welfare and protection from our enemies. It is peculiarily a kind of resource that cannot be replaced in a day, that has been exploited unduly in the past because of a failure to regard sufficiently the public interest and the interests of succeeding generations. Its internal economy is governed by the fact that trees won't grow to merchantable size in time to repay compound interest. Some method of financing forest conservation and development is required which provides long-term loans at low rates of interest. Apparently only the Government itself is in a position to underwrite them. Of a certainty, we need sound Government policies respecting our forests. These policies must rest on sound economics and the rights of private owners as well as broad considerations of public welfare. But nothing in the Council's report comes to grips with these issues.

My reading of this important section of the Council's report on policies needed to insure stability and growth of the economy convinces me that no matter what langauge is used nor how hard the Council may seek to play down the role of the Government in large-scale economic planning, that role is definitely big and increasingly important. In some areas, as in the field of forestry just discussed, that role is so large as to appear dominating at the top policy level. In some others, as in the daily activities of independent businessmen, the Government should set the rules of the competitive game and insure their adherence according to law, but refrain as far as possible from interfering with individual initiative.

The goals of growth as laid down by the Council, the attainment of a full use of our resources and our manpower, and their continued stable employment, cannot be reached by the partial and so largely indefinite program of "Needed policies" contained in the Council's report.

Last year members of the Council and its technical staff were active participants in large-scale economic planning. Along with a number of economists, business leaders and labor leaders, private citizens and public leaders, including 18 Democratic and Republican Members of the Senate and a substantial number of Congressmen, they brought their ideas forward in a comprehensive bill which was introduced and is now pending in the Senate, S. 281, the Economic Expansion Act.

Nothing has changed in either the economic situation or the laws of the land to make the major provisions of that measure less important today than on July 15, 1949, when Senator James E. Murray, of Montana, and his colleagues proposed this legislation. In fact, all that has happened in our economic life since then confirms our conviction that such legislation is essential if we wish to preserve the free competitive economic system and insure its stability and growth.

It is unfortunate that the Council did not examine these specific proposals to legislate economic policy and give us their judgment as to their need and effectiveness. It was the contention of those making these proposals that we have at least five major defects in Government policy, namely:

1. We have not established those policies which result in a practical program of maintaining a high enough level of purchasing power to maintain high levels of private investment, production, and employment.
2. We have not as yet addressed ourselves in specific and comprehensive fashion to the promotion of economic expansion through private investment, production, and employment.
3. We have not as yet adopted an economic and businesslike approach to budget policies of the Government, such as would include an operative and capital budget.
4. We have no comprehensive integrated program of resources development and planned public works geared to economic and social needs.
5. We do not have the equipment to prevent large-scale unemployment, nor to relieve its distress when and where it occurs.

These neglected areas remain crucial in any formation of comprehensive Government economic policy, and they still need the attention and thoughtful consideration of the Economic Council. This is so, despite the broad coverage of "Needed policies" in the Council's report. None of the important topics—prices, wages, investment, fiscal policy, farm policy, physical and human resources, social security and international economic policies—is presented with that degree of comprehensiveness and specificity required for the Congress to understand, and on which to make, policy.

For example, the five-page section on farm policy contains much valuable data that apparently lends Council's support to the Brannan plan approach. Yet the reader does not glimpse the present farm situation clearly as a drop in farm income so great as to threaten this important sector of the economy with catastrophic conditions which only government aid can prevent becoming another farm depression like the twenties. The national economy cannot escape serious consequences of any such catastrophe in agriculture. What does the Council suggest that we do to avert that now?

The Economic Expansion Act offers specific answers to the above-listed areas in which Government economic policy is now defective or lacking. By comparison, the Council reports nothing so specific or comprehensive.

It cannot be stressed too strongly that recovery of the economy to the levels achieved in 1948, and thereafter to provide an over-all growth averaging 2 percent or more a year, as is considered necessary to employ our growing labor force, will not come of itself.

The Council should be required to give us a realistic analysis and the proposals needed to attain our full employment goal. They are not found in the report before the committee.

[At the request of Senator O'Mahoney the Survey of Business Practices, January 1950—Division of Business Practices, National Industrial Conference Board, New York 17, N. Y., is made part of the record.°

EXECUTIVES OPTIMISTIC ON BUSINESS IN 1950

The majority of the 182 manufacturing companies cooperating in this month's survey of business practices look ahead with more optimism than was evident

6 months ago. Approximately two-fifths of the participating executives expect new orders in 1950 to exceed 1949 levels. About a fourth of the companies expect some slackening in orders, while the remainder look for no appreciable change.

The profit outlook for 1950, however, is not as promising as the new order outlook. Only a third of the companies estimate any upturn in profits while about two-fifths of them foresee a profit decline. Although decreased volume will be the chief cause of lower profits in some of these firms, pensions, higher wage costs, and lower prices will be major factors.

Only 8 percent of the reporting companies will go into 1950 with inventories at a higher level (as a percentage of sales) than at the beginning of 1949. A normal level for inventories in relation to sales has been reached in most of the companies. They hope to maintain this ratio in 1950.

Nearly half the cooperating companies report that the recent strikes had little or no effect on their operations. An additional third report that the strikes resulted in delayed sales which will be regained in 1950. Permanent losses, however, were experienced by a fifth of the companies.

The business outlook survey published in the July 1949 issue of the Business Record showed that half the companies expected fewer new orders in the second half of 1949 than in the first; and three-fourths expected a still poorer showing compared with the last 6 months of the previous year. The present survey reveals that only one-fourth of the cooperators expect any further decline, while 4 out of 10 anticipate more new orders than in 1949. Factors in support of their belief are: (1) the continuing high levels of personal incomes and personal savings; (2) depletion of customers' inventories because of hand-to-mouth buying during 1949; and (3) delayed sales resulting from the steel strikes.

Several cooperators express the belief that the automobile, steel, and home-construction industries will set the pace for most business during 1950. A substantial reduction in the activity of these industries, will, it is declared, have a profound effect on all industry. Other executives feel that a possible decrease in sales may result from higher imports induced by the depreciation of foreign currency.

The profit outlook for 1950 is not so bright as the new order outlook, but is better than predictions of 6 months ago. About two-fifths of the companies estimate lower profits, although none expects drastic declines. The expectation of lower profits is based in some cases on the prospect of lower sales volumes; in others, it is believed that operating costs will rise further in 1950.

Executives assert that it is exceedingly difficult to forecast business profits, because of the unknown costs of pensions and other benefits which many feel will spread from the steel industry to other industries. Unless these higher wage costs are accompanied by an increase in selling prices, lower profits are considered inevitable.

About a third of the reporting executives estimate that profits will be above 1949 levels. Increased volume is most often mentioned as basis for good profit prospects. However, a number of companies, which were working on improved production methods during 1949 feel that results will be reflected in 1950 profits. Better selling efforts are also expected to lead to a brighter profit picture for some companies.

The remaining companies, about one-fourth of the total reporting, foresee little change in profits over 1949 figures. For some companies this means a continuation of the lower profits experienced in 1949. Others are not perturbed since their 1949 profits were at a satisfactory level.

The majority of companies report that they have completed liquidation of excess inventories and that present stocks are normal or very near normal. Some executives indicate that inventories will be too high at the beginning of 1950 because of the loss of production as a result of strikes in the last quarter of 1949. They expect, however, to make adjustments as rapidly as possible.

Although a fifth of the companies expect to build inventories in 1950 and a third plan to reduce inventories, existing levels, for the most part, are expected to show little change.

The tables accompanying this present section give a quick, over-all picture of trends in various industries. Detailed comments on executives participating in the survey follow the tables.

TABLE 1.—*Outlook on inventory position*

Industries	Present inventory position			Trend of inventories during 1950		
	High	Low	Normal	Higher	Lower	Same
Metal:						
Air-conditioning equipment	----------	1	1	1	1	1
Automobiles and equipment	2	2	4	----------	5	3
Electrical appliances and supplies	1	1	6	1	5	3
Electrical machinery	1	1	3	----------	2	3
Hardware	3	----------	1	1	2	----------
Heating and plumbing	1	1	5	1	1	4
Industrial machinery, general	3	----------	5	1	4	3
Industrial machinery, specialized	2	----------	5	2	3	2
Instruments and controls	2	----------	2	----------	----------	5
Machine tools	1	----------	3	----------	3	2
Nonferrous metals	1	----------	1	----------	----------	3
Office equipment	----------	----------	6	2	----------	4
Railroad equipment	----------	----------	4	1	----------	1
Steel	----------	----------	6	5	----------	3
Miscellaneous, metal	1	1	2	2	4	2
Total	18	7	54	17	30	39
Other:						
Building materials and supplies	1	----------	6	2	----------	3
Chemicals	2	3	7	2	2	6
Food products	1	----------	2	1	1	4
Paper and products	----------	1	7	----------	5	2
Petroleum	1	----------	1	1	1	2
Rubber and products	----------	1	2	----------	----------	2
Textiles and products	2	2	4	1	5	5
Miscellaneous, other	1	3	5	1	1	3
Total	8	10	34	8	15	27
Grand total	26	17	88	25	45	66

Source: The Conference Board.

TABLE 2.—*How industries see business in 1950*

Industries	Estimated new orders compared with 1949			Inventories—As per-cent of sales January 1950 compared with January 1949			Estimated profit in 1950 compared with 1949		
	Higher	Lower	Same	Higher	Lower	Same	Higher	Lower	Same
Metal:									
Air-conditioning equipment	2	1	------	------	3	------	1	2	------
Automobiles, equipment	5	4	1	2	6	1	3	4	2
Electrical appliances, supplies	5	3	1	------	6	4	7	2	------
Electrical machinery	2	4	------	2	3	1	------	3	2
Hardware	3	------	1	------	3	------	3	1	------
Heating, plumbing	1	4	3	1	5	2	2	4	1
Industrial machinery, general	3	2	3	3	3	3	1	7	3
Industrial machinery, specialized	1	3	4	3	5	1	1	4	3
Instruments, controls	5	------	------	------	3	2	3	1	------
Machine tools	4	2	2	------	3	3	4	3	1
Nonferrous metals	1	2	1	2	------	1	2	------	1
Office equipment	3	------	3	3	2	2	------	3	4
Railroad equipment	1	2	2	1	3	------	------	3	------
Steel	3	2	4	1	5	3	2	2	3
Miscellaneous, metal	2	4	2	2	4	2	1	6	2
Total	41	33	27	20	54	25	30	45	22
Other:									
Building materials, supplies	1	------	5	2	------	5	1	6	1
Chemicals	10	2	1	3	6	4	8	1	3
Food products	2	------	6	1	5	5	4	3	2
Paper and products	3	2	5	2	5	2	3	2	4
Petroleum	5	------	------	2	2	------	------	1	3
Rubber and products	3	------	1	------	1	1	1	1	1
Textiles and products	4	3	4	3	6	1	2	5	4
Miscellaneous, other	4	3	4	------	9	3	4	3	3
Total	32	10	26	13	34	21	23	22	21
Grand total	73	43	53	33	88	46	53	67	43

Source: The Conference Board.

TABLE 3.—*Effect of recent steel and coal strikes on business*

Industries	Permanent losses	Delayed sales	Little or no effect
Metal:			
Air-conditioning equipment	----------	----------	2
Automobiles and equipment	3	5	----------
Electrical appliances and supplies	2	1	3
Electrical machinery	2	3	1
Engines and turbines	1	----------	----------
Hardware	----------	1	3
Heating and plumbing	2	1	4
Industrial machinery, general	3	4	4
Industrial machinery, specialized	1	4	6
Instruments and controls	----------	4	1
Machine tools	----------	4	2
Nonferrous metals	----------	1	1
Office equipment	----------	3	4
Railroad equipment	1	2	1
Steel	3	1	4
Miscellaneous, metal	1	----------	5
Total	19	34	
Other:			
Building materials and supplies	----------	1	5
Chemicals	----------	6	5
Food products	5	1	2
Paper and products	2	1	7
Petroleum	1	2	1
Rubber and products	----------	2	1
Textiles and products	3	2	7
Miscellaneous, other	4	7	2
Total	15	22	30
Grand total	34	56	71

Source: The Conference Board.

EXCERPTS FROM REPLIES

METAL MANUFACTURES

Automobiles and equipment: Expects lower profits

"Inventories will be somewhat high at the start of 1950 owing to loss of production because of strikes in the last quarter of 1949. Volume during 1950 will be moderately lower and the trend will be down."

"With lower prices of nonferrous metals, pig iron, and scrap, inventories are down about 20 percent. They are about as low as they can be with present volume. We hope to maintain them on the present basis."

"Barring unforeseen contingencies, profits in 1950 should be slightly higher than in 1949. We contemplate an increase in our business and more efficient operation and better control of our cost elements."

"We expect volume to be lower in 1950 and profits slightly less than in 1949. Total volume, however, should be well above prewar levels and a very satisfactory margin should result."

"There will be, we think, a very definite depression in 1950. It will begin immediately after the first of the year, having gained some momentum between now and the first of the year, because of the steel strike. There will not be enough public-works spending or defense-program spending to offset this heavy reduction in most businesses in 1950. This spending for public works and defense programs is concentrated in only a limited number of localities and is very 'spotty.' "

"Profits in 1950 should be lower than in 1949. They will decrease more than our sales despite strenuous efforts to reduce operating expenses. The largest factor in the situation will be an increase in our labor costs resulting from union negotiations. We have found it impossible to pass along this added cost in the form of a price boost."

Electrical appliances and supplies: Profit outlook good

"Profits in 1950 ought to be better than in 1949. This will be caused partly by increased volume if it develops and no such severe drop in nonferrous prices as we had in 1949. Furthermore, we expect a lot of new capital expenditure to begin producing results."

"We expect profits in 1950 to be substantially greater than in 1949. Better retail selling effort and liquidation of high field inventories should contribute to greater sales volume and more substantial profits."

"Profits in 1950 should be somewhat better than in 1949 because we do not expect the terrific slump in appliances that took place in the early part of 1949. Nor do we expect the downward price adjustments which we were forced to make a year ago. This latter has a serious effect because of the practice of rebating to distributors on their own inventories."

Electrical machinery: Sees increased selling expenses

"Our inventories at the beginning of 1950, will be about 50 percent of what they were at the start of 1949. Our inventory at the start of 1949 was excessive and not in keeping with the present backlog, which is on the basis of about six times our turn-over. We expect our inventory to remain at this level and any future changes in inventory will be based strictly on business entered. The inventory should not go lower than it is at present if we are to operate satisfactorily."

"Our profits for 1950 should be 20 percent below those of 1949. This will be because of increased selling expenses; changed product mix, which means we will be making a greater percentage of low-margin items than we did in 1949; additional benefits for our employees which will reduce our final profit."

"If we continue under current operating conditions, profits for 1950 will be about the same percentage of sales billed as in 1949. Maintenance of a similar percentage of profit to billings despite a somewhat reduced estimate for next year is possible because of the cumulative effect of manufacturing adjustments and efficiencies made throughout the past several years. Reduced labor turn-over has reduced the cost of supervision and training. Other economies, each small in itself but representing settling conditions, account for some increased efficiency and flexibility in manufacturing operations. These predictions will need to be modified, however, to the extent that added fringe benefits or other costs are applied to existing wage levels."

"We have seen a very definite falling off in the volume of small orders. Our backlog is becoming more and more a concentration of individual orders of very high value such as always accompany construction of completely new plants or facilities by either the Government or industry."

"It will be more difficult to produce profits in 1950 equal to those of 1949 as present conditions, as seen by studies of the market, particularly foreign markets, indicate that we will have difficulty in maintaining sales volume approaching that of 1949. Competition has become much keener price-wise, and we fully expect a further increase in some of our purchase materials involving the use of steel products."

Hardware: Maintains adequate inventories

"At no time during 1949 have we instructed our purchasing or production departments to decrease inventories. We have endeavored to have an ample supply on hand so that we would not suffer from a lack of certain sizes that would interfere with our production."

Heating and plumbing: Cost reductions achieved

"Our production per man-hour has been definitely on the increase since June 1949. This has largely been owing to a unique sharing plan (not a profit-sharing plan) which so far has achieved remarkable results in increasing production, in materially increasing the earnings of our employees, and in enhancing company-employee relations."

"We expect profits for 1950 to be greater than those for 1949. Our expense reduction program and modernization of our facilities will make this possible."

"Profits in 1950 should be better than in 1949, primarily because the company suffered a heavy inventory loss in reducing the price of its raw materials (our inventory was very large). We have also reduced a number of our costs—both overhead and production—through better methods."

"We entered 1949 with a large backlog of orders. The cancellation on that backlog was equal to about 15 percent, but current orders during the year were not up to what we regard as normal. A number of our customers held off buying looking for lower prices. They also used up the inventory they had which was heavy since housing developments were not so great as had been anticipated in purchases. Our orders in 1950 should therefore exceed those of 1949 by 60 percent."

Industrial machinery—General

"I doubt whether profits will equal those of 1949 unless the economy absorbs general price increases to cover pensions and increased wage costs."

"We expect our profits for 1950 to equal if not exceed 1949, mainly because of the addition of new products. On our present line of products, we expect profits to be about 20 percent less."

"If the steel mining, and some other heavier industries operate at a fairly high rate of capacity during next year we, too, should be able to—and without the overtime we have had until recently this year. At the end of September, our latest available figure, our dollar backlog, had been reduced by 35 percent of what it was at the beginning of the year."

Industrial machinery—Specialized: Earnings favorable

"Because of the recent strikes we suffered permanent losses in sales of seasonal items which must be ready for sale by the spring selling season or not at all. We estimate that these losses in sales will amount to 1 month's production from two of our seven factories."

"Our profit margin in 1950 will be as good as or better than that for 1949 since we will not be paying the heavy premiums to secure raw materials which we paid in the early part of 1949. We have had some reductions in the price of materials purchased by us and operations in our plants are somewhat more efficient. This increase in profit margins will not, however, be realized if we are forced to increase our wage costs through installation of a pension plan or other direct or indirect increases in wage costs. For we do not believe we can increase our prices during 1950."

"Our earnings for the year just closing will be the greatest in our history. By comparison, the prospects for the coming year are uninteresting. Nevertheless, we may manage some profit by conducting our affairs so that we can make timely reduction of facilities and adjustments in overhead costs."

"Profits for 1950 should approximate the amount we expect to realize in 1949. Previously, we anticipated they would be higher, but devaluation of foreign currencies will adversely affect export sales and consequently profits. The amount of this loss cannot be estimated."

"We are in the position of selling to an industry which has been hit hard by low prices for its product. Pessimism reigns in the North where labor costs are higher, but the southern branch of the business is running full tilt. The result may be a migration to the south, such as occurred during the thirties. Despite depressed prices, people still want our new machines because they can be operated so much more cheaply that it is difficult for a mill to run an older machine and still stay in the picture."

"Profits for 1950 should exceed those of 1949 by a small percentage. We believe our improved production methods will make for greater profits, but that we will have to offer some price reductions to get our share of the business."

Instruments and controls: Reports optimistic

"We believe that while our forecasts should be optimistic, nevertheless we likewise feel that there are factors in the present conditions which do not justify much optimism. We are thinking currently in terms of a 10-percent increase in sales, anticipating that this will result from certain new products and new applications of existing products. However, from an expense viewpoint, we will budget 10 percent less, in anticipation of certain decline. And we expect that it will be possible to accomplish some savings in the months to come."

"We do not look for any substantial upsurge in business during 1950, believing that the volume will continue at about the current levels. The automobile trade is catching up with the postwar demand, and the same applies to many other products. Since many major industries have completed their programs of capital expansion, to a great degree this must be reflected in reduced orders for certain products which go into capital-goods industries. However, we are looking forward to an improved volume through new products and new applications which should offset any general declining trend."

"We believe profits will be lower than in 1940 and considerably lower than in 1948. There is a certain amount of deliberateness in this, as we believe that the present conditions represent a postwar recession. This should be subject to some upward adjustment during the course of 1950. It is not our intention to shrink certain types of overhead activities, such as sales and engineering, in line with present low levels of business. In other words, we expect to continue to process sales promotion and market-extension activities and to continue a high level of product design in the interests of the future. We will utilize some portion of income which might otherwise add to profits."

"Devaluation should have very little effect on general business. It should be more than compensated for by distribution of insurance surpluses to veterans. There seems to be a fair chance that prices will remain comparatively stable. This should bring a lot of hesitant buyers back into the market. In view of this, I look to 1950 with a fair amount of optimism."

Machine tools: Volume improvement seen

"We expect the 1950 profit picture to be slightly better than 1949. This outlook is justified by the larger sales volume, as well as by economy measures in various operational areas during the past year. At that, we expect the 1950 profit to be somewhat below what we would consider normal for this type of business."

"We do not feel that any permanent losses have resulted from the recent strikes. There have been serious losses in time, however, as many sales which should have been closed during this period were delayed."

"We expect some slight improvement profitwise in 1950 as compared with 1949, owing to heavy 1949 expenses in revitalizing our sales force and publishing new mail pieces. The larger part of this expense will be over the dam in 1949, but we will have a larger sales force in 1950. If this sales force is able to produce a reasonable increase in new orders as planned, we can expect a better profit picture."

"It is virtually impossible to determine whether the decline in business attributable to the recent strikes in the coal and steel industries represents a permanent loss or simply a delay. To be sure, our incoming orders during the past month have declined a little, perhaps about 5 percent, but we frankly expected them to drop a lot more sharply than this."

"We would like to see our inventories decrease somewhat, for we have more than enough to do a real job for our customers. We have been piling up finished-goods inventories in the past year solely to create employment for our people. We hope it will be possible, if business is good, this next year, to liquidate some of this inventory so that we will be in a more liquid condition for the next period of readjustment."

Office equipment: Increased production imminent

"A number of factors will encourage increased production in the industry, at least during the first 6 months of 1950. The artificial pent-up demand created by shortages through the coal and steel strikes will stimulate the filling up of pipeline inventories to an operating level. The inflation incident to the Government's policy of deficit financing, plus the substantial insurance refunds to veterans, will account for considerable stimulation of purchasing power."

"We fully expect that profits for 1950 will be as great as, if not greater, than 1949. We base this expectancy upon an increased volume of business and reductions in cost owing to improved methods, better equipment and machinery, and other labor-saving devices. The reduction in costs will probably be realized despite the fact that we may be faced with higher wage rates and fringe concessions to our union."

Steel: Strikes take toll

"It is hoped that net income for 1950 will equal or exceed net income for 1949. However, much depends on the net cost of pensions, which in turn depends on social legislation to be considered in the next session of Congress. Whether or not a price increase on steel products materializes to compensate for the increased cost of pensions and social insurance is also an important factor to reckon with in estimating next year's income results."

"The recent strikes have resulted in some definite and permanent losses to us, largely in the form of expenditures which cannot be recouped from sales. Sales volume, we feel, has merely been delayed and not permanently lost."

"As one of the victims of the steel strike, we lost all our production during the strike period. How much of it will be regained because of postponed purchases and how much will be lost permanently because of loss of consumer purchasing power are matters for conjecture. The purchase of durable goods, the principal end product of steel, can be postponed. During the war we learned that such postponement can extend over a much longer period than we had previously thought possible. Frankly, I believe that some sales are completely lost because of postponement, but to translate this into weeks of normal production seems impossible."

"We expect the demand for steel in the first half of 1950 to be at about the same rate as for 1949. Orders may drop off in the last half of the year, but we do not expect to see any drastic reduction in the demand upon us."

"As a producer of strip steel with limited competition in this area, we could not say that any degree of permanent loss will occur from the recent strike. Undoubtedly our customers have had some permanent loss in the sales they could have made that have been supplied by competitors in other areas who may have been able to get steel to operate. As far as our order book is concerned, we are merely piling up a big backlog that will make it necessary for us to return to allocation when we resume operations."

"As a semi-integrated steel producer, the prices we have to pay for both scrap and pig iron are important profit determinants. What course these raw materials will take in 1950 is difficult to anticipate, since they do not necessarily follow an economic pattern over a short-term period."

Miscellaneous—Metal: New orders increase

"We are expecting new orders for 1950 to exceed the new orders for 1949 by 20 percent. This increase will not be sufficient to keep our plant operating at our 1949 production level, but we cannot see an increase in demand sufficient to produce a volume in our particular line to keep our plant in operation at 100 percent capacity."

"On the assumption that present wage and material price levels will continue to prevail during 1950, indications would point to a reduction in profits as a result of expected lower sales volume."

OTHER MANUFACTURES

Building materials and supplies: Costs continue to increase

"We have spent considerable money on our plants in recent years, but the benefits we expect will probably be insufficient to offset increases in the cost of labor and coal—our two principal expenditures. We look for an increase in our unit costs for 1950. Hence, unless we are able to obtain an increase in our selling price or an increase in our volume of business, the prospects are for a decline of from 10 to 15 percent in our net earnings in 1950 as compared with 1949."

"We expect profits for 1950 to fall off somewhat from 1949. Our costs are continually increasing while the ability to increase our selling price has not kept pace. Therefore, with comparable volume, the profit trend should be slightly downward, although we are making every possible effort to effect economies in operation and distribution which will to some extent offset this trend."

"We expect our profits for 1950 to more than double 1949. This is because our new unit will increase our capacity more than 50 percent, while our manpower and overhead costs will increase very little."

Chemicals: Favorable business anticipated

"We have so far seen no loss of any kind as a result of the strikes, but we expect it momentarily. As a matter of fact, October was the biggest month we ever had in both dollars and volume of goods shipped. Perhaps this was caused in part by people trying to beat the dead line when the effects of the strikes would hit them. We, therefore, anticipate losses in volume as a result."

"The demand for our product tends to vary directly with general business activity and a severe decline in business as the result of strikes would undoubtedly affect this demand. The amount consumed by the iron and steel industry is small, so the strike in the steel industry has not yet had any important direct effect on our sales. Indirect effects may be apparent later, but unless a general business decline follows from the steel strike (which we consider unlikely), the loss of sales, if any, would not be permanent but would rather represent a deferment. This year we have already experienced temporary declines."

"Our business in 1950 will be controlled almost on a month-by-month basis. In general, our gross profit rate has been decreasing during the past 2 years. This of course, is due to the fact that costs have increased too rapidly, and we have not felt that selling prices could or should be advanced to keep pace."

"In our own company we are expecting sales for 1950 to exceed 1949 by 10 to 15 percent, but part of this increase will be due to new lines which are just becoming well established rather than to strictly normal growth."

"We have added some additional production capacity to our principal plant, and expect an increase in volume of production and sales of approximately 15 percent for 1950 over 1949. Our backlog of orders upon entering 1950 seems to be considerably less than at the beginning of 1949. During 1950 we expect a complete return to seasonal influences, which have been absent during the past several years because of a shortage of supply of our products."

"Earnings for the year 1950 are expected to be somewhat higher than in 1949 owing to an anticipated increase in sales, some reduction in prices of raw materials, and to economies in operation which were effected during 1949. The reductions in cost will be offset to some extent by anticipated small wage increases and decreased selling prices for some products."

"No important permanent losses have as yet resulted from the strikes. Any losses incurred by our customers, however, will naturally affect their ability to make future purchases from us."

Food: Strikes mean permanent loss

"We look for our inventories to be about the same in units but somewhat down in dollar value because of the lower price of one of our most important ingredients. It may be that we will have to go out into the market to buy one commodity, with the prospect of 6 or 7 months' storage. If this is the case, our inventory will be better than doubled."

"We have had a reasonably high rate of cancellations and delayed shipments as the result of strikes, especially, of course, in the steel and coal districts. We deal in a food product which is not purchased one day is not purchased in a double quantity another day. This has resulted in some permanent loss, but, so far, it has been exceedingly minor."

"The recent strikes have meant a permanent loss of business for the food industry. As income declines, consumers are forced to shift to less expensive foods, reduced varieties, and perhaps smaller quantities. Although it is difficult to develop an exact measure on the extent of loss in business, I believe the approximate 2-months' strike will result in the equivalent loss of a week's business to the food industry. Perhaps the depletion or reduction in household inventories of foods may act as a stimulating factor in the months ahead."

"Profits in 1950 should compare favorably with profits of 1949. We look for a better turn-over on a lower price bracket."

Mining and quarrying: Losses from strikes

"Permanent losses have occurred in the amount of idle expense we have had during the recent strikes. We are producers of iron ore and while the iron ore is not being mined the expense of maintaining our organization remains sizable. Furthermore, the crews on some of the Great Lakes boats have been maintained, although most of these are now dismissed because little more ore will be carried this season. The pay which is given these crew men does not represent pay for any productive work."

Paper and products: Budgeted profits remain stable

"Since paper is a nondurable item, sales losses occasioned by the current strikes are unquestionably permanent losses. We have experienced some such losses in the Pittsburgh area and in the Duluth-Minneapolis area, but the extent has been slight up to the present time. We do not believe that it will exceed more than 2 or 3 days' production."

"Our budgeted profit for the 1950 fiscal year is expected to show a slight increase over 1949. More efficiency in manufacturing, increased volume, lower material cost, and better control of general expenses should achieve this."

"Since the buyers of our products are likely to enter 1950 with low or normal inventories, we expect new orders to exceed those of 1949 by perhaps 10 percent."

"Our budgeted profits for 1950 will probably show approximately what we budgeted for 1949, but until the full effect of the devaluation of currencies (which affects the paper industry in a major manner) is finally determined, it is going to be difficult to make a good prediction. Much of the raw material in the paper industry which is imported has not as yet reflected the full impact of the devaluation, so that forecasts on profits may be inaccurate."

Petroleum and products: Some losses due to strikes

"Inventories are planned on the basis of predicted sales and production for a period 12 months in advance. Consideration is given to the seasonal nature of demand and to both production and storage capacities. Programs are in effect at all times to maintain inventories at scheduled or desired levels. In 1950 there will be no trend in our inventories other than perhaps a small increase in some individual stocks at the peak of seasonal accumulation ahead of the period of peak monthly demand."

"The manufacturing and marketing of petroleum products does not conform to the general pattern of industry wherein orders are placed well in advance for specified quantities and delivery dates. The bulk of petroleum products is sold and delivered as needed at the then current prices."

"We believe that we have suffered permanent losses due to the recent strikes. Our principal loss has been reflected in a lower consumption of motor fuel. However, the lack of funds to spend has no doubt contributed to a drop in the amount of total sales of all products marketed by us. It is not possible for us to express these changes in terms of weeks of normal production or sales."

Rubber and products: Profits may take downturn

"As for general business in 1950, the question in my mind is whether Government spending will pick up the slack caused by the plant expansion slump. Large corporations have finished their plant expansion, which was in force in 1946–47 and 1948, and now industry in general must depend upon a more normal pattern of Nation-wide consumption."

"There is a probability that profits for 1950 will be lower than those for 1949. This would be partly due to increased production capacity, which has sharpened competition, and partly to increased costs which cannot be made up in increased prices."

Textiles and products: Increase in business predicted

"A year ago our industry was in about an even position; today our industry, on the average, is sold ahead some 10 to 12 weeks."

"During the year 1949 we will show a moderate loss in operations. We do not expect at this time that 1950 will be much of an improvement over 1949."

"In the textile industry, sales to consumers which are lost are usually a permanent loss. There has been some reduction in sales in the communities affected by the recent strikes. The retail buyers generally have adopted a cautious buying attitude. We would guess that the strikes have resulted in a loss of at least a week of sales throughout the industry."

"The textile industry went through the wringer the first 6 months of 1949. There has been substantial improvement in the last 6 months. We expect business to be as good during 1950 as in the last half of 1949. Sales and production should be considerably higher during 1950. We would guess that the industry curtailment in the first half of 1949 was the equivalent of 8 weeks' production, at least half of which will be made up next year."

"Our present feeling is that the current strikes will not have a material effect on industry generally and business will be good next year in terms of the depreciated paper currency. The distribution of the veterans' insurance dividend should offset any current curtailment in purchasing power. The increasing expense by the Government for military aid, contemplated housing expenditures, and other Government deficit financing should maintain employment at a high level. Business activity and national income should not be much different from this year."

"We expect profits for 1950 to be better than those for 1949 and attribute any difference to an increased volume in business and more efficient operation."

SUPPLEMENTAL STATEMENTS

(The following statements were submitted in compliance with an invitation extended by the chairman to each participant in the roundtable to supplement his remarks with a statement for inclusion in the record:)

SUPPLEMENTAL STATEMENT OF SEYMOUR E. HARRIS, PROFESSOR OF ECONOMICS, HARVARD UNIVERSITY

I. THE PHILOSOPHY

Appeasement and reassurance of business are the features of the President's report to the Congress and of the reports of the Council. This is evident in the failure to treat the monopoly problem and even some concessions on the issue of bigness; in the appeals to businessmen to enter Government; and in the unexpected praise for businessmen for having unselfishly supported Government pension programs and for having refrained from cutting wages in the recession of 1949.

A second unexpected line is the repudiation of the maturity or saturation thesis, with concomitant emphasis on the large contributions to be made by private investment. Indeed, the Council even goes so far as to contend that "on the other hand, we do not believe that current and proposed Government programs should be expanded above their contemplated rate merely in order to take up the slack on employment. We should rely upon the recuperative forces at work" (p. 104). A deemphasis of compensatory finance which now has the approval of most economists and increasingly of men of action, is perhaps the most surprising bit in this year's reports.

Yet despite the extreme concessions to business, the documents are essentially Fair Dealish. They call for an ambitious extension of social security (though the President is vague on health insurance) which may cost $25,000,000,000 by the year 1975, or $20,000,000,000, or 7 percent of the expected rise of income; increased outlays on education and housing; resource development related to the gross national product; implementation of point 4; stimulation of consumption and thus the assurance of purchases of the goods produced under full employment and a highly productive economy; the gains of progress to be absorbed largely in rising incomes.

II. SOME CONTRIBUTIONS

1. Housing construction in 1949 (a record year) relative to 1920–29 had increased only about three quarters as much as industrial production and total consumption (p. 91).

2. The Council made an excellent case for the adequacy of business funds (and hence, by implication, one against the thesis of the fatal effects of current taxes): Despite a fall of corporate profits of $4,500,000,000 in 1949, the reduced costs of replacement of inventories left more money available for internal use and dividends than in 1948. With the needs for customer credits and inventories greatly reduced in a stable economy ($13,000,000,000 average in 1946–48 and perhaps $3,000,000,000 or $4,000,000,000 in a stable economy), business requires smaller outlays. Again, in 1946–48 corporations were able to reinvest 62 percent of their profits after taxes, as compared with 31 percent in 1929 and 41 percent in the 3 years before the war. Finally debt in 1948, relative to income after taxes, was one-half or less than in 1929 or 1939–41 (pp. 38–39, 51, 88–90).

3. Danger of small changes is a point heavily stressed. "* * * that domestic and world affairs do not permit even those deviations from maximum employment and production which were considered normal or tolerable in earlier times. * * * The economic loss is accompanied by an aggravation of social tensions. It creates major fiscal problems as revenues decline at any given level of tax rates, thus disrupting long-range fiscal problems as revenues decline at any given level of tax rates. * * * It produces international repercussions by reducing our imports * * *" (p. 74).

III. CRITICISMS

1. *Advance without stagnation?*—It has been said that the 1950 reports have captured from the Republicans the theme of a growing economy without fears of stagnation. This is not exactly correct. An expanding economy is part of the Keynesian position; but in the thirties and even today, the Keynesian questions the probability of achieving a growing economy without serious set-backs in the absence of a greater degree of Government participation. The Republican position may well be growth without Government aid; the Democratic growth with Government aid. Keynesian economics, upon which both the Roosevelt and Truman administrations have built, did not stress structural maladjustments, as the Council claims; but actually emphasized the need of increased responsibilities for Government in periods of stagnation, and more spending and less taxes in depression and vice versa in prosperity. It is unfortunate that the Council repudiates, to some extent, these Keynesian principles.

2. *Related is the history of 1949.*—Much is said about the miracle of a minor decline following a major advance. But the main emphasis should be upon the change over from a $7,000,000,000 surplus in 1948 to a $3,000,000,000 deficit in 1949. More than anything else, this held the decline in check. It almost offset a reduction in funds absorbed by business of $9,000,000,000 and a rise of personal savings of $2,500,000,000.

3. *International finance.*—Here the President and Council urge support for point 4 and guarantee of private loans. But this is not enough. At present the Government provides about $6,000,000,000 yearly for foreign aid. It is imperative to keep these outlays up in order to solve our problem of demand and of the dollar scarcity, the latter with its political and military overtones, and to help the underdeveloped areas. A reasonable solution might be a reduction of ERP funds to $1,000,000,000 to $2,000,000,000 annually after 1952 and the remainder (say, $4,000,000,000) for the underdeveloped areas. In this manner, incomes in these areas would rise and they would provide markets for European and American exports. Thus we shall be saved a collapse of export industries, and western Europe will obtain needed dollars from the proceeds of loans to underdeveloped areas or from the latter's sales to the dollar areas. We shall, also, thus obtain increased supplies of raw materials badly needed.

In the absence of a foreign-aid program and also with private investment reduced to almost 12 percent of gross national product (GNP), a normal rate of growth would require an expansion of consumption by 50 percent within 10 years, or 78 percent of GNP, a percentage much higher than would likely be achieved at a high-employment economy. (This is about 10 percent above the present level.) Hence the termination of foreign aid, in a nonwar economy (with current public expenditures), would likely bring much unemployment. The gains of these outlays in terms of reduced political tensions and military expenditures should not be minimized.

4. *Social security.*—The program is ambitious, though if incomes rise, as in the past, no serious problems should arise. The Council, however, underemphasizes the importance of financial arrangements. It is not merely a question of deciding what proportion of resources we want to use for this purpose as the Council claims. How it is financed (e. g., the extent of accumulation of reserves, or the recourse to general versus pay-roll taxes) will to some extent determine the resources made available. The Council might also have emphasized the transfer (and hence limited burden) aspects of these taxes, the sharing of the burden by workers and employers, and also the possibility of adjusting benefits with changing economic conditions—the last is easier for health, unemployment, and assistance than for old-age and survivors insurance. That is to say, the commitments are not all binding for the next 25 years.

5. *Health insurance.*—Here the administration definitely seems to have retracted. It would be too bad if the program were limited, say, to Senator Douglas' catastrophic illnesses. One advantage of health insurance is to make more resources available for medicine and also to encourage the public to use their medical facilities. Restrictions to coverage of casatrophic illness alone would reduce coverage too much. On the other hand, it may well be appropriate to restrict services according to the physical facilities and personnel available. The 1948 administration measures limited services to some extent; perhaps in the early years they might be curtailed somewhat more.

6. *The public debt.*—Both the President and the Council want to repay debt. It is unfortunate, however, that they do not stress the relation of the debt charge and the size of the economy, and do not relate repayments to economic

conditions. Why, for example, is it necessary to pay off the $250,000,000,000 debt if, as the President suggests, we are heading toward a national income of $900,000,000,000 by the year 2000? The annual charge would be but half of 1 percent of our income (2½ percent now); and even if the debt rose by $10,000,000,000 yearly, the charge would only be about 1½ percent of the national income.

In summary, the reports of the President and the Council are in the new tradition; but the 1949 documents reflect a tendency to lean less on Government and more on business, and to emphasize the growth potential rather than the possibility of deficiency of demand. Unusual economic conditions since 1940 seem to have induced too much optimism in the Council and to some extent to have impaired their historial perspective.

Suppemental Statement by Arthur Smithies, Harvard University

In my oral testimony I distinguished between the administrative and the financial aspects of the budget. I want here to supplement what I had to say on its financial aspects.

From the financial point of view the total cash transactions of the Government with the public are far more significant than the expenditures and receipts items that happen to be included in the regular budget—particularly since the latter excludes the receipts and payments of the trust accounts and includes certain purely intergovernmental financial transactions.

In considering the question of the national debt, we want to know the changes in the Federal Government's indebtedness to the public and, therefore, to exclude changes in the Government security holdings of Government agencies. The surplus or deficit arising from the cash transactions of the Government with the public will, therefore, give the significant change in the national debt.

While the President estimates a deficit of $5,100,000,000 in the regular budget, he estimates a deficit only of $2,700,000,000 in the cash budget, and a corresponding increase in indebtedness to the public.

The Committee for Economic Development, in its statement of January 8, 1950, has argued that the President's revenue estimate is too low by about $1,000,000,000 since it does not take into account the fact that normal growth of the economy can be expected to increase the yield of the tax system even though the degree of prosperity or depression remains the same. With this revision the estimated cash deficit is reduced to $1,700,000,000.

For some years now the CED has conducted a very useful campaign for use of the cash budget in discussion of the country's finances. The Council of Economic Advisers uses the cash budget in its own reports. It would avoid confusion in public discussion if the budget itself high-lighted the expected cash position of the Government. This would not in any way preclude retention of the regular budget concept for administrative purposes.

JANUARY 1950 ECONOMIC REPORT OF THE PRESIDENT

FRIDAY, JANUARY 20, 1950

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

The joint committee met, pursuant to adjournment, at 10 a. m., in room 318, Senate Office Building, Senator Joseph C. O'Mahoney (chairman) presiding.

Present: Senators O'Mahoney (chairman), Taft, and Watkins; and Representative Rich.

Also present: Theodore J. Kreps, staff director; Grover W. Ensley, associate staff director; and Fred E. Berquist, economist for the minority, Joint Committee on the Economic Report. Dr. Persia Campbell, department of economics, Queens College; Roger Fleming, secretary-treasurer, American Farm Bureau Federation; Marion B. Folsom, chairman of research and policy committee, CED (treasurer, Eastman Kodak Co.); Everett M. Kassalow, executive secretary, CIO Full Employment Committee; Forrest Keller, assistant manager, economic research department, Chamber of Commerce of the United States; Lane Kirkland and Margaret Scattergood, members of research staff, A. F. of L.; Miles Pennybacker, president, New Council of American Business, Inc.; J. F. Sanders, legislative counsel, the National Grange; Russell Smith, legislative secretary, National Farmers Union; Colston Warne, (president, Consumers' Union of the United States), Amherst College.

The CHAIRMAN. The session of the committee this morning is to be devoted to a round-table discussion of the report—its appraisal and the recommendations for policy which it contains. Those who participate are, of course, at liberty to make any suggestions of policy they care to, regardless of the contents of the economic report.

In preparing for this session the committee extended a very broad invitation to leaders in every phase of business and labor activity. Among those invited who were not able to attend are Mr. Earl Bunting, managing director of the National Association of Manufacturers; Mr. Henry L. Miller, chairman of the Small Business Advisory Committee of the Department of Commerce; Mr. Frank Bane, executive director of the Council of State Governments; and Mr. M. B. Phillipps, executive director, Municipal Finance Officers Association.

Now, beginning at the left of the table, I shall ask our participants to rise and identify themselves so that the reporter will be able more easily to follow the discussion.

Miss CAMPBELL. Persia Campbell, department of economics, Queens College, Flushing, N. Y.

Mr. FLEMING. Roger Fleming, secretary treasurer, American Farm Bureau Federation.

Mr. FOLSOM. Marion B. Folsom, chairman of research and policy committee, CED (treasurer, Eastman Kodak Co.).

Mr. KASSALOW. Everett M. Kassalow, executive-secretary, CIO Full Employment Committee.

Mr. KELLER. Forrest Keller, assistant manager, Economic Research Department, Chamber of Commerce of the United States.

Mr. SANDERS. J. F. Sanders, legislative counsel, The National Grange.

Miss SCATTERGOOD. Margaret Scattergood, member of the research staff, A. F. of L.

Mr. SMITH. Russell Smith, legislative secretary, National Farmers Union.

Mr. WARNE. Colston Warne, (president, Consumers' Union of the United States), Amherst College, Amherst, Mass.

Mr. KIRKLAND. Lane Kirkland, member of the research staff, A. F. of L.

The CHAIRMAN. Is Mr. Miles Pennybacker here?

Mr. ENSLEY. He was here and has left the room.

The CHAIRMAN. Mr. Pennybacker, who is the president of the New England Council of American Business, will be seated between Mr. Keller and Mr. Sanders. (Mr. Henry L. Miller's statement appears on pp. 278–281.)

Dr. Campbell, I think since you are there at the end of the table, we will have you start this discussion if you will be good enough to do so. We shall try to operate under the 5-minute rule so that everybody will have an opportunity to participate in the presentation.

Perhaps it would be well to begin with the appraisal of the report and then the second time around take up policy. However, you may suit yourself.

Miss CAMPBELL. I should like to emphasize first that I am in complete accord with the purposes for which the Council of Economic Advisers was set up, and to place the greatest importance on its work, in its attempt to see the economy as a whole, to observe its trends, to point out its main objectives in terms of the ultimate satisfactions of consumption. It is very valuable to set up consumption goals that seem reasonably attainable for all within the next 5 years and also the next 50 years if we all cooperate to that end.

I want to emphasize this fundamental agreement because I find myself not in accord with some of the assumptions made in the latest Council report. Perhaps it will be more useful if I give the few minutes available to me to comment on some of these assumptions which seem to me to endanger success in achieving the general objectives of an expanding economy at full employment.

The first assumption to be noted is that, generally speaking, we have now reached a fair and reasonable price level. This is qualified at different points in the report, so I am not sure what "generally speaking" means; for example, the report refers, though in a very limited and guarded way, to certain administered prices that, perhaps, should come down; at another point it mentions steel prices as one area for readjustment downward; it suggests elsewhere that automobile manufacturers ought to go after a lower-income market; in another place it supports without referring to it by name, the Brannan program which involves lower prices at the market for perishable foods.

However, the emphasis is on congratulating ourselves that prices kept relatively steady during the so-called readjustment last year—when retail prices declined only about 3 percent from their post-war high. It is important to keep perspective on the price situation. Chart 5 on page 34 of the Council's Report shows that food prices are still double the pre-war level, apparel over 180 percent, and all items over 170 percent, despite rent control.

In my opinion, this retail-price level is still too high, and what consumers are interested in are retail prices which do not always move along with producer prices. What we need to emphasize is that the function of price is to sell goods. The report throws its support to the argument that in the future increases in productivity should, again "generally speaking," be distributed through income, with perhaps some modification downward in particular prices and some increase in leisure. But this does not take account of our immediate situation which is not quite as encouraging to me as it seems to be to the Council.

Except for the veterans' dividends (which are a temporary windfall), I do not see any great possibility of expanding purchasing power significantly in the near future through large increases in income. Some expansion will have to come through general price adjustment if we are to have sales volume.

I must say, considering the emphasis we are always putting on our competitive economy, it is rather alarming to note the extent to which prices are being held up by all kinds of public and private policies and practices. The report refers to administered prices, but not, I believe, to the whole complex of retail contracts for branded goods under the so-called fair-trade laws; also we have Government-price supports, as distinct from income supports, for farm products.

The report refers, but only in passing, to the high volume of consumer credit in the postwar years as one method of sustaining demand. But consumer credit, which should more properly be referred to as consumer debt, has to be paid back; it does not significantly expand purchasing power, in the long run. What it does is enable consumers to shift their expenditures from one area of consumption to the durable-goods field. It is no answer to the over-all problem of expanding purchasing power, on which the Council's assumptions of progress are based. Consumers have used up much of their large volume of wartime savings; they are increasingly in debt. It seems to me good business judgment, as well as in the interest of the national economy, to go after markets through more competitive pricing.

The CHAIRMAN. How do you propose to get more competitive pricing?

Miss CAMPBELL. Well, sir, I am also professor of marketing, and the textbooks on the subject emphasize that good business managers should set their minds to it and go after sales volume.

The CHAIRMAN. Do you believe that good business managers follow the textbooks?

Miss CAMPBELL. It might be helpful if they did.

The CHAIRMAN. But do they?

Miss CAMPBELL. I think we must assume that we must have some degree of cooperation if we are to have full production at high employment levels.

The CHAIRMAN. Then your suggestion with respect to lower prices to expand the economy by expanding purchasing power is based upon a hope that good business managers will of their own voluntary action reduce prices?

Miss CAMPBELL. No, sir; not only that. I would venture to repeal legislation that underlies many of these price policies and practices. For instance, the fair-trade-law situation—administered prices—can be affected by Government action. I would favor farm income support rather than farm price supports.

The CHAIRMAN. That means you would support the Brannan plan rather than the price-support plan which we now have; is that right?

Miss CAMPBELL. Yes, sir.

The CHAIRMAN. I wonder if that starts any discussion here.

Mr. Fleming, you are right there within the radius.

Mr. FLEMING. I thought, Mr. Chairman, I would wait until it was my turn to speak. I will comment on it, however, when the time comes, if that is satisfactory.

The CHAIRMAN. Oh, it is quite satisfactory, but I hope that the members of the round table will not hesitate to discuss this matter with one another. We would like very much to be able to sit back and enjoy the counterplay of your own ideas. I think we would profit by it.

Mr. SMITH. May I agree enthusiastically with Dr. Campbell, Mr. Chairman.

The CHAIRMAN. I expected that, Mr. Smith.

Mr. KELLER. How about the agricultural price supports? Do you agree that they should be withdrawn?

Mr. SMITH. I agree they should be replaced by a system of production payments.

Mr. SANDERS. I would like to ask Mr. Smith if he means basic crops as well as perishable crops.

Mr. SMITH. I do.

The CHAIRMAN. Now we have that on the table. Pardon me, Dr. Campbell. Had you finished?

Miss CAMPBELL. Yes.

Mr. RICH. Senator, I think you are right to let these people ask the questions and get the answers from them. We will get more information that way than if we ask the questions.

The CHAIRMAN. We have to get them started.

Mr. RICH. I think that, too. I think we are getting fundamentally the things we are after.

The CHAIRMAN. That is right.

Mr. SANDERS. Senator, before we discuss the Brannan plan, I would like to have an opportunity to present positively our program in that regard, and then I think that discussion would be brought out in the light of the various basic viewpoints of the people around the table.

The CHAIRMAN. Very good, Mr. Sanders, that will be quite all right. Mr. Fleming, this is your opportunity now, sir.

Mr. FLEMING. Thank you. We have a prepared statement here, which I should like to have the privilege of filing, because it is composed largely of quotations from our annual resolutions with regard to three phases of the report—namely, price level stabilization, Federal taxation, and farm price policy—and speak extemporaneously otherwise.

The CHAIRMAN. That is satisfactory. Your statement will be made part of the record.

(The prepared statement submitted by Mr. Fleming is as follows:)

STATEMENT OF ROGER FLEMING, SECRETARY-TREASURER OF THE AMERICAN FARM BUREAU FEDERATION

On behalf of the American Farm Bureau Federation, I want to express my appreciation to Chairman O'Mahoney and the members of the committee for this opportunity to present the views of the 1,409,000 families who are members of this organization, on matters contained in the Economic Report of the President and the Annual Economic Review of the Council of Economic Advisers.

I should like to direct my remarks to three points raised in these two reports: (1) Price level stability, (2) Federal taxation, and (3) Government farm policy.

PRICE-LEVEL STABILITY

On December 1, 1949, Allan Kline, president of the American Farm Bureau Federation, appeared before the Monetary, Credit, and Fiscal Policy Subcommittee of this committee for the purpose of presenting the views of our organization with regard to ways and means of bringing more stability to the general price level. I want to take this opportunity, Chairman O'Mahoney, to commend you for naming a subcommittee to deal with this important subject; and secondly, to compliment Chairman Douglas and his subcommittee for the way in which they approached this important subject. Our viewpoint as to the significance of this area of economic activity is indicated in the following paragraphs contained in our annual resolutions on this subject:

"The American Farm Bureau Federation believes that aggressive steps should be taken in the monetary, credit, and fiscal policy fields in order to add greater stability to the general economy and to the general price level. Since the control of monetary, credit, and fiscal policy rests in the hands of the Federal Government, under the Constitution, the problem is not one of delegating authority to the Federal Government in new areas. It is a matter of reshaping and coordinating policies in a field in which Government policy now largely prevails so that such policies will make a greater contribution to the development of a more stable price level. Monetary, credit, and fiscal policies which affect the general stability of prices are indirect and impersonal as contrasted to the direct and personal controls that are required by specific programs designed to rectify the dislocation and injustices in agriculture resulting from an unstable price level. Greater stability of the general price level offers the only opportunity for greater economic security without programs which require specific and direct controls on each farm or business."

FEDERAL TAXATION

We recognize that there is considerable disagreement with regard to what Federal taxation policies will best contribute to a sound economy. The resolutions committee of the American Farm Bureau Federation and the house of delegates, which includes the duly elected representatives of the member State farm bureaus, gave very serious consideration to this problem at our recent annual meeting, held in Chicago, December 12–15, 1949. I should like to take the privilege of presenting to this committee some of the principal points in our policy on Federal taxation.

"The American Farm Bureau Federation believes that a sound national tax policy is one of the primary essentials to the maintenance of the private enterprise system, which is the foundation of our democracy. Tax sources should be selected not only to bring about a fair and equitable distribution of the tax burden, but also with due regard to their effects on the national economy.

"*Long-range tax policies*

"As a long-time policy, we favor the following principles and urge their adoption as rapidly as conditions will permit.

"Long-range plans should be made for the gradual reduction of the national debt; however, debt retirement should be handled in such a manner as to promote a stable price level and a prosperous economy. This may necessitate adjusting both the amount of revenue and the volume of expenditures of the Federal Government with reference to the level of employment and national income.

"A Federal tax policy should be adopted which will contribute to a more stable price level and to an expanding domestic economy. This means that tax revenues should rise relative to governmental expenditures in inflation, and fall in depression. The maintenance of a stable tax rate would partially accomplish this objective.

"The personal income tax should be the major source of revenue for the Federal Government. The personal income tax base should be kept as broad as practicable, through the retention of low exemptions. All self-supporting persons should make a direct contribution to the support of Government.

"Tax rates should be high enough to balance the budget under normal conditions and allow for gradual reduction of the national debt, and to make possible increased payments on the debt during periods of prosperity. Prompt but temporary reduction of the lower bracket personal income tax rate within certain limits should be made during periods of low business activity. We do not believe that it is a sound tax policy to increase taxes during periods of depression or lower them during periods of prosperity.

"Under present conditions of relatively high national income, the Federal budget should be balanced and substantial payments made on the national debt. We insist that the Federal Government practice enough economies to balance the budget at the present level of national income without an increase in taxes. To this end we urge that all nonessential governmental expenditures be eliminated and all expenditures be reduced to the minimum necessary for the national interest, essential world aid, and an adequate national defense. No Federal expenditure should be exempt from scrutiny by both the legislative and the executive branches of the Government to determine whether it can be reduced or eliminated without impairing an essential governmental function.

"The Federal budget

"Proposals for reorganization of the Government should be given earnest consideration wherever it can clearly be shown that such proposals will result in substantial savings without impairing essential governmental activities.

"Costly new programs should be deferred except where immediate action is essential to the national interest. Now during a period of relatively high employment and scarcities of many essential materials, when record peacetime expenditures are adding to the already heavy Federal debt load, is not the time to add new services which can be deferred."

GOVERNMENT FARM POLICY

With regard to farm policy our voting delegates unanimously adopted the following resolution on "Adjustment programs." (This is a verbatim restatement of that portion of our resolution on "Adjustment programs" down to the heading entitled "Allotments and Quotas." In the interest of conserving space the remainder of the resolution has been omitted from this statement.)

"General prosperity is essential to a successful and prosperous agriculture. At the same time a prosperous and productive agriculture is necessary for general prosperity. The two are interdependent.

"High production per man in the rest of the economy and a high well-distributed real income are of the utmost importance to farmers. These furnish the goods for which farmers trade, and purchasing power to our consumers. High production per man is also of vital importance in securing a high per capita income to farmers. As farmers we have two great jobs to do. One is to earn a reasonable share of the national income through high per capita production on the farm. The other is to get the share which our productive efforts earn.

"A postwar readjustment in prices such as has followed other wars has already brought farm prices down to the parity level for the first time since 1941. As usual, farm costs have failed to decline as rapidly as farm prices.

"General policies

"If we are to maintain a prosperous economy, of which a prosperous agriculture is an integral part, we must, among other things, do the following:

"(1) Work out and make effective methods of bringing greater stability to our general price level;

"(2) Foster policies which will stimulate the maintenance of a full-employment economy; and

"(3) Promote international understanding and international trade on a basis consistent with world peace and prosperity.

"Over the years the American Farm Bureau Federation has developed and sponsored policies designed to attain these broad objectives. We shall continue to do so. Our resolutions on these subjects and, in fact, all of our resolutions are parts of our program to assure American agriculture of its proper place in our national and world economy.

"While the lines of action enumerated above are of utmost importance to permanent agricultural prosperity, we need to supplement them by various programs designed to bring about specific adjustments within agriculture and between agriculture and the rest of the economy. It is these adjustment programs which we ordinarily refer to as the farm program.

"Fundamental principles

"If farm programs are to make the maximum contribution to the development of a sound, prosperous, and well-balanced American economy, they must be developed and carried out on a long-range basis. At the same time, we must continually strive to improve existing programs and be prepared to recommend changes on the basis of experience.

"To endure, farm programs must be developed on a bipartisan basis. They also must be based on sound fundamental principles worthy of support by urban as well as farm people. Farmers cannot hope to maintain any program unless they can demonstrate to other groups that it is sound and in the national interest.

"A fundamental principle of our price-support and production-adjustment programs is the parity concept, which measures a fair-exchange relationship between the price of commodities the farmer sells and the price of the things he buys.

"While farm programs should be directed toward the maintenance of parity, it is not the responsibility of the Government to guarantee profitable prices to any economic group. Instead, we view price supports as an appropriate and necessary protection against unreasonable price declines. If price supports are to be used to guarantee farmers profitable prices rather than as a protection against unreasonable price declines, it follows that the Government will determine what is a fair level of income, both to agriculture and to each and every individual farmer. Eventually this would result in a reduction of the farmer's capacity to earn and to get a fair income.

"Farm income cannot be protected by price-support policies which:

"(1) Cut us out of badly needed export markets or reduce our domestic markets by unduly restricting the use of products or by encouraging the use of substitutes;

"(2) Stimulate unneeded or uneconomic production, thereby forcing ever-increasing Government controls over production and marketing; or

"(3) Result in the accumulation of excessive stocks in the hands of the Government, as such stocks tend to convert price supports into price ceilings and may result in the Government assuming complete control of marketing, processing, and distribution of agricultural commodities.

"Price supports should be flexible. The level of support should be related to farm supplies and market requirements and should be used as one of the important factors in guiding farm production.

"Due consideration should be given to providing sufficient flexibility in acreage adjustment programs to meet changing needs in production and consumption and to provide greater flexibility in adjusting individual production plans so as to facilitate efficient land use and not freeze acreage allotments in rigid historical patterns.

"The utilization of acreage diverted from the production of commodities for which acreage allotments are established presents a problem in the successful operation of a long-range farm program. The effects which such diversion may have upon the producers of other commodities are recognized. On the other hand, it is realized that there are administrative problems involved in controlling the use of such acreage. It is recommended that the board of directors make a study of this problem to determine the most feasible means whereby such diverted acreage may be used in such manner as to prevent adverse influence upon the producers of other commodities.

"A program to upgrade the diet, properly coordinated with existing agricultural programs, should aid in diminishing unmanageable surpluses of certain agricultural commodities and conserve the fertility of our soils. A relatively small increase in the consumption of meat and other animal products, or poultry, generates demand for considerable quantities of grain. In developing such a program, which will likely mean expanded production of livestock and livestock products and expanded consumption of fruits and vegetables, consideration should be given to the producers of other commodities. Programs adopted should supplement the existing agricultural programs designed to stabilize agriculture.

"We urge more aggressive efforts to stimulate increased consumption of agricultural commodities through:

"(1) Research, education, and improvements in production and marketing techniques;

"(2) Reduction in costs of production, processing, and marketing;

"(3) Development of new and expanded outlets for agricultural commodities in domestic and foreign markets;

"(4) Diversion of surpluses into byproduct uses;

"(5) Disposal of surpluses in export markets at competitive world prices, including the use of export payments when necessary;

"(6) Study and use, where practicable, of international commodity agreements; and

"(7) Support of adequate, wisely planned, economically administered programs designed to utilize a maximum of surplus agricultural commodities.

"We recommend the establishment of self-supporting price stabilization programs by the producers of those farm commodities for which such programs are feasible and administratively practical. In establishing such programs, use should be made of such mechanisms as surplus diversion programs, quality control, orderly distribution, and payments through funds contributed by the producers of these commodities.

"*Agricultural Act of 1949*

"Based upon the action of the voting delegates in December 1948, the board of directors of the American Farm Bureau Federation, at its June 1949 meeting, reached unanimous agreement on revisions in the Agricultural Act of 1948 which it was felt would clarify and improve it. This agreement included endorsement of flexible price supports on basic commodities ranging from 75 to 90 percent of parity instead of 72 to 90 percent of parity as actually provided in the Agricultural Act of 1948. It further provided for allowing the total supply of cotton and peanuts to reach 108 percent of normal supply before any adjustment in support levels would become operative. These provisions are included in the Agricultural Act of 1949.

"In three principal respects the Agricultural Act of 1949 differs from the unanimously agreed-to position of the American Farm Bureau Federation board of directors:

"(1) It includes the cost of hired farm labor in the calculation of the parity formula. Historically, the application of this provision would have raised parity during periods of relatively high farm prices and would have lowered it during periods when farmers most needed farm prices raised;

"(2) It provides for a continuation of wartime 90-percent price supports for so-called basic commodities during 1950; and

"(3) It contains a conference committee amendment providing that during the period 1950–53 basic commodities are permitted to use the higher of the old or the modernized parity formula.

"Each of these three changes currently raises materially the level of price support and increases the inflexibility in operation of the act in comparison with the recommendations of the American Farm Bureau Federation. This has important implications inasmuch as we are convinced that the higher the level of price supports, the greater the controls and regimentation.

"However, the Agricultural Act of 1949 was developed and enacted by the Congress on a bipartisan basis; it provides for a permanent-type price-support program. It retains, but postpones full application of, the principles of flexibility and modernized parity which the American Farm Bureau Federation has consistently sought in recommendations for a long-range price-support program. These basic principles are sound and in the best interests of American agriculture and the general welfare.

"We encourage farmers to cooperate with worth-while programs developed under the Agricultural Act of 1949. We urge efficient administration of the act. We intend to be prepared to take the initiative in making any necessary revisions on the basis of our experience after the act has been given a fair trial.

"*The Brannan plan*

"We were shocked at the announcement of the so-called Brannan plan, for there is no basis of such a proposal in the platforms of either major political party. On the contrary, the 1948 platforms of both parties endorsed a permanent farm program including flexible price supports. We aggressively oppose the Brannan plan for the following reasons:

"1. Government payments to farmers are not a desirable substitute for price supports or a satisfactory means of bringing income into agriculture. Farmers are entitled to receive fair prices in the market place. Under the Brannan plan, the farmer's only hope for a fair income would depend upon Government hand-outs from annual appropriations by Congress. We maintain that it is unreasonable to stake the welfare of agriculture upon such a hazardous possibility.

"2. The cost of the program would be staggering. It is a well-known economic fact that the demand for most agricultural products is such that an increase of a given percentage in supply makes a greater than proportionate decrease in price. Farmers do not intend to get themselves into the position of having their entire net income, and probably a part of their actual production costs as well, dependent upon the precarious possibility of annual appropriations from the Federal Treasury. Here is the basis for real regimentation. We do not believe that labor would favor a program under which each worker would work for whatever wage he could get on a free labor market and depend upon the Government to make up the difference between the wage he received and a Government-determined fair wage. Neither do we believe industry would favor operating under comparable system. We are not recommending such a program for industry or labor, and we do not want it for agriculture.

"3. There is no good reason why the Government should pay part of the grocery bill of every citizen. The great bulk of the American people are able to buy agricultural products at prices which will reflect fair market prices to farmers. The nutritional needs of low-income families can be met most effectively by continuing those efforts through which remarkable progress has been made in raising income levels in America.

"4. Per-unit price goals of the plan (including direct payment to farmers) are so high as to make for certainty of continuous and rigid controls over the production, marketing, processing, and distribution of agricultural products, including Government allocation of the right to produce on a per capita basis. The ultimate effect of such a program would be nationalization of agriculture and the distribution system. A plan which promises high per-unit returns (including payments) to farmers and cheap food to consumers with little cost to anyone, actually would result in low farm prices and high food costs when the resulting inefficiencies and the inevitable tax costs are included.

"5. The proposal to place a unit limitation on the amount of farm production eligible for price support would place a ceiling on opportunity in agriculture. This, in turn, would result in penalizing efficiency. Food prices eventually would reflect this inefficiency. Such a limitation would be a dangerous precedent—an opening wedge which eventually would result in Government-supervised and permanent agricultural poverty.

"6. The plan discards the fair-exchange concept of parity, which has been the basis of farm programs since 1933, and substitutes therefor a new and untried concept which conceivably might result in unsatisfactory farm income goals as the dislocations of war recede into the past.

"7. The unusual procedure employed in the creation of this plan and its presentation to the public has had the effect of seriously jeopardizing the bipartisan approach to the development of farm policy in this country."

Mr. Fleming. First of all, Mr. Chairman, I should like to congratulate you for naming a subcommittee to deal with monetary credit and fiscal matters and to compliment the subcommittee for proceeding with dispatch to hold hearings on that important area of economic activity. We think it is very important and we are glad that progress is being made to give proper consideration to that subject.

The Chairman. May I say there were three other subcommittees appointed about at the same time, one to study investment policy, another to study the position of the low-income families, and the other to look into the matter of unemployment.

With respect to the investment committee, I may say that already the results of the hearings of that committee are beginning to show themselves. The Metropolitan Life Insurance Co., through its executive officers, indicated a willingness—as a matter of fact, a desire—to adopt new methods designed to make available the huge savings of the people, which are accumulated in the large institutions, to small business, which has been suffering for lack of funds.

President Lincoln of the Metropolitan here expressed the belief that that subcommittee was opening a new door. That company has now established a division of small business loans, the exact structure of which has not yet been worked out.

In this morning's New York Times I find that the Chase National Bank is following a similar policy. I consider both of these developments, on the part of the insurance companies and on the part of the Chase National Bank, to make these huge reserves of savings available for small business on a participation basis, a very substantial advance toward stimulating business at the local level.

I could not avoid making that reference.

Mr. FLEMING. Thank you, sir. Let me say the reason I mentioned the monetary subcommittee—and I think all are very important—is because, as you know, we have been tremendously interested in this field of activity—i. e., that of attempting to bring more stability into the general price level. Farmers are especially interested in this because their prices go up faster and further and drop faster and further than the general price level.

In regard to a second point, that of Federal taxation, we appereciate the disagreements that exist with regard to how hard we should press in attempting to balance the budget at the present time. I have quoted here in my statement from our resolutions what the duly elected delegates to our national convention think should be done. There is one paragraph which I presume I should read, because it is rather specific.

> Under present conditions of relatively high national income, the Federal budget should be balanced and substantial payments made on the national debt. We insist that the Federal Government practice enough economies to balance the budget at the present level of national income without an increase in taxes.

Let me say we fully appreciate how difficult that is—maybe we do not fully appreciate it, but we at least appreciate it is a very difficult job. Our leaders debated that at some length. They finally decided they wanted to set that out as their objective.

I might say at this time, Mr. Chairman, that we are consistent with regard to our attitude on this thing. At the time the proposed cut was up in the Eightieth Congress we opposed the reduction of taxes at that time because it was a time of relatively high income, and we thought that was the time to collect taxes and to make payments on the national debt so that at a time when we had less economic activity, a smaller national income, we could then follow a policy that would not require us to balance the budget at that time.

We also feel that as hard as we press to balance the budget we still may fall short of our objective. Therefore, we want to make every possible effort.

The CHAIRMAN. Yesterday when that question was under discussion by the economists, I asked one or two of them to express an opinion with respect to which they thought came first: our international policy, for example, which includes fighting the cold war, national defense, international obligations, and so forth, or balancing the budget. One gentleman, who criticized the economic report, said that he would have no difficulty in responding to that question. He said that rather than sacrifice the international policy, the objective of which is to try to establish world peace, he would sacrifice the balanced budget.

Do you care to make any comment on that?

Mr. FLEMING. First of all, we have aggressively supported, as you know, the programs in the international field, including the European recovery program, and we have supported it as a recovery program. We opposed the McClellan amendment to ECA because we thought it inconsistent with recovery. We are not for destroying our capacity to continue to be effective with regard to our international programs.

Now, at the same time we think real economy can be made by cutting nonessential expenditures on the domestic front and in otherwise making economy the watchword. We intend to cooperate with the Congress in taking a look at all appropriations to see where cuts can be made.

So that you do not get the impression that we are not willing to face up to the difficulties, let me hasten to add that in 1948, at a time when we opposed a reduction in taxes, we recommended also that a cut of 20 percent be made in most appropriations to the Department of Agriculture. We were perfectly willing to say that farmers will take the cut along with everybody else. We asked that they make it in other departments of Government, too, but we did not just say cut the programs for other people.

Our board of directors is coming together for 5 days at the end of this month. One of the priority items will be to spell out in more detail ways and means of implementing our statement of policy on balancing the budget.

Mr. RICH. May I ask a question right there, Senator, in reference to the statement he made?

The CHAIRMAN. May I make this comment and then you ask the question. I was going to say that as a member of the Appropriations Committee of the Senate, which handles the agricultural bill, I hope your organization will come up with some specific suggestions as to where the cuts can be made, and I think you will find that the committee will be very glad to make cuts where they can be made.

Mr. RICH. Mr. Fleming, you made the statement that you are in sympathy with the foreign program. Now, with a national deficit this year that is proposed by the Budget Bureau of $5,500,000,000 and for 1951 of $5,100,000,000, are you still in favor of spending the money that has been recommended by the State Department for continuation of this foreign policy to the extent that they have recommended it?

Mr. FLEMING. Sir, we have a statement of policy in the same resolution to which I referred, indicating our support of programs such as the European recovery program. That resolution does not deal with a specific amount that we think necessary to protect the capacity of that program to continue to be effective in serving its original purpose.

Again—and I am not intending to avoid answering your question, sir—the specific figure that we will recommend will be made to the committee of Congress which will hold hearings on that subject. I cannot state until our board meeting at the end of this month what figure the board of directors will agree is necessary to carry out the obvious intent of the resolution. That is as specific an answer as I can give.

Mr. RICH. That is not an answer to the question I asked. I asked whether you were willing to go ahead—you made the statement that you are satisfied with the way they are doing things, notwithstanding the fact that we are not having a balanced budget, and yet you say you are in favor of a balanced budget, and I think we ought to have it, but we cannot do all the things you are advocating without cutting down Government expenses or increasing taxes to carry those things out.

Mr. FLEMING. Our delegates indicated they think the budget can be balanced without any increase in taxes. It is our responsibility, and I am sure our board appreciates it is, to spell out more specifically how that can be achieved consistent with our other policies, which include our continuing support of a workable ECA program. Funds for ECA may need to be reduced substantially, but we want to preserve a program which has in it the capacity to continue to serve the legitimate ends for which ECA was designed.

Mr. RICH. You say you are not in favor of increasing taxes. Then we have either got to reduce our expenditures at home or our expenditures abroad.

Mr. FLEMING. Maybe both.

Mr. RICH. Or both. You have certainly got to do it some place, and I would like to know where you are going to do it.

Miss CAMPBELL. Could I get into this?

The CHAIRMAN. Yes, indeed.

Miss CAMPBELL. This argument seems to overlook the facts and assumptions on which, it seems to me, the Council's report is based. What they are looking for is increasing production. You get larger revenues for the Government if you increase output.

We have tremendous productive possibilities in this country, which we are allowing to go to waste, both human resources and natural resources. It seems to me the argument we have just heard does not take account of our potentialities. What we need to do is get more of everything, which we have the capacity to do, and we ought to go about it in the right way.

Mr. KELLER. You would agree, wouldn't you, that the question of the deficit may have something to do with maximizing our production?

Miss CAMPBELL. It depends on what you do with the deficit and how it comes. I would not say that the original deficit we had with respect to TVA was a deficit in the sense we are discussing. We were creating productivity, and that is what you need to do.

The CHAIRMAN. In other words, expenditures for productive results have your support?

Miss CAMPBELL. It is a very different thing from a hand-out.

Mr. KASSALOW. By and large, as one looks at the budget, the one thing that impresses you is the minimum amount of what you might call emergency spending. I think the Council in some of its reports pointed up the fact that most of these programs are basic long-term programs filling a real social and economic need, and I think anybody who seriously talks about balancing the budget should get concrete. I know I have had this experience before committees, too.

It seems that the budget of this year is attuned to long-term programs and, frankly, there may be some minor economies that can be introduced into it, but the more you examine it, the more irrelevant seems all of this talk about balancing the budget unless you are willing to undercut and undermine the long-term programs, which many people otherwise pay lip service to.

The CHAIRMAN. Mr. Fleming already stated that so far as his organization is concerned, it will make specific recommendations for the elimination of what he calls nonessential expenditures.

Mr. FLEMING. Sir, I said I expected the board of directors to. The board of directors does not necessarily have to follow the suggestions which I will make to them to the effect that there is need for them to be more explicit on this matter.

The CHAIRMAN. I did not mean to imply that. I wonder if the board of directors actually does speak for the rank and file of the membership.

Mr. FLEMING. The gains in membership, Senator, would indicate they are doing pretty well.

Senator WATKINS. May I ask a question?

The CHAIRMAN. Yes.

Senator WATKINS. Where do you get the views of the actual members of the Farm Bureau, as distinguished from the directors and yourself as an executive officer?

Mr. FLEMING. Sir, in every State in which we have an organization—45 of the 48 States—we not only have State annual meetings, but we have county annual meetings, designed specifically for the purpose of finding out what it is the farmers think will best serve their interests and the general welfare with regard to important matters of public policy.

The resolutions from which I quote today were developed and agreed to by the duly elected farmers who were chosen in their respective States to speak in the evolution of the policies which this national organization will support. I have no authority to speak beyond the agreements reached within that delegate body.

Senator WATKINS. What about the meeting of the board of directors? Will they be acting in response to these resolutions or will this be something they will determine on their own individual responsibility?

Mr. FLEMING. Anything they do will have to be within the policies spelled out here in these resolutions. These policies, as you will notice, are fairly specific, and as I get into the discussion of the farm program, which is my third and last point, I think you will agree that they do not leave a lot of discretion to the board of directors. It is spelled out in considerable detail.

Senator WATKINS. I would be very much interested in seeing some of the resolutions of the county and State organizations that support some of the views that you mentioned here. I have not heard them all, so it is not quite fair to judge you by what little I have heard, but I would be very interested.

I happen to be a member of the Farm Bureau and I attended the State convention in my State, and I do not recall some of the things you are talking about now.

Mr. FLEMING. Let me say this. Whenever you reach agreement in a national organization representing 1,409,000 farm families, it is not possible to have unanimous agreement with regard to everything. All we can be sure of is that the procedure by which we evolve the majority opinion is democratic and is capable of making reasonably certain that the will of the majority will be expressed through it.

The CHAIRMAN. May we come back to your original statement.

Mr. FLEMING. I have covered two of the three points. With regard to the third point—namely, Government farm policy—in the statement here is the verbatim resolution adopted by our organization—and this one unanimously by a standing vote—with regard to what we are for in the way of a farm program. Also, how we view alternative proposals and, more particularly, the basis for our conclusion that the Brannan plan is a threat to a sound agriculture and is, therefore, an unsatisfactory farm program. That is all spelled out in my prepared statement.

I should like to comment with regard to a couple of things raised here this morning in the farm policy field. First of all, the Brannan plan is not an income-support plan. It merely uses income as a means of arriving at individual prices. It is still a price plan. It is still geared so that if you do not have much to sell, you do not get much income. It is only a technique for arriving at price. It is not an income plan. To call it that is a misnomer. It is merely an income approach, income formula, to arrive at price, and it has essentially the same weaknesses that any price plan has.

Second, mention has been made here with regard to everyone's interest in productivity. I want to say for the record that farmers have proved over the years by actions—and they speak far louder than words—that they are not only interested in productivity, they are willing to practice it. One of the problems we have in agriculture now—and the Council's report points it up very well—is the problem with regard to surpluses already apparent in cotton, wheat, and several other farm commodities. There is no question about our productivity there, and if one looks at commodity prices and the drops which have already taken place in them in response to productivity, it is clear that farmers are not one of those groups not interested in practicing full production.

Now, I should like to make one other comment with regard to how we view the Brannan plan. Our seven objections to it are spelled out in detail in this statement. There are folks who think the Brannan plan can be accurately described by the term "production payments." Actually, there was authority for production payments in the Agricultural Act of 1948.

The suggestion that so-called production payments be used is not the distinguishing feature of the Brannan plan. The Brannan plan does not have any separate integrity in itself unless you combine its high level of supports with production payments. It is a Government price-fixing program. It is a program which, in our judgment, will not only jeopardize the capacity of farmers to earn and to get a high income, but it would also result, by virtue of the high, fixed level of supports, in a degree of Government regimentation and control that would seriously reduce the freedom and independence of farmers.

There are people who think there is cheap food in the Brannan plan. There is no cheap food in it, and a lot of consumers, in my judgment, are starting to realize there is no cheap food in it. When they find out the truth in regard to how such a plan would operate, I am sure that any enthusiasm they might have had will very rapidly subside.

The CHAIRMAN. Now we have heard from a spokesman for the consumers and from a spokesman for agriculture, with one or two interjections on the side. We will now hear from a spokesman for business.

Mr. SMITH. Perhaps, Senator, it would be appropriate for me at this point to interject just briefly a comment on Mr. Fleming's statement.

The CHAIRMAN. Very good.

Mr. SMITH. We may not get back to the Brannan plan. I would like to disagree enthusiastically with Mr. Fleming. The distinguishing characteristic of the Brannan plan is not the characteristic that Mr. Fleming pointed out, but it is its income feature. The basis of the Brannan plan is really its promise of a stable income for agriculture as a whole, not to the individual farmer, of course, but so far as giving a firm purchasing power to a segment of the economy is concerned, it is an income plan, and that, I think, is what Dr. Campbell was talking about.

Furthermore, as I said before, I think the production payment system should be extended to basic commodities, to storables, and I think, too, that the price mechanism used under such a system would operate both to allocate agricultural products efficiently and to keep prices lower than they otherwise would be to consumers.

Thank you.

Mr. SANDERS. Mr. Chairman, I cannot resist putting a point in myself now. I agree with Mr. Fleming fully that the Brannan plan is not a plan that would stabilize farm income. It is not in reality based on income. It simply uses income first to calculate the basis for calculating individual prices, and if it supports those prices, regardless of the quantity that farmers produce at a rigid price, it will not only not stabilize income, but it will "unstabilize" it.

The CHAIRMAN. Now we will hear from the business spokesman, Mr. Folsom.

Mr. FOLSOM. I am representing the Research and Policy Committee of the Committee on Economic Development. On the whole, the 1950 outlook contained in the economic report seems to me reasonable. I think the general business impression is that business will probably be good for the next 6 months. Nobody seems to want to guess beyond the first 6 months. Some say it will be better, some say it will be worse, but it is very difficult to forecast beyond 6 months.

As I see it, the Council says there is no firm basis for expecting any radical change in business activity, either up or down. I think that is reasonable, but I do not think we should put too much significance on a forecast. We have taken the position in CED that a forecast of business conditions is a pretty weak reed on which to rest any measure of public policy.

In my opinion, the legislative recommendations contained in the report, except for taxes, have little relation to the forecast for 1950. The main impact of these recommendations would come after 1950. We should analyze these recommendations in terms of long-term objectives. What we need and what is lacking in this report is a positive program for stabilization to prevent these ups and downs of business. We think that the main reliance should be on fiscal and monetary measures along the lines suggested by the monetary credit and fiscal policies subcommittee headed by Senator Douglas.

The President has called attention to the prospects for long-run growth of the economy if we continue the average rate of progress we have achieved in the past. It seems to me obvious that as the national income grows we shall want to use some part of the increase to provide more services and benefits through the Government. It seems equally obvious that if Government expenditures rise too rapidly, the high tax rates required will retard the growth of the economy. What we have to ask about the President's proposals is not only whether they would be good ways to use a growing national income, but also whether we can reasonably expect the continued rapid growth of the national income if his proposals are followed. I do not think it is safe to base our fiscal policy on the assumption that we will continue the average rate of increase in productivity we have had in the past. I believe incentives are important in this regard and we have fewer incentives than we used to have.

The CHAIRMAN. Do you mean by that to indicate a belief that productivity will decline?

Mr. FOLSOM. We all hope it will continue to increase and that the rate will continue as it has in the past, but we do not think you are very safe in assuming that, in adopting fiscal policy, because the factors are different now. We do know since this war we have not had the increase in productivity we had after the First World War.

The CHAIRMAN. You do agree, I take it, that an increase of productivity would be highly desirable.

Mr. FOLSOM. We ought to try our best to achieve it, but I do not think we should assume it will be done.

The CHAIRMAN. If productivity is desirable and we cannot assume that it will increase by self-generating factors, does that lead to the conclusion that some positive program should be undertaken to stimulate it?

Mr. FOLSOM. Yes; we have a definite program we will suggest. In other words, we do not want to base fiscal policy on the assumption that productivity will continue on as it has in the past.

Much attention is given in the report to the importance of business investment, but there are few specific proposals for bringing about this increased investment. We have some proposals which I can submit later on.

Now, I would like to comment briefly on these specific proposals summarized in the President's economic report.

First is the matter of taxes. The Research and Policy Committee of CED issued a statement on taxes 2 weeks ago. While the President is recommending a tax increase, we recommend a tax decrease. We believe that tax reform and tax reduction in 1950 will be consistent with sound fiscal policy if we follow a course of economy and restraint in Government expenditures. In our statement we list specific items, specific reductions, which we think are feasible. I have a copy of that statement I can present to you, listing various proposals where we think we can reduce expenditures.

The CHAIRMAN. I notice in your statement, that is, tax and expenditure policy for 1950, to which I think you are referring——

Mr. FOLSOM. Yes.

The CHAIRMAN. On page 9 there is this paragraph:

> We have emphasized the need for tax reform and tax reduction. We should also emphasize the need for adequate taxes.

Now, somewhere or other we have to be able to measure the standards or establish the standards by which we shall obtain tax reduction or adequate tax revenue. That, of course, is the whole problem; is it not?

Mr. FOLSOM. I will be glad to go into that in more detail later, if you want, on the report on tax policy.

The CHAIRMAN. All right.

Mr. FOLSOM. I would like to repeat we think tax reform and tax reduction are the most important steps Government can now take to promote increased productivity.

Coming to the housing program. I do not understand this proposed program for the middle-income families.

Speaking for myself, I see no reason why we should subsidize or underwrite middle-income families either in general or specifically with regard to housing.

We would certainly be better off if private industry could do this job. We are making pretty good progress already in providing homes for the large group of people in the middle-income families. I think we ought to wait to see if private industry cannot take care of this before we go into another program of subsidies.

Mr. KASSALOW. May I say something there?

The CHAIRMAN. Mr. Kassalow.

Mr. KASSALOW. In the first place, Senator, as we see the situation, I think the Council report shows even at the high level of 1949 that residential construction was not beginning to meet the real need for homes for the American people. If you plot the growth, for example, in residential construction as against growth in the national output and take it back to the twenties, you will find very little progress made in spite of the fact that the population has expanded considerably.

Moreover, as we understand the legislation, it would not involve subsidies, except that in the program the Government might guarantee or give other assurance to begin with.

If the middle income housing proposal can be said to involve subsidy, I would say the whole structure of FHA is a kind of a gigantic subsidy for the support of banking institutions in housing. We feel very strongly on this issue, and feel the Council's report and the President's recommendations make a real step forward in meeting the housing problem and also offer the possibility of adding a stabilization factor in the whole of our economy.

Mr. FOLSOM. As I said, I have not studied this particular proposal, but I think private industry has done a good job in the past in the housing field.

When it comes to RFC loans, I do not think that expanding the power of the RFC is a constructive approach to the financial problems of private business, including small business. Tax reform would make a fundamental contribution, without endangering the private character of the business we are trying to assist.

In addition CED has suggested that consideration be given to the establishment of private capital banks that would serve the purpose at which the proposed RFC program is aimed.

Farm prices. Of course, the CED has not studied this whole agricultural program, but is studying it and expects to issue a report on agricultural policy sometime soon.

Since the President's program is stated in very general language, too, I have no comment on it except to say we in CED do not like the spread of direct controls. Neither do we like any plan which involves substantial subsidies in a period of high business activity and high employment.

The fifth item—Columbia Valley and St. Lawrence seaway.

We recognize the Federal Government has a continuing responsibility to develop our national resources and, therefore, in projects of the kind represented by these two. We are not familiar with the details of these two particular projects. We do think these projects are part of the whole general public-works program, and we do not like the idea of going into any public-works program now unless it is absolutely necessary. Those are some of the items that can be postponed and can be used to help bring about a balance in our budget.

We are also very much afraid we are going to make the same mistake we have made in the past, to permit public-works expenditures to parallel private expenditures.

I remember the Colmer committee in 1943 made an exhaustive report on public works to be used in stabilization of private industry. We find in the past that private and public works have gone up together and down together. We think every effort ought to be made now to hold back any of these public-works projects that we possibly can so that when private construction begins to slack off they can begin to be used together.

The CHAIRMAN. How would you identify those which can be postponed and those which cannot? It is implied in your statement that we should postpone any that we possibly can but that there are some which cannot and should not be postponed.

Mr. FOLSOM. The Colmer committee proposed that the whole thing be brought together in one agency. In the first place start to stabilize Federal public works and work through States and municipalities, and have one agency to study and coordinate those in general.

There is no question but that new school expenditures and highway expenditures will have to be made. Some of the long-range projects can take their turn.

This is doubly important because of the tremendous expenditures we are making in the cold war. A lot of these things could be justified, but we have got to take into account the tremendous expenditures we are having to make in the European aid and things of that sort.

Mr. KREPS. You are not trying to give the impression, are you, they are trying to start the planning of these projects now?

In your estimation, when should you start planning for the work which you want to turn on in a period of depression? Do you think you can do that, say, after unemployment has reached 5,000,000 and then say, "Two weeks from today we start our projects," or do you think a certain amount of time is necessary? And do you think that the sum total appropriation here of less than $10,000,000 is a substantial reduction in the Federal expenditures?

Mr. FOLSOM. I am thoroughly in accord with the idea, as the Colmer report recommends, that we hold ourself in readiness by planning public works ahead of time.

I would not be against formulating the plans and getting everything all ready.

I was using this as an illustration of public-works expenditures in general and not by those particular items. I have not studied those particular items.

Mr. KREPS. This merely asks that they authorize the St. Lawrence seaway and the power projects.

Mr. FOLSOM. Of course, authorizing a project means you are going to incur the expense some time.

Mr. KREPS. That is right.

Mr. FOLSOM. You have to study it very carefully beforehand.

Mr. KREPS. That is right. And what this means would be that plans would be laid, and possibly specifications, so that when the period of emergency comes, the kind of compensatory public spending you had in mind might be undertaken with a certain degree of dispatch and economy.

Mr. FOLSOM. I would have no objection to preparing the plans once you approve the project.

Mr. KREPS. Then, as I take it, you do not object to the legislative recommendation of the President?

Mr. FOLSOM. That would not mean that I favor those particular projects. I have not studied those and would not know.

Mr. KREPS. Then your objection is really to the projects. Do you feel that some other projects should have priority over these?

Mr. FOLSOM. I have not studied these and do not wish to comment on them as against others. We should start the necessary ones first, and get the plans ready for those which are unnecessary when private industry falls off.

Mr. KREPS. Then you would agree that a certain amount of public expenditure at this level, a modest amount for planning for what type of work might economically be undertaken, is advisable?

Mr. FOLSOM. Yes, I would. I was talking about active expenditures on public works now and not planning.

Mr. RICH. Will the gentleman yield?

I know that a number of post offices are expected to be built just because the Post Office Department wants to spend a certain amount of money to build post offices. They are in locations where they have good facilities now. They do not have to have new post offices to take care of their needs, but they are going to build them just because they say the amount of postage sold warrants the building of new offices.

Would you build a post office in a town just for that reason?

Mr. FOLSOM. That is the type of public works I think we can cut back.

Mr. RICH. I do, too.

Mr. FOLSOM. We think you can cut about half a billion dollars out of the President's budget by holding back public works. We think it is feasible and reasonable to cut off and save that much.

The next item on the list is "Health and education."

Senator WATKINS. May I ask a question there?

Mr. FOLSOM. Yes.

Senator WATKINS. Some of those public works may be planned, undertaken, for the very purpose of strengthening the United States, which would be just as effective as anything we are doing in the cold war outside of the United States. Would you then be in favor of cutting those down?

Mr. FOLSOM. No; if you can show it is necessary for the national security, I would not. There is the question of someone deciding which one should have priority.

Senator WATKINS. You say there are no agencies in the Government now to determine that question?

Mr. FOLSOM. There are agencies, but not one coordinating agency to bring all these together.

Senator WATKINS. What about Congress? Congress is supposed to determine the policy, is it not, on those matters, not some other agency?

Mr. FOLSOM. It would be very helpful to have the agency give you some more advice on the subject.

Mr. RICH. I have seen nothing accomplished, especially at a time like this, along the lines recommended, but otherwise.

Mr. FOLSOM. I would not want to pass judgment on what Congress does.

Mr. RICH. You should not be any more fearful of saying something that might interfere with what some Congressman wants to do than you should with what some organization back in your own community wants to do, so long as it is the truth.

Mr. FOLSOM. I have not any fear of that.

Mr. RICH. I do not think we are infallible at all.

Mr. FOLSOM. I do not think I have said anything to indicate that.

The CHAIRMAN. That is sort of a backhanded statement that we are not infallible.

Senator WATKINS. At least we are chosen by the people back home and they send us down here.

Mr. FOLSOM. I may say I served for 2½ years as staff director of the House Postwar Policy Committee. And I have told a number of people that since then I have a much higher respect and much higher regard for Congress, in general, than I did when I came here.

Senator WATKINS. The truth of the matter is, whoever they send down here is the will of the people. At least we think it is, and whenever we reflect too much on Congress, we are reflecting on the judgment of the people who send us here.

Now I would like to get back to the matter of the cut in public-works projects. Do you have in mind cutting off reclamation projects which develop power and provide acreage which increases productivity?

Mr. FOLSOM. I think each one has to stand on its own feet. We are spending a lot of money on the project, and if put on a per-acre basis it is very expensive. That is outside of my field.

Senator WATKINS. As a matter of fact, all you are doing is speculating a little that there may possibly be some of these public-works projects in the heavy-construction field that could be eliminated for the time being.

Mr. FOLSOM. We say we want to do everything we can to hold back on public works at a time like this.

Senator WATKINS. What I want to point out to you is that many of those projects are the very type and kind that increase the strength of the United States in meeting the cold war or any other kind of war.

Mr. FOLSOM. If they can be narrowed down to that.

Senator WATKINS. It is a matter of security largely. For example, the productivity of the giant projects we have out West.

Mr. FOLSOM. Of course, we have to give way somewhere on this. We cannot expect to spend all the money we have for foreign aid and defense and a number of these projects.

Senator WATKINS. I agree 100 percent on that. I have my own idea where the cut ought to be made. Maybe where I believe the cut should be made is not the right place.

Mr. FOLSOM. From the studies we made, we arrived at the conclusion you could save about a half a billion dollars on public works.

Senator WATKINS. In order to make up that estimate, I suppose you had to have some individual items to make it up. Do you have those items?

Mr. FOLSOM. I might be able to get them for you. We could not go into individual items.

Senator WATKINS. I would be interested to see what your thinking would be on individual items that ought to be cut out to make that up.

The CHAIRMAN. In order that this discussion, so far as it relates to the budget, might be intelligible to those who read the record, let me say that the summary of the budget, as presented to this committee by the Director of the Bureau of the Budget, shows the division of expenditures for objectives in the following manner: National defense, $13,500,000,000; veterans, $6,100,000,000; interest upon the national debt, $5,600,000,000; international, $4,700,000,000; social welfare, health, and security, $2,700,000,000; national resources, which includes reclamation, $2,200,000,000.

That includes flood control, also.

Senator WATKINS. That is in that item, is it, Senator?

The CHAIRMAN. Yes. Agriculture, $2,200,000,000; housing and education, $1,800,000,000; transportation and communications, $1,700,000,000; general government, $1,300,000,000; labor, finance, commerce, and industry, $500,000,000.

That is the division of the expenditures in the 1951 budget as presented to us by the Bureau of the Budget, and it will be noted that the first four items, namely, national defense, veterans, interest upon the public debt, and international obligations account for 71 percent of the total.

Mr. RICH. Every one of those items could be cut down except the interest on the public debt. There is not one of them but what could be trimmed and trimmed hard.

Mr. FOLSOM. We, in our thinking, think we could get a little over $3,000,000,000 out of it.

The next item, on which I will go into more detail later, if you want, is social security.

Our committee, CED, has repeatedly urged extension of coverage and liberalization of benefits in the old-age, survivors and unemployment-insurance systems. We believe these steps should be taken now, and I am in thorough accord with the recommendations made by the advisory committee to the Senate Finance Committee. I was a member of the advisory committee to the Senate Finance Committee which reported in 1948 recommending that the old-age and insurance program be expanded to cover groups not now in, and also benefits to be increased.

We hope some action will be taken by legislation of Congress on that point.

I might say, though, we think it would be a mistake to increase the taxes again as the House bill provides. The House bill provides an increase of tax in the old-age and insurance program to 2 percent January 1, 1951, an increase of half percent on January 1, this year. The present law provides it would increase in 1952, and the House bill provides for that increase to take effect the first of next year.

My position is the same as that of the Advisory Council, namely, that we ought to keep the 1½-percent rate in effect until the outgoing, the expenditures under the system somewhere approach the receipts; then at that time go up to 2 percent, and from that time put the system more or less upon a pay-as-you-go basis.

The CHAIRMAN. Your position, I take it, is that receipts under the present rate of taxation would be sufficient to cover the expansion of the system which you recommend?

Mr. FOLSOM. It will probably take care of it for 5 or 6 years, because this year we will be taking in probably about a billion and a half dollars more than we are paying out, and the benefits are going to increase and will increase rapidly. We think we should wait more or less for a balance before increasing the tax.

As far as the European recovery program, our committee recommends continuation of European recovery program and expenditure slightly below that recommended by the President. The President is recommending cutting down almost a billion dollars and we think that is about as much as you can get out of it.

On the International Trade Organization——

Senator WATKINS. I want to ask a question on the foreign field. What about the spending in the Far East? Do you recommend anything on that? I was told by a Congressman rather late last night about the bill for Korea.

The CHAIRMAN. It was defeated.

Senator WATKINS. I understand it was defeated.

Do you favor expenditures there?

Mr. FOLSOM. We have not taken a position. We think for European Recovery Administration, as a whole there, $3,100,000,000 will be adequate. I think the President recommended $3,250,000,000. We have not gone into specific proposals.

Senator WATKINS. You have not gone into any expenditures in the Far East?

Mr. FOLSOM. No.

Senator WATKINS. That is not within your consideration?

Mr. FOLSOM. We have not gone into that.

When it comes to the International Trade Organization, our committee recommends modification of that charter but with the understanding sections 11 and 12, which relate to international investment, be deleted. We are not in favor of those particular sections.

We are also in general accord on the point 4 program recommended in point 11 of the President's recommendations here, but we think we should rely to an increasing extent on private investment, on private industry, rather than rely too much on Government.

The last item in the President's recommendation has to do with credit controls, and we take no position on these specific proposals, but we feel that recommendations along the line of Senator Douglas' monetary credit and fiscal policies subcommittee, would be the answer rather than any specific measure we can support.

If you would like to have me present more information about the budget and tax situation, I will be glad to do it.

Mr. RICH. Go ahead.

Mr. FOLSOM. These are the main items we think you can save money on in the budget.

We think some reduction can be made in the national defense program. The President recommends an increase of about $600,000,000 in national defense, and we think there should be a reduction of $600,000,000.

We think also there can be a further cut in the expenditures for veterans' readjustment of about a half a billion.

We think reductions in RFC mortgage purchases can be made of about $300,000,000.

Mr. KREPS. Those are Fanny Mays?

Mr. FOLSOM. Yes. And holding back growth of public works by about half a billion dollars.

General administrative economies, based on the Hoover Commission recommendations, and carrying out those recommendations, we think about $300,000,000 there is the least you can get.

There are others, namely holding back some new programs, $600,000,000.

Most of the increase in the present budget is because of the number of new programs—there is a reduction in the number of items, but it is more than offset by the number of new programs. We think you can hold back some of those new programs and save about $600,000,000.

All those items together amount to around 3.4 billion.

Miss CAMPBELL. We still have about three and one-half million unemployed, I think. You say we ought to wait and see about private building. How long are we going to wait and see if we still have that 3½ million?

Mr. FOLSOM. It does not necessarily follow that with the housing program all those people would get employment.

The CED budget policy is based on the principle that in a period of high employment, which would mean about 2½ million people unemployed, we ought to take in through our tax structure enough money to balance the budget and have about $3,000,000,000 surplus. That is in periods of high employment. We now have 3½ million unemployed rather than 2½. According to our policy we should still have about a balanced budget, but not a $3,000,000,000 surplus, when 3½ million are unemployed. If business expands and employment increases, tax revenues would automatically increase and you would build up a surplus.

We say you should have a balanced budget when unemployment is somewhere around 3½ or 4 million. If unemployment is higher, you should have a deficit. You would not be justified in having a deficit at the present level of unemployment.

Mr. ENSLEY. Mr. Folsom, could you indicate whether you were referring to a cash consolidated budget rather than the traditional budget?

Mr. FOLSOM. We are talking about the cash budget and not the administrative budget. We think the cash consolidated budget is the budget we should use in considering tax policy and the effect on the whole economy.

Right now in social-security collections and other trust funds we are collecting about 2½ billion more than we are paying out in social security and other trust funds. And we think that ought to be taken into account in considering the effect of the budget on the whole economy. We are talking about the cash consolidated budget.

Mr. RICH. Do you think those trust funds should be put aside for the intended purpose for which they are collected?

Mr. FOLSOM. The advisory council to the Senate Finance Committee went into that matter very thoroughly, and we came out all agreed—and there were 18 on that committee—unanimously agreed, that the fund is being used in the only way it could be used.

During the earlier years of this contributory old age system you are bound to collect more money than you pay out. The only people who are getting the benefits now are those over 65, and we collect from everybody. So you are bound to have a surplus collection during the early years.

There are three things you can do with that money: You could put aside that $10,000,000,000 in the cash drawer and say, "We are going to keep it there" and not do anything with it, keep it idle. Nobody would suggest you do that.

In the second place, you could invest in investments of private corporations—bonds and stocks. You would not want to do that because sooner or later the Government would be controlling a lot of companies, a lot of industries.

The only way you can handle that fund is to put it in Government securities just like insurance companies and banks and everybody else does. That is the only way to handle the money.

Mr. RICH. What are you going to do if eventually you keep running in the red $5,000,000,000, and after a while you find out you need more to make these social-security payments for which the people have already paid in money, and you don't have it? What are you going to do then?

Mr. FOLSOM. That is why I am in favor of getting on a pay-as-you-go basis. I am afraid if we keep on collecting more than we are paying out that there would be a tendency on the part of Congress to encourage expenditures which would not otherwise be incurred if that money were not there. That has not been true in the past because the big debt has been accumulated because of war effort to a very large extent. I think there would be a danger of that happening in the future. I think if that money is used for other purposes you would be in a position of paying for it twice.

Mr. RICH. What would happen to a banker if money left with him for a trust fund were used by him for the expense of his bank? What would happen to him?

Mr. FOLSOM. I do not think that applies here, because I think if the trustee's trust fund had not been available for these securities, the Treasury would have had to have sold just that many more securities to the general public. So there would be just as many securities outstanding except more would have been in the hands of the public than are now in the hands of the public.

On the other hand, I say from now on there is going to be a danger you might incur other expenditures which otherwise would not be incurred.

Mr. RICH. From now on? Why was it not just as liable to have happened 3 or 4 years ago?

Mr. FOLSOM. Because most of the deficit at that time was due to the war situation.

Mr. RICH. But it is increasing. During the Eightieth Congress we had a credit of $8,000,000,000 in 2 years, and now in the last 2 years we are going to have $10,000,000,000 more in the red. How long can you keep that up?

Mr. FOLSOM. I say if that deficit has been due to excess accumulation, then it is bad. I do not know whether that is true or not. I think there is a danger there, and that is why I want to soon get the system on a pay-as-you-go basis.

The CHAIRMAN. Thank you very much, Mr. Folsom.

In order to get a little distribution we will go to the other end of the table and ask a consumer spokesman, Mr. Colston Warne, to take the ball, and Mr. Russel Smith will follow him, speaking for agriculture.

Mr. WARNE. First, I should like to give my endorsement to the general statement that Dr. Campbell has presented to you, and I would like in my allotted 5 minutes to focus sharply upon a single point. On page 100 of the council's report, the assertion is made:

> There are some prices which are too high to permit continuance for a long period of the current volume of sales. These prices will need to be reduced or production and employment will eventually suffer. These prices are in the field of the administered-price industries where price policy is firmly controlled.

The council concludes in a sanguine spirit—

> that it may be expected that managers in these industries will not fail to reach for the larger market demand which will follow price adjustments.

Consumers Union does not share this optimistic faith and feels that the council made a serious omission in not bringing sharply to the attention of the Congress the dangers of our precarious, dual pricing system. The type of administered pricing to which I specifically refer is that developed through resale price maintenance laws and the Miller-Tydings Act which gives Federal legal sanction to such price-fixing contracts in interstate commerce. We contend that consumers are entitled to intense competition, not only between manufacturers of similar goods but between retailers of identical brands and that the absence of such competition thwarts the purpose of the Employment Act of 1946.

Let me illustrate with a specific case which has recently come to my attention. An appliance dealer could sell an automatic washer at $149 and make a reasonable profit. He wishes to close the deal at that figure. The fair trade price on the article is $199.95. If he sells, he is violating the law in 45 States and is subject to prosecution. If he does not sell, the washing machine remains on his floor. He loses. The consumer loses. The production of the country is thereby retarded.

This type of monopolistic restraint has in recent years grown like a plague, fostered by an organized minority in drugs, photographic supplies, paints, hardware, cosmetics, toilet goods, appliances, notions, glass, silverware, building supplies, books, liquor, stationery, tobacco. It even extends into a few grocery lines. Some 45 States have so-called fair trade acts, which should be redesignated as "unfair trade" acts.

One can appreciate the long-standing desire of many producers and distributors to escape from competition; to develop a feather-bedding practice under which margins are frozen to accommodate high-cost distributors and under which a retailer, not a party to a price maintaining contract is by Federal and State law, prohibited from undercutting prices. We feel, nevertheless, as did the TNEC in its final report, that retail price maintenance is thoroughly unsound in that it—

> tends to undermine the basic tenets of a competitive economy and introduces rigidities into the pricing of certain goods which restrain trade.

Today, production in a number of fields has expanded beyond the demand at price-maintained levels. Such strong pressure is exerted against existing "fair trade" prices that discount houses are springing up in metropolitan areas, frankly violating State laws and unfairly undermining the position of full-price retailers who feel bound by the statute. Numerous subterfuges have been introduced, such as excessive turn-in values, as competitive pressure has become greater. The evil, nevertheless, remains.

Evasion and violation of law, however, seem poor ways to correct the existing situation. While savings from 10 percent to 50 percent may be made by consumers by patronizing discount houses, such "bootlegging" is no substitute for a correction of the fundamental problem. Retailing should be made thoroughly competitive. We would call the attention of your committee to the fact that nearly 60 percent of the price of consumer goods lies in the cost of distribution. This cost cannot be successfully whittled down if the Nation is blanketed by so-called fair trade prices which form a vertical type of price control. Price policies are, under price maintenance laws, left to the unrestrained whim of the owner of a trade-mark, who compels the consumer to pay for a full package of services at an arbitrarily high level, even though he does not desire these services.

Our observation leads to the conclusion that the joint committee might advisedly recommend the repeal of the Miller-Tydings Act by the enactment of the O'Toole bill, H. R. 4003. We believe that Chief Justice Adams, of the Florida Supreme Count, well summed up the effect of price maintenance laws in his recent decision. He stated:

> This statute is, in fact, a price-fixing statute. The power to fix the price is vested in an interested person who is not an official. There is no review of his act. He is required to consult with no one and in no sense is required to take into consideration the cost of the article or the reasonableness thereof.

He concluded:

> The act is arbitrary and unreasonable and violates the right to own and enjoy property; one economic group may not have the sovereign power of the State extended to it and use it to the detriment of other citizens (*Liquor Stores, Inc.* v. *Continental Distilling Corp., 1949*).

Judge Hobson, of the same court, added that the so-called fair trade law—

> is essentially price fixing of the worst character, that is, the fixing of a minimum price floor * * * without a yardstick * * * or any provision for public notice or hearing.

If our national income level by 1954 is to attain the $300,000,000,000 figure suggested by the Council of Economic Advisers, consumer buying power must be enlarged. One useful method of enlarging that buying power certainly appears to be the development of greater retail competition by eliminating the Miller-Tydings Act, which today exempts resale price maintenance from prosecution under the Sherman Act.

The CHAIRMAN. Mr. Smith.

Mr. SMITH. Mr. Chairman, I should like to first pay my respects to the budget, balanced or unbalanced, and then to soar off into the realm of higher theory for a moment.

I also would like to pay tribute to the Committee for Economic Development for the service it has performed in putting forward its proposed budget. It seems to me to cast very revealing lights and shadows on the President's budget.

The CED budget is cast in the so-called cash mold rather than the administrative mold. The President's, as usual, is an administrative budget. If you translate the CED budget into terms of the President's budget, or vice versa, as a matter of fact, under present conditions you get a slight surplus rather than a deficit.

The CED budget, of course, assumes an increase in economic activity for 1950. The President's budget is based on the third quarter of 1949, I think, on the level of activity at that time.

But, in any case, it seems to me that the importance of the budget is not precisely whether it is in balance at a given time, but its size in relation to the national income. It constitutes one-fifth approximately of the national income.

Now, the assumption that we are facing a year of increased economic activity and reduced unemployment seems to me to reflect a sort of a Pollyanna atmosphere which is pervading Government.

If you take the President's state of the Union message, his Economic Report, the report of the Council to the President, and the reports of some of the subcommittees of this committee, you would think that we had abolished all our difficulties. In fact, when I read some of them I am transported back to the year I came to Washington, in 1928, at which time Government had discovered we were on a "permanent plateau of prosperity"; we had abolished depressions. There was going to be a chicken in every pot and two cars in every garage before you knew it—except that October and September 1929 came around.

Now the budget in relation to the problem of cyclical depressions tends to blanket any serious consideration of the difficulties ahead because it constitutes a firm backlog against which the economic tides can beat and not affect anything for a long time. But I think it is a very dangerous policy to assume that we have finally found the way to end cyclical depressions and at the same time to maintain anything like a free enterprise economy.

I do not think we have abolished cyclical depression. I do not think we have done anything except set up a good system for planning.

Now, I sit in a peculiarly advantageous spot to view coming trouble because lots of the locals of the Farmers Union write into me directly about resolutions they have passed. They write personal letters, and so forth. And I am quite sure that the economic impact out in the country right now is one of deflation rather than inflation.

The official Bureau of Agricultural Economics forecast is, I believe, for a 15-percent decline in farm income this year. We will be lucky if it is not more. That decline is not prospective. For many farmers it is real, it exists now.

With that large drop in one of the major stable buying-power elements, I think it is ridiculous to ignore the possibilities of trouble.

The new price-support law does not necessarily cure that. It guarantees high level price support, allegedly, of course, but the necessity for reductions in acreage probably will more than compensate in loss of income for the high prices.

A second disturbing factor is the continuing decline in investment. I was very happy to hear your report, Mr. Chairman, regarding plans of the life-insurance companies and others for a dispersion policy in investment. I hope it works. It never has worked in the past.

But there, it seems to me, is where the Congress must attempt to deal with the investment problem first. That is in dispersion of investment, both among economic units and geographically. And I do not think we have solved the investment problem by simply running a Government budget at this range. I think we have to learn to live with this kind of a budget, and that we also must increase economic activity. I think we must continue to have increasing investment, or at least investment at a continuously high level. And I hope that this committee will not yield to the rosy glow of optimism that seems to pervade the atmosphere.

Thank you.

The CHAIRMAN. Does that mean, Mr. Smith, that you advocate positive steps to provide incentives for the investment of private capital?

Mr. SMITH. That is correct; yes, sir.

The CHAIRMAN. And you recommend that Government should take such steps?

Mr. SMITH. Yes, sir.

The CHAIRMAN. You said that this attempt at dispersion of loans by large institutional reservoirs has not succeeded in the past. It is true that when the RFC undertook to launch a program of participating loans between the RFC and the banks, the local banks taking a given percentage of the loan, it did not work, primarily, I think, because the term of the loans needed by small business was such that local banks' resources were speedily absorbed by a few loans.

Mr. SMITH. Yes.

The CHAIRMAN. The proposal now is being made, I understand—it has not been definitely announced, but it is being made—that in the new system to be undertaken by the insurance companies, a method will be suggested whereby the local bank will take the larger portion of the return during the first year or two, so that the local bank can have a quick turn-over of its capital and the large institutional reservoir will hold the loan for the balance of the time, provided only that the local bank retain a sufficient interest to service the loan.

Mr. SMITH. May I make this comment on that?

The CHAIRMAN. Yes.

Mr. SMITH. Unquestionably that will meet one of the big needs. It is true, however, that it is much easier for a life-insurance company, or any other lender, to make a few big loans. It only has to service them. It does not have to hire additional people, it does not have to set up field offices. The natural gravitation is the other way.

And it is also true that the life-insurance companies, conscious of the criticism they have received, have begun to break down their loans by a peculiar sort of accounting system whereby, if Metropolitan makes a loan to the Union Pacific, for instance—a loan which is made in New York—it is charged up to Omaha, Nebr., or Denver, Colo.

So theroretically they already are making loans all over the country. But the actual repository of the capital, and the profit from the use of that capital, is still in New York City. And that is the kind of thing I am afraid will continue to happen. I hope not.

Mr. KELLER. You mean those who participate in the sharing of these profits are all in New York City?

Mr. SMITH. I do not mean the stockholders; no. I mean that the earning power of that money always yields its fruit in New York City.

Mr. KELLER. You mean that it is channeled through New York. Is that not really what you are saying? If it be true that these are the profits and the profits are shared in the way they are, are not you really saying they are channeled through New York?

Mr. SMITH. No; that is is not what I mean.

Mr. KELLER. It is not the repository in any final sense, is it, unless there are not any profits to be distributed? In which case it is not the repository either.

Mr. SMITH. The dividend is largely a gift left over after the cream has been milked.

Mr. KELLER. You mean the salaries, administrative costs? Is that the part you are objecting to—the loading?

Mr. SMITH. Yes.

Furthermore, the majority of those stockholders are also concentrated in the Northeast in the so-called official-rate territory.

Mr. RICH. You made one statement in reference to assistance to invested capital. Will you give us a couple of specific instances of what you meant?

Mr. SMITH. Of how to aid in getting investment?

Mr. RICH. Yes.

Mr. SMITH. What we should like to do is to set up a competitive Government loan system which, I know, you would not like, Congressman, but that is the only cure we have been able to devise, one which would make actual Government loans for the construction of plant in the underdeveloped parts of the country and make them at rates that would force private capital to get out there or else have it drained off from the centers of concentration.

Mr. RICH. Are you interested in the proposal made by Government officials that we make loans in foreign countries and guarantee these loans?

Mr. SMITH. Yes; under certain conditions.

Mr. RICH. What are the conditions?

Mr. SMITH. I think for one thing that there should be some agreement between the two nations, the sovereign states, both on management and on labor, and some assurances of stability for that investment. There should be a definite program of distribution of the product of that industry. A factory should not be simply set up in the Belgian Congo in the hope that somehow a higher level of civilization will result there.

Mr. RICH. The RFC has made great loans to one or two individual concerns in this country, where the loans had previously been in local banks. Are you interested in having the Federal Government come out and compete with the banking interests to the extent that they take the loans away from the banks and place the great loans in the Federal Government?

Mr. SMITH. Well, the kind of loan I am talking about the banks are not interested in, apparently. At any rate, they do not make them.

Mr. RICH. In other words, you want to take loans that the banker will not take. The banker will take any loan that he believes is sound and economical and that he will get the money back, because he is loaning the money belonging to other people. And he will make the loan if its interest rate is satisfactory.

Now, do you want the Federal Government to go and take loans that no banker would take?

Mr. SMITH. Yes, sir; if those loans were sound from the point of view of Government as the guardian of the welfare of the people, not as a banker.

Mr. RICH. What kind of a standard have you set up on that?

Mr. SMITH. There would be a lot of them, Congressman. I would not say that we have spelled out a long list of qualifications. This is more an idea.

Mr. RICH. Have you got anything in your organization, or do you have anything that you could insert in the record here that would be your idea of the kind of loans you would grant that no banker would take?

Mr. SMITH. Well, they are spelled out as far as they should be spelled out legislatively, I think, in the bill that Senator Sparkman and Senator Murray introduced in the Senate at the beginning of this Congress, and Congressman Patman in the House.

Mr. RICH. I know Congressman Patman, but what he would do and what I would do are as far apart as night and day. I would not do half the things Mr. Patman would do.

Mr. SMITH. I am aware of that.

Mr. RICH. And a banker is entrusted with the funds that belong to others. He is only there as a guardian officer for the protection and the handling of the affairs of other people's money.

Mr. SMITH. I agree with you entirely.

Mr. RICH. When he loans that money he is supposed to see that the money is returned, because it is not his.

Mr. SMITH. That is right; that is why he cannot do this job I am talking about. He would be betraying his own stockholders if he did.

Mr. RICH. He would be betraying the depositors.

Mr. SMITH. And the depositors; yes, sir.

Mr. RICH. And he would be behind the bars very shortly.

Mr. SMITH. That is right.

Mr. RICH. I do not know how far you would go with the Federal Government in that.

Let's take the loans that were made to Kaiser-Frazier. The RFC is loaning about one-third of its loans now to Messrs. Kaiser and Frazer, and the ones that they are interested in. And those loans, a great many of them, were in the banks. Now the RFC has seen fit to take those loans out. There are competitive automobile concerns. Do you think that is the kind of an institution you want to set up, now, so that they will take the loans away from the banks and let the Federal Government operate on that basis?

Mr. SMITH. Congressman, I am not interested in or prepared to defend the RFC loans in particular. I am talking about a theory and not about what the RFC has been doing.

Mr. PENNYBACKER. May I make a comment on that? I am very much interested as a small-business man.

The CHAIRMAN. We will be very happy to have you.

Mr. PENNYBACKER. It seems to me that one of the major problems that faces small business is not so much the matter of loans, whether from banks or insurance companies or RFC, but is primarily one of raising equity capital, particularly where a new business is being started, and there, it seems to me, we should direct our attention toward the legislation and tax laws which will greatly affect this business of getting small enterprise started. For example, if we had a larger exemption for corporate profits, say, the first 25 or 50 thousand dollars, we would make a great step in that direction.

If we reduced excise taxes, we would be making another great step in that direction.

And if we provided funds for more active prosecution of the antitrust laws in the Department of Justice, we would be making a third great step in that direction.

I think even more important than this business of loans would be this program of encouraging new business to get started and permitting private investment to anticipate good returns from starting small business.

The CHAIRMAN. There can be no doubt that loans and investments are both aspects of the problem.

Mr. PENNYBACKER. Right.

The CHAIRMAN. And when you speak of the need of equity capital, you do not mean by that to say that small business does not need a better loaning system than they have?

Mr. PENNYBACKER. By no means.

The CHAIRMAN. Mr. Kassalow, do you care to make any comments now? We are running on toward 12 o'clock and Members of the Senate will have to be there almost immediately, I think.

Mr. KASSALOW. I will try to be very brief, Senator.

The CHAIRMAN. All right.

Mr. KASSALOW. I have a prepared statement, copies of which arrived rather late.

Mr. RICH. Do not forget the House meets at 12 o'clock and we have to be there.

The CHAIRMAN. Yes.

Mr. KASSALOW. Let me say, Senator, before your own committee and some subcommittees of the joint committee, we have in the past expressed our great interest in the work of this committee and the Council, and I should like to repeat that for the record. In particular we think the most recent report serves a very valuable purpose. It gives the country a vision of expanding national production and national income which lies potentially within our grasp.

We think that serves a very useful educational purpose. The problem of obtaining it is something else again; but if we keep our eyes on the main objective, at least we will be going toward that.

I also would like to say we support very strongly the Council's general proposal—and I believe the President made the same proposal—that we must move to a higher consumption economy. That is, the rate of consumption should be expanded more rapidly than the rate of investment. I do not mean to suggest an absolute drop-off in investment, but the long-term problem points to a higher rate of expansion for consumption, and we are quite in agreement with the Council on that point.

While we are generally in sympathy with them, we feel there may be too much of a note of optimism in both reports. Many indicators in these same reports seem to point downward.

I have heard this morning a good deal about budget balancing in a period of high prosperity. We do not ourselves see that the outlook for 1950 is for anything better than 1949. We are of the feeling we are apt to have an increase in unemployment. Business investment seems to be tapering downward and foreign trade will apparently fall off.

Under those circumstances, if budget deficits could be clearly seen as a method of reversing the economic tide, I would say we would certainly endorse increased spending even to the point of involving deliberate deficits. I say if that were the sole criterion.

I merely want to point out a lot of previous statements by Mr. Fleming and Mr. Folsom seem to be predicated on very high levels of economic activity. We do not feel 1949 was satisfactory for employment and production, and we do not look forward optimistically that 1950 will be as good as 1949.

Senator TAFT. You say the "appearance of large accumulations"——

Mr. KASSALOW. May I get to the statement now?

Senator TAFT. I thought you were skipping the statement.

Mr. KASSALOW. No; this has been by way of introduction; I intend to read my proposed statement.

American business seems to be going soft, and business investment and expansion are heading downward. Bolder economic policy must be forthcoming in 1950 if further increases in unemployment and declines in production are to be avoided.

The appearance of large accumulations of idle cash and Government securities in the balance sheets of American corporations are an ominous sign of pending lower levels of production in 1950. In spite of declines in profits, manufacturing corporations alone by the fourth quarter of 1949 had increased their cash and Government-security holdings by nearly $3,000,000,000 over the previous year. This may well mark the reappearance of the usual characteristic of the early stages of a depression era, large balances of idle cash reserves.

Senator TAFT. Is that shown in this economic report of the President, or do they admit that?

Mr. KASSALOW. Yes; I think there is an illusion to the importance in the liquidity position of corporations. I think that is the way it is expressed.

Senator TAFT. They do not draw this conclusion showing a reduced production?

Mr. KASSALOW. They draw the conclusion funds are available for investment.

Mr. FOLSOM. That drop of cash, of course, is due primarily to liquidation of inventories which occurred last year.

Senator TAFT. Increasing cash.

Mr. KASSASLOW. I think it is due to two things—increase in inventories and drop in rate of investment.

Mr. RICH. You mean increase in inventories in value?

Mr. KASSALOW. Decrease in inventories. I am sorry.

Mr. RICH. But it might be a decrease in the inventory so far as quantity is concerned, but as a rule they have an increase in inventory because of the increased value of the products which most of them have.

Mr. KASSALOW. Congressman, I think we should not lose sight of the important point—whatever the reason, and I will not try to lay it out perfectly—but whatever the reasons are, the fact remains you are getting the appearance of large cash and Government-security balances in corporate balance sheets, and I think that could be a real danger sign. There are explanations, of course, of why that happens.

Mr. RICH. The banks have a great amount of investments which are in Government securities.

Mr. KASSALOW. In the case of corporations it is probably not so much for investment purposes as it is for meeting certain obligations. It is a liquid equivalent in the case of corporations. In the case of banks it is a long-term investment.

Mr. RICH. As far as the corporations, the majority that I would be interested in looking at, their reports show that the cash is not as great now as it was a year ago.

Mr. KASSALOW. No; that is not true. I think you will find——

Mr. RICH. I am saying the ones I am interested in. There the cash is not as great as it was a year ago; and that is so.

Mr. KASSALOW. You take the Federal Trade Commission report which covers all manufacturing in the United States. The report just came out about a week ago. At the end of the third quarter it shows an increase in the liquid position of all manufacturing corporations by nearly $3,000,000,000. That is in spite of the fact that profits were somewhat lower than in 1949 and that dividends were about as high up to the third quarter.

Mr. RICH. Why do you think they are increasing their cash and not their investments?

Mr. KASSALOW. I do not know just why, but I know this: As long as they do that we will have economic problems and the appearance of the beginning of the cycle. That is the point I am trying to get at.

All this comes, too, when the need is still for expansion and growth in American life. New products, new industries, new markets still remain to be developed; but large section of business seem to be suffering from a loss of nerve. According to the latest surveys of business' plans, investment in 1950 will be substantially below the 1949 levels, which in turn were sharply down from 1948.

I believe the McGraw-Hill Survey for 1950 is out today, and it indicates that the 1950 investment levels will be something like 13 percent below the 1949 levels which, in turn, will be below 1948. The Department of Commerce figures seem to verify that trend.

Methods and devices must be developed to get these idle hoards back into the production and income stream.

These deflationary trends must be halted if the President's and the Council of Economic Advisers' broad vision of a three-hundred-billion dollar national production by 1954 is to be achieved.

To the extent that the needs are not met and opportunities are not grasped by business, it will be necessary to direct Government policy into filling the gap.

A tax message has been promised. Here the opportunity should not be missed to build toward the "higher consumption" economy for which both the President and the Council have called. Raising the personal income-tax exemption is the most helpful step Government can take to advance the Nation toward the avowed goal of higher consumption. Any loss in revenue which might result can be more than compensated by plugging loopholes in the existing tax structure, and by enacting an undistributed-profits tax.

The President and the Council failed to meet the issue of programs for the so-called critically depressed labor markets of the country. This week the Bureau of Employment Security released a report indicating that of 100 major production centers in the United States, 55 had unemployment of 7 percent or more. A program including public works, nonconstruction works projects, loans to new enterprise, retraining and relocation grants, should be inaugurated to meet this pressing problem.

The CIO does endorse the call of the President and the Council for improved housing legislation, social security, further development of the point 4 program, establishment of a Columbia Valley Administration, passage of new farm-income-support legislation, and other economic measures contained in the report.

Now is the time to retake the ground lost in 1949 and move forward to new and higher levels of employment and production.

The CHAIRMAN. Do you suggest that we should have stabilization at the present level of prices, generally speaking?

Senator TAFT. You mean price stabilization?

The CHAIRMAN. Yes.

Mr. KASSALOW. I think at least one important part of the price level—I think it was referred to once here this morning—is steel prices. We certainly believe that is a type of price area where reductions should be forthcoming. We think there are probably other such prices in which there still seems to be a good deal of give. But I think the Council's report has perhaps been misconstrued. I think if I understand them correctly, they were trying to lay down the general principle that over a period of time gains in productivity should probably be reflected in increased wages and other income rather than by anything like sharply declining prices. I think there are good economic reasons why that can be defended.

The CHAIRMAN. Now the spokesmen for the consumers, Dr. Campbell and Dr. Warne, both want lower consumer prices, including lower agricultural prices.

Mr. KASSALOW. I think that the price level in general can, and probably will, lead downward. But I think it is the general point the Council was making, that the proper way to distribute income advances is probably not to depend so exclusively as traditional economic theory would have upon price declines. That would still leave room for a whole series of specific adjustments.

Mr. KELLER. Are we ready to give up the ghost on this matter of getting adequate flow of business investment? That is to say, are we now ready to assume that Government must step in whenever somebody judges it should?

As a matter of fact, my prepared statement bears quite directly, I think, on this whole question of business investment, Mr. Chairman, but perhaps I had better wait until you are ready for it. But I do think we ought to look at this implication that there are investible business funds, and that somebody is dissatisfied with the rate at which they are being invested, and therefore we ought to do something about it, presumably put Government in charge. Or is there still the possibility of proceeding in such fashion that business will be more vigorous in its investment policies, that it will be more optimistic?

The CHAIRMAN. I think, Mr. Kassalow, one must say that it requires a little bit more than nerve to provide an incentive for the investment of private capital in any line of endeavor. It requires probably some positive steps to create the incentives. The problem, I think, is pretty well developed here by Mr. Keller when he says that the alternative is as to whether or not the possibility of private investment has been exhausted and we must turn wholly to Government. Do you believe that?

Mr. KASSALOW. Wholly to Government?

The CHAIRMAN. Yes.

Mr. KASSALOW. I would say this. I will just repeat what I said. To the extent that a gap does appear it would be necessary to turn to Government. I do not know how large that gap would be.

I would like to add this: In the light of the tremendous profit levels of 1948 and 1949, in the light of the Council's forecast of a real economic future that can lie ahead of us, in the light of the statement of economists, such as Professor Slichter, of the potentialities, the retrenching policies of business are disturbing. I do not know what else we can do to create a more favorable environment.

The CHAIRMAN. Mr. Russell Smith testified to his belief that we ought to have such incentives as would promote the investment of private capital. Do you share that view?

Mr. KASSALOW. You will recall, Senator, we discussed this in our investment testimony, and we requested the committee to see what kind of new tax devices might encourage business or penalize them where they failed to take advantage.

The CHAIRMAN. I just wanted to bring it up.

Mr. KASSALOW. That is right. I think that is a fruitful field we have only begun to tap.

The CHAIRMAN. You recommend that the flow of private investment should be stimulated?

Mr. KASSALOW. That is right.

The CHAIRMAN. And what the method is, is another question?

Mr. KASSALOW. Yes.

The CHAIRMAN. I am sorry that we have to recess this session at this moment. Miss Scattergood, I had been hoping to call on you before the end of the session this morning. But that bell was the quorum call.

There are four of you who have not had an opportunity to present your original statement. Would it be convenient for you to return here at 2:30 this afternoon?

Mr. SANDERS. Mr. Chairman, it will be convenient for me if I can be released by 4 o'clock. I have a broadcast at 4, and I must be there at that time.

The CHAIRMAN. I understand the urgency.

Then the committee will stand in recess until 2:30 this afternoon.

(Whereupon, at 12:15 p. m., the hearing was recessed until 2:30 p. m. of the same day.)

61483—50——17

AFTERNOON SESSION

Present: Senators O'Mahoney (chairman), Taft, and Flanders.

Also present: Theodore J. Kreps, Staff Director; Grover W. Ensley, Associate Staff Director; Fred E. Berquist, economist for the minority, Joint Committee on the Economic Report.

The CHAIRMAN. We thank you all sincerely for returning this afternoon. I am sorry more members of the committee cannot respond immediately. It was difficult for me to get away from the floor, as a matter of fact. Things were going in a very interesting way this morning and I am glad I could get back.

Now, Miss Scattergood, are you ready to begin the afternoon discussion?

Miss SCATTERGOOD. Yes.

The CHAIRMAN. Thank you.

Miss SCATTERGOOD. Senator O'Mahoney, I would like to begin by stating a few principles. The American Federation of Labor is deeply concerned about human freedom, not only here but all over the world; and because we believe that economic freedom is basic to all human freedoms, we are sincere believers in the free-enterprise system. We believe that free enterprise is the best environment for the development of human character and also that free enterprise stimulates individual initiative, which in the end provides the highest living standards.

We want to live in an economy where we earn our way, and we feel that we can receive far higher living standards in such an economy than in one where we turn to a great reservoir where funds could be handed out to us. We feel that the Government should lay its emphasis on creating the proper environment for free enterprise to expand the economy and that therefore the Government should, if necessary and essential, supplement the free economy but never replace the activities of the free economy.

Free enterprise requires individual decisions and judgements. Those are basic. And, in order to form the proper judgments and decisions, facts are necessary, and for that reason we welcome the economic report which has been got out to us every year since the Employment Act came into effect. We feel that is most important and provides a source of information which was not before available. It has given us the goal of an expanding economy, together with facts to show year by year how we live up to the policies necessary to make that economy expand.

It has therefore enabled different groups to learn how to adjust their policies to the needs of the whole economy. We believe that forums such as the present joint discussion are most important because they bring together representatives of different groups so that their ideas may be exchanged and discussed. They are far more important, these joint forums, than any bringing of individual groups separately before any Government agency to discuss policy.

The CHAIRMAN. We are happy you like the procedure that the committee has adopted.

Miss SCATTERGOOD. We hope, Senator, that it will prove rewarding and worthwhile and can be continued.

As we look forward to 1950 we are impressed with the immense need of demand for products if our workers are to be kept employed fully.

Looking back to 1949, we are impressed with the vitality and the strength of our free-enterprise system. We started back up from the recession of 1949 quickly. We are not fully out of it yet, however, because we still have far too many unemployed.

We have noticed particularly last year the part played by wage increases in providing the demand necessary to take the goods off the market. We have not got a satisfactory figure on the exact amount of buying power that was actually created by wage increases, but a very careful study of a large number of wage negotiations in the American Federation of Labor showed that we secured wage increases in 82 percent of our negotiations, and we believe that the total amount of purchasing power which developed from our wage increases just in the A. F. of L. came close to a billion dollars, on a yearly basis. We believe that probably in the economy as a whole the wage increases added anywhere from 1 to 2 billion dollars to the purchasing power of the people and that that was a very important factor in keeping the consuming power at a very high level, which was basic in bringing us out of the recession.

Our wage increases were won by individual negotiations with different companies, taking into consideration the situation of the particular company concerned but always pressing for a very high wage increase, and we feel that that pressure is one of the dynamic forces in a free-enterprise economy, which first develops the purchasing power and then makes business take the necessary measures in cooperation with its workers to produce the income which will pay the wages. We have cooperated with business in various ways to improve production.

I would like to comment that I think the Economic Advisers' Report does not lay enough stress on other things besides productivity as the basis for making wage increases possible. There are many ways that costs can be saved—material costs can be reduced, the cost of supervision can be reduced, the care of machinery and tools can be improved, and in various other ways costs can be reduced, often making it possible to secure the income to grant wage increases which amount to more than the normal year-to-year percentage increase in productivity. I think that should be stressed.

I think that the Economic Advisers' Report has given a service by showing the importance of increasing wages because, if the whole economy recognizes that a rising level of wages is necessary in order to buy back the increasing product of full employment, our negotiations will start off in a better environment. I think even more stress could be laid on that.

Turning once more to the need for an immense increase each year in buying power, we feel that buying power enough to draw forth from the economy a national product of about 276 to 277 billion dollars will be necessary in 1950 to keep everyone at work full time. At present, based not on any new legislation in prospect but on present prospects, it seems to us we are likely to fall short of that by some $20,000,000,000, and that is a very serious matter. It means that first of all we need to create the environment in which business will feel that it is possible to invest as much as possible in improving plant because those investments employ a very large number of people and contribute very largely to the purchasing power which keeps our economy going.

There are some cases, however, in which business cannot see far enough ahead to make the necessary investments. There are some cases where supplementary expenditures by the Government can help. We would like to emphasize particularly social security. We feel that unemployment benefits should be extended as to duration. A great many workers have exhausted their unemployment benefits at present, particularly in centers where unemployment has hit hard. We feel that the amount of unemployment-insurance-benefits should be raised. They are still at a level which dates back to prewar prices, and prices have increased more than 70 percent since that time.

We want to see the coverage of old-age and survivors insurance extended. We believe in a health-insurance program. We believe rent control should be extended. We believe in the housing program for middle-income families who are not now being reached either by private building or by the Federal housing programs now in effect.

We believe in aid to education with an earmarking of funds to increase teachers' salaries and an assurance that service will be given to children regardless of what school they attend. We believe also in local public health service improvements. We believe that it is essential to keep the ECA foreign-aid program going at the level required to bring foreign countries back to their feet again in an economic way. As that has been outlined, it would involve a decrease of perhaps a billion dollars below the expenditures this year.

We believe there is a field where loans from the Reconstruction Finance Corporation can be economic and fill an important service. There are many cases where small business needs to have funds for expansion or capital which do not represent the kind of loan that banks can wisely make, but they do represent wise loans on the part of the Government because there are cases where businesses can, by a long-term loan, develop going concerns and valuable productive enterprises.

We believe also that the Federal Reserve Board's authority over banking reserves should be increased. We believe in general in point 4 and the point 4 program, but we recognize various difficulties connected with carrying it out.

We feel that the International Confederation of Free Trade Unions can perform important functions there because of their contact with the people themselves, the workers, in the countries where point 4 programs might be put into effect. Workers themselves must understand what is being done, and they must see the advantage that can be brought to them by expanding production of natural resources there. Too often they do not understand that and do not see how it will affect their own living standards. So the free organization of workers there will be able to contribute.

That, I think, terminates in general what I would like to say.

The CHAIRMAN. Mr. Keller, would you like to move in now?

Mr. KELLER. Yes; I would like to make just a brief statement; and then, if I may ask one or two questions of those who have spoken, I will do so.

The economic reports expressly acknowledge and emphasize that, for the future progress of our economy, business confidence and initiative are crucially important. The importance of confidence is repeatedly stressed, and very logically so, because high-level business investment is spotlighted as a vital requisite to expanding production. Certainly this does call for a high level of business confidence.

In this year's reports the general philosophizing seems pretty well calculated to foster business confidence. There is a backing away from anything that smacks of statist ideology. The doctrine of secular stagnation is rejected. There is appreciation of the importance to our national strength and well-being of healthy, vigorous, expanding private enterprise.

But, so far as business confidence is concerned, the encouragement in the general philosophizing seems far outweighted by the fact that these reports go on repeating the calls for more Government intervention, more Federal subsidies, more taxing and spending, and more Fair Dealism in general.

The calls are repeated, but it is hard to see wherein the reports either strengthen or clarify the case for any of the President's 12 major legislative recommendations.

Before the Congress can say "Yes" or "No" to any of them, certainly it will need something in the way of reliable price-tag approximations. Certainly it will need the most careful possible preview of the complicated practical ramifications these recommended measures would certainly be bound to have.

The depressing thing for business confidence is not that the reports contribute so little toward meeting this need to know more about what we do before we do it. The really disturbing thing is the feeling the reports give that knowing what we should like to have can somehow take the place of knowing what we are actually doing.

One good case in point is the commitment to a goal of keeping unemployment down to 2 or 2½ million. This is thin ice.

The CHAIRMAN. For whom?

Mr. KELLER. It talks about unemployment, but—and I think this is important—obviously if it did not have undesirable and threatening implications for the system that employs nearly 60,000,000, all of us would vote for trying to reduce involuntary unemployment to zero. Why does the Council set the goal at 2 to 2½ million instead of zero? Because policies which failed to recognize the necessity of frictional unemployment would also inevitably be perpetually inflationistic policies. The Council recognizes that.

Many able economists would certainly regard a commitment to maximum unemployment of 2 to 2½ million as a commitment to the pursuit of perpetual inflation. The Council may have its own basis for disagreeing with that. If it does, it ought to say what it is.

One is not led to hope for too much help of this kind, however, when the reports lay down five guiding principles as "the basis for economic action and decision," and these five guiding principles turn out to be five noncontroversial aphorisms.

The nature of these problem-solving aids is worth noting:

(1) Our economy can and must continue to grow;

(2) The benefits must extend to all groups;

(3) This growth will not come automatically but requires conscious purpose and hard work;

(4) The fiscal policies of the Federal Government must be designed to contribute to the growth of the economy;

(5) We must deal vigorously with trouble spots.

Or, again, what is the meaning, what is the assurance of soundness, or, for that matter, what is the helpfulness to Congress of the following more or less typical excerpt:

> The expenditures of government should be large enough to provide those services which our resources permit, which our people need, and which cannot so effectively be provided in any other way, but not so large as to overstrain our resources or to dampen the incentives of free enterprise or alter the essential character of our economy. Our supply of goods to foreign countries should be sufficiently large to promote a more prosperous and more peaceful world, but not so large as to undermine our domestic strength and thus defeat the very objective which we seek. The whole task of economic policy, both private and public, is to work out these arrangements bit by bit, pragmatically as we go along, benefiting constantly by the lessons of past experience.

The CHAIRMAN. Isn't that the typical language of an economist?

Mr. KELLER. Without cynicism or flippancy, perhaps the Economic Report's greatest contribution to business confidence is in certain statements only the sequence of which I take the liberty of changing in the following quotation:

> In earlier economic reports I emphasized the dangers of permitting inflationary measures to continue and urged measures to hold them in check Most of these measures were not adopted. * * * Despite rough going for a few months, we made necessary changes with much less distress and difficulty than ever before. Today we are on firmer ground than we were a year ago.

I should like now to raise one question that seems to me rather basic to our discussion up to this point. It started, I think, with Dr. Campbell this morning. It is this question of purchasing power. It has come up time and time again.

The efficacy of production payments to farmers as a matter of building purchasing power has been enthusiastically endorsed. I would just like to ask where the purchasing power comes from, whether it is created, whether it really somehow adds to our total purchasing power. If the answer is what I think it is, you take away from some people and give to others.

Mr. KASSALOW. You have the answer right there, sir. The whole nature of progressive taxation, it seems to me, underlies the Brannan plan.

Mr. KELLER. Yes. My only point is this: that if your argument is for an equalitarian policy of trying to level, that should be said. It should not be held out as a matter of increasing total purchasing power, unless the taxpayers in general are not people to worry about, are not consumers, do not need purchasing power.

Mr. KASSALOW. Would you oppose all progressivity in tax policy then as leading toward equality? After all, it is only a matter of——

Mr. KELLER. I do not see how any such inference can be drawn. It is not a question of how progressive the structure ought to be at this moment. That can be argued in its own right. The question is whether all these steps are to be taken in the interest creating necessary purchasing power, rather than just frankly as a matter of transferring purchasing power in so many of the cases.

Mr. SANDERS. Mr. Chairman, at the beginning of these hearings this morning this same subject came up. It seems to me that to discuss this we ought to hear the farm programs of the farm people and then discuss it in the light of these statements, and maybe we could all take part in it then.

Mr. KELLER. May I ask one other question that has come up from the labor side?

The CHAIRMAN. Yes, of course.

Mr. KELLER. The matter of high wages as the creator of high-level purchasing power has been stressed once or twice. I wonder if that is the end of the story, whether it is just a matter of somehow creating purchasing power, whether there isn't some part of the story of higher wages that would involve reference to higher prices, too.

The CHAIRMAN. Let's begin with the fundamental. We do need purchasing power. Do you agree?

Mr. KELLER. Absolutely, and we generate purchasing power through production.

The CHAIRMAN. Now, are you suggesting that there is some limit to the steps that can be taken to maintain purchasing power or are you urging that Government should do nothing to maintain purchasing power?

Mr. KELLER. No; Government certainly has the vitally important function of providing a setting, a framework, within which businessmen, farmers, workers, everybody else, can produce purchasing power. Production and purchasing power, when the economy is functioning in a healthy way, are one and the same thing.

There is a statement in the report, for example, that business investment can continue at a high level only if markets for consumer goods continue to expand. Quite clearly, nobody could quarrel with that statement; it is true but incomplete. In its incomplete form it can be pretty misleading.

The CHAIRMAN. How would you complete it?

Mr. KELLER. The statement should be completed by adding the words "and vice versa." That is, it is most significantly true that the market for consumer goods can continue to expand only if business investment continues at a high level. Consumers' jobs, their money incomes, what they can buy with their money incomes, and even the taxes they turn over to Government—when we speak of these things, what are we really talking about if we are not talking about production? It is production that must go on expanding, and the President rightly emphasizes that a vital requisite to expanding production is a high level of business investment.

The CHAIRMAN. Do you wish to limit this addition to the sentence to business investment alone?

Mr. KELLER. Oh, no. I would include anything that contributes to the balanced functioning of this economy and the production of more and more output.

The CHAIRMAN. So that, when you talk about business investment, you mean Government investment as well?

Mr. KELLER. No. I use the term, I think, in the same sense as the Council and the President. "Business investment" is a term that is consistently used in the reports meaning, I take it, the investment in the private business sector.

The CHAIRMAN. I do not assume that it was intended by the Council of Economic Advisers to imply that only business investment was necessary.

Mr. KELLER. I think they did intend to imply that, even though funds might be available through Government agencies, initiative was still to rest with business.

The CHAIRMAN. You are talking only about the private sector of the economy?

Mr. KELLER. Exactly.

The CHAIRMAN. For example, Government investment on the State level in the building of schools, on the State and Federal levels in the building of roads, and other productive public works do contribute to create purchasing power and productivity.

Mr. KELLER. I do not think, from my reading of the report, that business investment in context could be interpreted as having reference to public construction.

Senator FLANDERS. I wonder, Mr. Chairman, whether we ought not try to find some other term for this loosely used Government investment term, which in some cases involves a presumed monetary profit and in other cases involves returns which are nonmonetary, except perhaps in the second or third effect. It has always seemed to me there was a definite idea in the back of the drive to expand the term "investment" into these other governmental expenditures which we had never previously considered as being the same thing as business investment.

The CHAIRMAN. In my question, I was merely trying to determine whether or not the witness was talking about the specifically narrow field of private business investment or whether he was taking into consideration other contributions.

Mr. KELLER. I was talking about private initiative in the all-important investment process.

The CHAIRMAN. I think that is clear. You were just talking about this particular segment; you did not want to exclude the other possibility as a factor in the entire economy.

Mr. KELLER. That is correct.

Mr. KASSALOW. I do not know if Mr. Keller is implying criticism of the Council's logic on this problem of balance between consumption and investment, but it seems to me, whether one agrees with the report or not, it has a kind of core of consistency. There is a call for continued high levels of investment, and that is necessary for a growing economy, but apparently on the basis of their own analysis the Council has come to the conclusion—and I think that is in parts III and IV—that for a sustainable level of investment for a full-employment economy it will not grow as rapidly as the consumption side of the economy will grow. In other words, I think that looking over the whole period of the business cycle and the business-cycle history and projections so far as they go forward, they have come to the conclusion that, if we are going to continue to grow pretty much as we have grown and have full employment consistently, we must develop a new balance between consumption and investment. On this basis, the full-employment budget which the Council projects 4 or 5 years hence would indicate consumption will have grown at a faster rate than investment.

Senator TAFT. There is no historical basis for that; is there? This is a rather experimental field, I think, so far as economic analysis is concerned. What the Council has tried to do, I think, is to say that you can do some of it. You can say, for example, we have grown 3 percent per year or 2 percent per year.

Mr. KASSALOW. How much new capital equipment will that mean over 10 years or over 5 years? In the past we have tended to have that kind of capital investment come forward in huge clusters, and then you have periods when you get no investment at all. The Council, it seems to me, is pointing to at least one pattern whereby you get stable high levels of investment, but by expanding consumption you get full employment as well. It seems to me one might not agree with this, I say, but it seems not inconsistent from a logical point of view.

Senator TAFT. It may be so. I do not think there is any evidence of it, any evidence to show that there is not a fairly stable balance that ought to be maintained, and it is just as important to keep——

Mr. KASSALOW. The evidence is we have had bad ups and downs in so much American economic history.

Senator TAFT. Why do we have bad ups and downs? Far more because we fell off in capital-goods industries and fell off into a depression. Certainly, the 1938 depression was caused by a fall in capital goods.

Mr. KASSALOW. Nevertheless, we got an over-all growth of economic production of 2 or 3 percent. All the Council is suggesting, as I read it, is that if we can balance this thing out and get our capital investment on a more sustained basis for a period of years rather than pour it into two or three intensive years and at the same time raise consumption levels, you may get a continuation of full employment and a growth of your capital plant.

You can quarrel with that, but I think that is the philosophy of the report.

Senator TAFT. It may be. I did not read it that way.

Mr. KELLER. May I answer the question addressed to me? The question is: Am I implying there is no importance in the balance between investment and consumer expenditures? Of course, I am not. I think we would go on record fearlessly in favor of proper balance in all things. There is not any doubt about that. We agree with the Council that that is extremely important.

You say we are only starting now. We are only learning little bits here and there. We are forming partial answers to this, that, and the other question. The picture of the complete answer is, to me, the picture of a complete set of accounts, administered and audited in the Government; and I mean the accounts of the economy, on all these balancing questions. The picture of a complete set of accounts in the Government and of a complete set of Government auditing operations is the picture of a planned economy, of Government economy, of—it is a scare word, but we use it—a regimented economy.

I think that may be one of the angles we have to consider as we move along. Of course, you may ask whether I think we ought to sit tight and let things go smash. That question always comes up. The answer is, "Of course not." If there is no other way of keeping things from going smash than to try some kind of Government economy, then we are up against trying it, I suppose. But certainly we have not reached the end of our tether. CED came up this morning with a pretty definite proposal. The Chamber has nothing to say on that point at the moment, but I am saying I do not think the choice is between letting things inevitably go smash and taking the Council's word for it that it has now worked out a plan by which we can stay out of trouble.

The CHAIRMAN. Mr. Keller, it seemed to me that you are taking a little issue with Miss Scattergood, who laid emphasis upon the necessity for consumer demand and, therefore, from her point of view, of encouraging purchasing power by increased wages. You seem to take the position that priority should be given, rather, to the investment of private capital. Am I right in that?

Mr. KELLER. I am afraid I misled. May I briefly correct my statement on that?

What I meant to say was this: That if we want to transfer income from other members of the community, taxpayers to the farmers, on this production-payment basis——

The CHAIRMAN. When you talk about farmers, we have to hear from Mr. Sanders.

Mr. SANDERS. That is not exactly what I intended to say.

Mr. KELLER. It does not make any difference, whenever we are making those transfers, I think they ought to be recognized as transfers to be justified by considerations other than just this purchasing-power consideration. We are transferring purchasing power rather than creating it. That may be entirely defensible in some cases. Certainly, some transfers of purchasing power are in my view defensible, but not for the purpose of balancing the economy. It might be otherwise if we had some answers we do not have.

Senator TAFT. You have to take your production payments out of taxes, and the taxes already are at a point where, as far as I can see, to reduce them is not going to increase purchasing power any. Or, to put it the other way, I think you have got the taxes so high that practically everybody is spending all the money he has. I have an income a good deal larger than average, and it has not balanced for I suppose the last 5 years. I have spent every cent I got.

What difference does it make from the point of view of economy whether I spend it for something a little more expensive perhaps than somebody else would spend it? From the point of view of equality, that is another question. But I mean, it seems to me you have got your taxes to a point where you cannot raise any more taxes with any hope of not decreasing purchasing power correspondingly to what you increase when you pay it out. I cannot see where you can, in any way, hope to increase purchasing power by taxing somebody for something and giving it to somebody else to spend. I do not see any evidence of excessive savings in the United States today. You may get to a point of getting excessive savings, that is true, and perhaps then you ought to tax that particular thing to stop it, but there is no evidence of any excessive saving that I can see.

So, for every single thing you pay out in production payment or any of these other things, this whole argument of increasing consumer purchasing power seems wholly fallacious.

Senator FLANDERS. I was interested in what you said about setting up an over-all account, an auditor's account of our economy, and its relationship to a regimented economy. Do you see any objection to setting up such a balance sheet as an economic model and then judging our performance by reference to it? That is, by the method of open discussion, its effect on private policy, and not expecting to use it as a means of governmental regimentation.

Mr. KELLER. I should say first of all that we must recognize the importance of Government operations in the economic sphere. The

Government has decisions to make; it has policies to form; and some kind of rational approach, such as you mentioned, is indispensable it seems to me.

To have that kind of information, moreover, for policy decisions in the private sector would certainly seem to me to make sense—so long as the facts are put together to facilitate formation of such judgments, but not with a view to imposing a pattern set up in the economic Council or anywhere else in the Government.

Senator FLANDERS. I would accept your reservations with regard to such a model, but I have for a considerable time felt such a model might be interesting and useful.

Mr. KELLER. Particularly for purposes of forming sound fiscal monetary policy in the Government, and sound investment policy in the private sector, and sound public works policy, and so on across the board. Unquestionably that is the rational approach.

Miss CAMPBELL. Mr. Chairman, may I say a word?

The CHAIRMAN. Yes, of course.

Miss CAMPBELL. The economists have taken a few slaps, and I thought maybe I could get one in myself. I at no point indicated this morning that purchasing power was to be created by redistribution. I agree with Mr. Keller that it is sometimes necessary. But we will not improve the general level of consumption per capita with a rapidly growing population unless we increase production so that all the effort of consumer groups at the present time is to find a way to increase productivity so we can increase consumption levels.

One of the difficulties among businessmen—and they seem to be awfully scary—is that they are afraid of abundance. They are afraid of abundance through international trade also. At the present time a favorable balance of trade for the United States would be getting a lot of imports in more than exports, and we would be frightened to death if it happened. One of the reasons why we are afraid of abundance, sir, it seems to me, is that we are capable of producing a great deal more than we are able through our present technique of distribution to get into the hands of people who can use it.

Money is simply a mechanism of distributing things we produce. Economics is really very simply if you get to the core of it. The economy is just the way the people organize themselves to make a living.

The CHAIRMAN. We get it covered up by the protective devices to protect our own income.

Miss CAMPBELL. Now what we are trying to work out is a technique by which we can assure businessmen that if they produce these things, we will get them into the hands of the people who can use them. The only way we do that in a complex industrial society like this is through the mechanism of money. If we were a barter pioneer economy, it would be simple. What I produce I swap with you, but if I am making a bolt for an automobile, I cannot do that. I swap my labor for a price and then take the money to a store and swap it for goods. The trouble is from the time I get it from the boss until the time I get it to the store the value of money itself may have changed. That is a sort of complicating factor.

It seems to me when we are talking about purchasing power, we are really talking about getting a technique for moving the goods that we can produce into the hands of the people who want them. We could produce them in much greater quantity than we are today. Productive capacity is enormous.

The CHAIRMAN. I take it you are also pleading for establishment of confidence.

Miss CAMPBELL. For everyone, Senator.

The CHAIRMAN. You want confidence on the part of the masses of the people that they will have an income sufficient to enable them to buy the things that business can produce if it has confidence enough to invest.

Miss CAMPBELL. That the people produce—it is not just business.

The CHAIRMAN. They are the mechanism of producing.

Mr. SANDERS. Mr. Chairman, I take it that philosophy is good and sound, provided the purchasing power is distributed to all groups alike and not to, let us say, the laboring man in wages. It has to be distributed over the entire occupational groups in such a way as to not unbalance production.

The CHAIRMAN. You want to have farmer-labor confidence?

Mr. KELLER. Farmer-labor-business confidence.

Mr. SANDERS. I want to answer the remark Mr. Keller made that I think is the true basis for keeping this consumption in balance with production, namely, he said that production is the basis of purchasing power, but you could say that a balance of production is the basis for maintenance of purchasing power and that is what he was trying to plead for. That is, that we must keep in mind that purchasing power cannot be maintained by some artificial device of channeling more of the product of society into a specific group's hands without changing their productivity or without any relationship to the total amount of product they turn out.

That is the key to keeping the thing in balance, it seems to me.

Senator TAFT. I suggest that the ordinary selling by producers, the advertising and salesmanship of producers, sells 10 times as much stuff as any Government effort to increase consuming power will sell. I suggest that the whole thing stems from the producing end, that the way you increase this economy is for a man to build a new factory, make a new thing, and sell it to people. He can sell it. We just moved television cables into Cincinnati in October, and in November they sold 10,000 television sets in Cincinnati and 10,000 more in December. I do not know where they got the money. Apparently they were spending their own money.

You see those in all of the workmen's homes, people below the average as well as the average. I suggest that this thing comes from production. It comes from starting something new and going out and selling it to the people. Then, of course, that automatically increases purchasing power by putting hundreds of people to work in your production end, who then can spend that money to go out and buy every other product. Logically you might as well say it starts with the consumption end, but practically I suggest for some reason it starts from the production end, if you want to build up this economy to greater speed.

The CHAIRMAN. Would anybody invest money in the construction of a factory to produce a given commodity unless he had confidence that there was purchasing power somewhere to buy that commodity?

Senator TAFT. He does not do it unless he has confidence and has some selling or advertising ability to sell what he makes. That is all he is interested in. He does not care whether he takes it away from some other producer.

Mr. KASSALOW. You pointed out there are periods where confidence seems to be lacking. The thing is not by any means self-regulating.

Senator TAFT. Confidence is most important. I was only saying I do not think your solution comes through approaching this thing from the idea that the Government has to increase consuming power. I suggest that the people who support that are really more interested in welfare programs which are perfectly proper and I am for many of them. I am for taxes for that, but I suggest they produce this economic theory of Government increasing purchasing power to justify other programs that have nothing to do with improving the economic conditions.

Mr. KELLER. Business confidence, it seems to me, is first of all confidence in the smooth functioning and the healthy future of this economy. It is not confidence in Government expenditures. It is not confidence in hand-outs. It is not confidence in schemes for redistributing income. It is confidence in the healthy functioning of the economy. That alone can encourage investment.

From the business point of view there has been something said here that I would like to answer, if I may. There is the statement that business is afraid of abundance.

I can cite a thousand places in business literature and in the literature of the Chamber of Commerce where we come out fearlessly in favor of abundance along with our fearless commitment to reasonableness in everything else. You can put me on the spot. How do some businessmen feel about imports, for example? They feel pretty much the same way about imports that the A. F. of L. plumbers feel about the horrible thought of having too many plumbers around.

The businessman, like everybody else, does not want too much of anything that means too much competition in his own particular market. But we subscribe to the principle of abundance just as definitely as any worker, any consumer, or any agricultural group in the country.

Mr. PENNYBACKER. I would like to comment on the remarks made by Senator Taft and others regarding the question of purchasing power versus investor confidence. It reminds me of a discussion we had at a class reunion in 1933 in which the president of a corporation, a neighbor of mine in Connecticut, said, "Boys, you have no confidence in the New Deal and I can understand how you feel about it. Our taxes are going up and they have this erroneous theory of increasing purchasing power. But, boys, we are going to take advantage of it and sell these Electrolux cleaners because we believe the market is going to expand."

He did. Every businessman who says he lacks confidence in Government spending will go out and capitalize on that spending, because if he does not, he knows his competitors will.

As for this question of whether or not we can create new purchasing power by having progressive taxation, this report says that one-third of our families in 1949 were spending more than they made. A lot of these families that were spending more than they made are the ones that bought these television sets. This cannot go on. You cannot have such families continue to buy television sets and other products at that rate unless——

Senator TAFT. Those people are being put to work making television sets, higher productivity, higher wages. They are not the same people, they are other people.

Mr. PENNYBACKER. The people who are saving more than they are spending—and there are many of those—they are not contributing to this purchasing power to the degree that you are when, as you say, you are spending all you make.

Senator TAFT. Why not? There are people, I suppose, who just keep money in the bank, but as a rule they invest it. That investment is then spent on capital goods. It is just as important to have that money. There have been times probably in history when there was too much saving, but I do not think you have any evidence of any too much saving in recent years.

Mr. KASSALOW. You do have evidence of declining business investment. What may be happening to the flow of income I do not know.

Senator TAFT. Maybe it was too high.

Mr. KASSALOW. Mr. Keller said business does not have sufficient confidence.. I think the real test for a businessman should be his profit and loss, and if the level of $19 billion in profits after taxes in 1948, and, roughly, again in 1949, did not inspire corporate confidence, what can?

The CHAIRMAN. Mr. Sanders, you did not have your chance to make your statement.

Mr. SANDERS. If I could have the 5 minutes now, I could make the statement.

The CHAIRMAN. We will give you the 5 minutes. I would hate to have you go without having made your statement.

Mr. SANDERS. Mr. Chairman, I paid very careful attention to Miss Scattergood's statement, her premises or her introductory statements of the fundamental principles under which the A. F. of L. viewed our economy.

I believe I could almost adopt every word that she said as sound principles up to the point where she started her statement about why the increase of wages during the past year maintained our purchasing power, and, therefore, was a very sound element in our economy. I am not sure that I could subscribe to the things she said after that. Several of them I could not, but up to that point it seemed to me she certainly laid down some very basic principles that most of us could subscribe to in a free economy.

I have centered my statement largely around the President's remarks on the farm policy statement, and I did not undertake to take a broader viewpoint of this situation.

In general, we find no parts of the general analysis of the current economic situation and the outlook statements of the President's report to the joint committee that we would seriously disagree with.

We would agree most heartily with the first sentence of the President's farm policy statement that "a generally prosperous economy will do more than all else to help the farmer," provided he means by a prosperous economy one not based on inflationary trends and forces as typified by the recent biplay of raising returns to steel workers principally because they claimed that high steel profits justified labor getting a portion of the excessive profits and a rejoinder by the steel companies that increased costs of labor as a result of their settlement required higher prices of steel.

Both actions trend diametrically away from the kind of general prosperity that will help farmers. Especially is this evident at a time when farm prices have already suffered a serious decline and we know that we face further inevitable declines in farm prices.

If "a generally prosperous economy" means the reasonably full employment of labor and a balanced full output, then we are certain that no other measure or group of measures would mean so much for the farmer's continued well-being.

But we are certain that the labor-steel biplay and the current prolongation of the unjustified coal situation is not conducive to a generally prosperous economy; and the least the Government can do in these cases to help bring about a generally prosperous economy is to give such public-be-damned quarrels no moral support, to say nothing of making needed positive moves to correct these trends.

Until both labor and management look upon industrial production as a partnership with public interest in it as important in the aggregate as their own interest, we are certain not to have the generally prosperous economy that is so important to farmers.

One is tempted to say that farmers as a class have as much interest in toto in the outcome of such quarrels as do the negotiators for steel, coal, and labor in these recent and current difficulties. Both of these quarrels will ultimately harm agricultural prosperity. Since farmers turn out a steady full output at all times, they insist ways must be found to settle the squabbles of labor and management as the squabbles of all successful partnerships are settled, namely, by an honest, sincere effort at all times to negotiate fairly and truthfully, without the currently customary insincerity of weeks of calling each other scoundrels and liars; without each having the aim of wearing the other out and thus settling the dispute without ever frankly facing the truth of their own weakness, and the strength of their opponent's position, and with both having a "be damned" attitude for the interest of all of us in a fair settlement.

The Grange believes that in the spirit of the Employment Act of 1946 and of working out the best means of maintaining balanced full output prosperity, representatives of labor, management, agriculture and the public should be called together to discuss mutual and conflicting interests and ways of bringing about the aims of the Employment Act of 1946.

We agree fully with the following statements of the President's farm-policy statement:

> Special measures are needed to aid low-income groups in agriculture. These include measures to provide credit and management aids to low-income farmers to help them enlarge and improve their farms. They include programs to provide rural electrification, rural telephones, better farm housing, and improved opportunity for medical care. In addition, we must continue to improve the education of our farm youth not only to make them more efficient farmers, but also to help some of the underemployed people in agriculture find useful work in other occupations.

The National Grange does not agree with the President's recommendations of using production payments as a basic means of farm income support. Our reasons were clearly stated by our annual session of November 16 to 25, 1949, at Sacramento, as follows:

The Grange is opposed to direct payments to farmers to support farm income. Such subsidies are in reality for the benefit of the consumer, but the stigma of drawing money out of the Treasury attaches to the farmers. Moreover, subsidies operate to increase the size of our colossal national debt and are in themselves inflationary.

We oppose a direct production-payment plan to farmers as a means of income or price support instead of a fair market price support plan as we have outlined for the following reasons:

1. It is basically unsound to maintain an unbalanced economy by paying one important group an inequitable income in the market place and a subsidy out of the Treasury to make up a fair income. That would hold true for farmers, laborers, or anybody else.
2. To make farmers public beggars for a fair income would tend to destroy the foundations of personal integrity.
3. If such an unsound system were set up for farmers, it would certainly, in time, spread to other groups and would be an internal cancer that would ultimately destroy our free-enterprise system.
4. Under such a system farm income would depend on politics and that party which would promise farmers the largest bonus out of the Treasury would garner many votes not obtainable on the basis of an honest and sound platform.

Parenthetically, I want to emphasize that that quotation says we are not in favor of a plan that would depend on the most remunerative offer by a political party to farmers to gain the votes of farmers. It does not say that we are not in favor of getting both parties very much interested in doing the right thing for farmers, as has been interpreted.

5. It would be impossible for farmers to plan their operations until after they knew whether subsidies would be voted by Congress and what the subsidies would be.
6. Unless such payments are accompanied by rigid controls and regimentation they will cost the Government many times more than the other programs which we have advocated.
7. It would require an enormous army of Government workers to administer.
8. The plan will not provide high prices to farmers and cheap food to consumers without high cost to the Government. If payments are accompanied by controls to hold costs down to the Government, prices to consumers cannot also be held down. Either production payments will cost the Treasury enormous amounts or consumers will not have cheap prices.
9. Our Nation's labor force was employed to 80 percent capacity in 1933 and wages had a 25-percent greater purchasing power than in 1929. The employed man didn't need cheap food; and cheap food prices will not reach the man out of a job; only a food stamp plan or some other relief plan will reach him.
10. Once established, such a plan would be almost impossible to abandon.

I feel that the discussion of this plan in various places in the hearings today has not in reality centered on an analysis of the plan as it is. I think Mr. Fleming really brought out the true import of the plan when he said that in discussing this plan you must discuss it in its entirety and that it is first not an income-support plan. It is purely a price-support plan. It does have an income approach to calculating prices, but after the general level of income is calculated, then it is transferred back to a price-support plan and has all of the difficulties of any price-support plan that does not have flexible price supports.

The plan contemplates rigid high parity income price supports with all of the difficulties involved in rigid price supports. Rather than being an income-stabilizing plan, it is a plan that would create greater instability in farm income. When crops are good, obviously the farmer's income would be greatly enhanced. When crops are poor and the farmer has very little to sell, his income would be exceedingly low and disastrously low under such a rigid support plan. So this plan cannot be discussed segment by segment; but rather you must view the plan as an entirety.

It has contradictions in it—namely, you cannot give consumers cheap food prices and at the same time keep costs to the Government low unless you control production. If you control production, you defeat your purposes of giving cheap food prices to consumers. So you cannot look at this plan in its true implications unless you look at all parts of it at the same time.

The CHAIRMAN. Mr. Sanders, I think I am altogether within the bounds of reason if I say to you that in all probability the Joint Committee on the Economic Report will not undertake to pass judgment upon the Brannan plan. The standing committees on agriculture in the House and in the Senate will have to determine the precise program which will be presented to the Congress if any change is to be made from the present law.

But I think it would be proper to ask you whether in your opinion, and speaking for the National Grange as you do, you feel that there should or should not be Government intervention in the field of agriculture to support prices.

Mr. SANDERS. Yes; I feel there should be some Government measures that undertake to give agriculture an income commensurate with the income of other segments of our economy, that undertake to stabilize agricultural income commensurate with its output, and that do not permit full output in agriculture to penalize agriculture when nonagricultural industry is not turning out a reasonably full output. The inherent nature of agriculture is such that the farmer cannot avoid turning out a full output. The inherent nature of nonagricultural industry is that it naturally cuts its output when prices and general conditions indicate that prices are to decline.

Senator TAFT. That is only partially true, however. The farm output is to some extent responsive to demand.

Mr. SANDERS. Only for individual crops, Senator, not for total farm output. There is practically no response at all to depression in the total output of agriculture.

Senator TAFT. There is some response.

Mr. SANDERS. If prices of agricultural commodities are exceptionally good in all products, then farmers naturally will buy fertilizer, will try to employ more help, will buy new machinery, and will increase production, but as a rule when depression hits, agriculture does not respond by reducing its total output.

Senator TAFT. It seems to me individually you find many people who say, "This year I am not going to raise any hogs. This year I am not going to feed any cattle."

I agree with the general principle, I am not arguing that. But I think there is still an important factor for the operation of demand on the production of farm products.

Mr. SANDERS. I will agree with the illustrations you use, Senator. But the very man that says, "I am not going to feed hogs this year" takes his resources, his labor, his farm, and uses them almost 100 percent for some other enterprise that is an alternative enterprise to feeding hogs. You find agriculture, with about 85 percent of its labor paid for at the beginning of the year, operating with approximately

75 percent fixed costs. It is almost impossible to reduce the total output of agriculture in this country.

Senator TAFT. I agree with the general principle, but it seems a better ground, in general, for the support of prices because if you are going to admit the principle that we are going to hold up the income of anybody to what is commensurate with the income of other people, there is no limit to the extension of that principle. Anybody can come in, no matter what you are raising, and say that in this particular field he is entitled to a commensurate income.

Mr. SANDERS. I do not want to leave the impression that that was the basis of my remarks.

Senator TAFT. I agree with Senator O'Mahoney, I think all this committee could do would be make a general declaration in favor of some Government price-support program without going into detail about it. But it is more my fear that selling in a completely or practically free market, a very elastic market, that goes up and down, and where the bottom can drop out much more easily than on any manufactured goods, that there is a general public interest in seeing that you do not have an unduly low agricultural income with no agricultural purchasing power at all, it seems to me it is the best justification for support prices, the public interest, to prevent the loss of agricultural purchasing power, that you cannot go that far with such a segment of the economy without turning a recession into a very serious depression.

Mr. SANDERS. I agree with the general statement entirely, but I am afraid that the reason for that is not exactly what I think you expressed, the reason that the Grange has. The reason is this: that the inherent nature of agriculture is to turn out a full output at all times, during depressions and in prosperity. Now, we find that agriculture is confronted with an entirely different production nature to that of nonagricultural industries, but it is to the interest of nonagricultural industries to see that the nature that is in agriculture does not penalize agriculture and give it a bankruptcy income, which it would surely do as was the case in 1933.

Agriculture turned out 98 percent as much physical goods in 1933 as it did in 1929. Manufacturing industries turned out 52 percent as much physical goods.

Now, obviously, if you try to exchange those agricultural commodities, which were normal in supply, with a half normal supply in industry, you are going to drag the prices of agricultural products to such levels that all agriculture would be bankrupt, if you could bankrupt agriculture, which you cannot do.

The CHAIRMAN. That raises what seems to me to be one of the most vital questions in this whole problem. I ask you to look at the chart which appears on page 4 of the January issue of the Economic Indicators. This chart undertakes to show the prices received and the prices paid by farmers and, if you will turn at the same time to page 162 of the Economic Report which you have there, you will find Table C–14 which shows the physical production index of goods and selective services for 1929 to 1949. The second column in that table shows agricultural production from 1929 down through 1948 with an estimate for 1949.

The table on page 4 of the Economic Indicators shows that the prices received by farmers reached a peak in January 1948, that they dropped severely in the next 2 or 3 months, then rose again until about the middle of the year, from which time those prices have been steadily falling with the exception of about 1 or 2 months late in 1949. Whereas, the prices paid by farmers show a rather stable line. But the significant thing is that in December 1949, for the first time in 3 years, prices paid by farmers exceeded prices received by farmers. That meant that the parity ratio for the first time since the war dropped below 100.

In other words, we seem to see in agriculture a declining price level; whereas, the price level of the things that the farmer must buy has not fallen. Now, historically, agricultural depression quickly communicates itself to the rest of the economy. It was an agricultural depression after World War I that set the stage finally for the industrial and fiscal depression or financial depression of 1929.

Have you any comment to make with repect to that aspect of the agricultural problem and the price problem?

Mr. SANDERS. First, before I answer the question, might I call attention to the figures on the second column of page 162 of the President's report, which seemed to refute the statement, Senator Taft, that I made about the physical output of agriculture. Principally, the cause of agricultural output being low in those years from 1934, 1935, and 1936, was largely the effect of drought, an extraordinary drought that prevailed.

You will notice that in 1933 there had been not a great decline under the production of 1929, some four points in the index, although there had been some rise in the total output.

I do not think that is necessarily an invalidation of the general statement I tried to make.

Senator TAFT. The fact that agricultural prices are much more subject in a depression to sudden drops needs some protection and is undoubtedly due to continuation of agricultural production as well as existence of a completely free market. I quite agree that the point you make is entirely valid.

Mr. SANDERS. That is on one side, and on the other side the inherent nature of nonagricultural production is to drop at times when prices are not attractive because you cannot get wages to respond to a reduction in cost of living sufficiently to make it attractive to the man who is managing a concern to continue his output. With rigid costs—I mean costs if he hires the labor—facing him, he is compelled to reduce total amount of employment in order to not lose a great deal more than he would if he maintained his output.

Senator TAFT. The fact that we are paying $2,000,000,000 for unemployment compensation is in a way support for industry as well as for agriculture.

Mr. SANDERS. Except I think unemployment insurance is putting the emphasis on the wrong place. I think if we would undertake to work out a system of employment insurance to keep products of industry coming out in a balanced volume, then we would probably get reduced prices in nonagricultural industry that would conform to reduced prices in agriculture, and that would keep agricultural prices from dropping as much. This would keep industry and agriculture in the country in balance from the standpoint of production. I want to emphasize that it is production balance and not purchasing power that we ought to be driving for.

Mr. WARNE. How about the maintenance of price, price-maintenance techniques, which tend to maintain that extraordinary industrial stability in contrast with agriculture?

Mr. SANDERS. You mean price per unit?

Mr. WARNE. Yes.

Mr. SANDERS. Of course, our whole economy is shot full of such rigidities that are absolutely diametrically opposite to the nature of agricultural production and agricultural prices, and which paralyze the economy and which, Senator O'Mahoney, is exactly the reason why when you see the line of agricultural prices received, crossing the line indicating the prices paid by farmers, you are getting into a dangerous position.

Senator TAFT. Would you say you are in a dangerous position?

Mr. SANDERS. I would say you are getting into a dangerous position.

Senator TAFT. You are going in that direction, but you are not there yet. If you want parity, if you want a fair price for farmers, farmers have enjoyed 20 percent above parity for 4 or 5 years; so if they were to go 15 or 20 percent below parity for 4 or 5 years, it would not be a calamity.

Mr. SANDERS. I have an idea on that myself. If you calculate the total cost of operating farms in this country, if you allow farmers the full market value for all they receive from the farm by way of living, if you allow for the fuel not on their farm, if you allow them a reasonable house rent for their house, you will find that agriculture in only 2 years since the war started has received a labor income per operator that is equivalent to the average industrial wage, and only in one other year—1917—in history since 1910 has that been true besides the 2 years in this war period.

Senator TAFT. Your interest in parity is not a correct reflection of the proper relationship between farm prices and other prices.

Mr. SANDERS. I think that is true, and it is shown that only when agriculture gets up to the position where prices were above parity do we have the fullest amount of prosperity in this country.

Senator TAFT. Or vice versa. When we have the fullest amount of prosperity, agricultural prices get to that point.

Mr. SANDERS. It is like saying the egg comes before the chick.

The CHAIRMAN. The parity concept is arbitrary. It is based on the theory that agricultural products should obtain a price which would enable the farmer to purchase the same things he was able to purchase at the prices of 1909–14.

Senator TAFT. Based on the theory that the administration of William H. Taft was the golden age which we can never hope to approach again.

The CHAIRMAN. I think, Senator, that I had so much admiration for your father I am going to let that matter drop where it is.

Mr. SANDERS. Senator O'Mahoney, I would like to call Senator Taft's attention to the fact that we not only did approach such an age, but we have been through such an age in the last 3 or 4 years.

The CHAIRMAN. I was going to add I am not aware that during that period of 1909–14 the agricultural problem was very greatly discussed at the time. But here we have what is obviously an arbitrary ratio. There is another matter that ought to be called to the attention of everybody who studies this problem, and that is that agricultural production is still primarily the output of individuals working on individually owned farms with individual capital and, to a large extent, the labor of the owners; whereas, industrial production is getting more and more to be, and in some instances is entirely, the output of organization and that means that there are two utterly different economies trying to live together.

Mr. SANDERS. Just one other point and then I am through, Senator. I would like to emphasize that if labor and management in their collective-bargaining processes undertook to work out a sensible method of automatic adjustment of wages as prices change, and as productivity per labor increases, then they would do a marked service for agriculture because agriculture has long since accepted as reasonable a parity criterion of calculating what is a reasonable price through different price changes. We have accepted the policy that this price should go down when other prices go down. We see no reason in the world why management and labor should not undertake seriously to work out some sort of an automatic scheme that could be incorporated in wage contracts that would free them from the eternal bickering on whether the laboring man is getting a fair price in terms of purchasing power, and cost of living.

It seems that if they could agree on some reasonable method of doing that, they would free themselves from the basis for most of their conflicts. Then they would be free to work out and spend all of their time trying to ascertain whether the wage level in general was fair and the purchasing power of the wage-earning worker would maintain production.

The CHAIRMAN. Thank you very much, Mr. Sanders.

Miss SCATTERGOOD. Senator, I would like to comment on what Mr. Sanders said. The parity formula allows the farmer to benefit by increasing productivity. It applies only to the price that the farmer pays and the price that he receives as compared to the base period of 1909–14. He can benefit if he can produce more per hour of work than he did in that early period.

Now, in the same way the workingman wants to benefit by producing more per hour of work, and the partnership that Mr. Sanders spoke of—and I thought he put it in a very constructive way when he spoke of a partnership between management and labor—that is something that we in the A. F. of L. look to as our basis for making progress. I think a great deal could be done.

I did not bring this point in before because I was not sure whether it fitted into our questions today, but I would like to mention it now. More could be done in improving that partnership. Workers know that the costs of production are a very important element and that they cannot really hope in the long run to gain more wages than industry as a whole is able to earn. They can contribute toward reducing costs, but unless they have some records that they can see to know what they are producing and how much it costs, they are completely in the dark.

I think much could be contributed to a partnership between management and labor that would be constructive if unions and management sat down together and worked out ways of giving workers information on costs.

In a few rare examples I happen to know of where that was done amazing results were achieved and workers were able to earn a larger wage increase than the average for their industry. That seems to me wholly constructive and, of course, in those situations it contributes to minimizing the disputes and to creating an atmosphere where the groups can work together and can both share in the result.

The CHAIRMAN. There has been evidence, Miss Scattergood, that profit-sharing plans in industries have been very productive of good results in management-labor partnerships; that, likewise, the adoption of annual wages has resulted in stability of labor-management relations.

Have you any comment to make on either of those developments?

Miss SCATTERGOOD. I would like to comment on profit sharing in this way. Profit sharing is very unstable and it means that in good periods there would be something to share and in periods where the profits decline due to no fault of the workers, their income resulting from profit sharing would be wiped out.

What we in labor want to see is the development of higher and higher levels of maintained wages. I cannot quote you exactly federation policy on profit sharing, but I could submit it for the record.

The CHAIRMAN. I think it would be helpful.

(The information referred to above is as follows:)

STATEMENT OF THE AMERICAN FEDERATION OF LABOR ON PROFIT SHARING

Labor has objected to profit sharing when such plans have been pressed by management upon their workers:

(1) To divert them from union organization and collective bargaining.

(2) To get them to accept a share in profits which are uncertain and vacillating instead of a steadily rising level of wages won through collective bargaining as increased productivity and reduced costs make higher wages possible.

(3) To give workers the impression that they are partners in the business when actually no basis for true partnership is established. A study of 129 profit-sharing plans by industrial relations counselors in 1945 shows that 91 percent provide for administration exclusively by management.

The American Federation of Labor believes that:

(1) The collective-bargaining relationship is the only basis for true partnership between management and workers in industry, since it gives workers equality of status in determining matters that concern them; such partnership in no way alters the functions of management and labor; management still writes the work orders, and the production staff executes them.

(2) The terms of employment should be established by collective bargaining, based on mutual discussion and agreement between management and labor and written into a joint contract.

(3) Because wages represent payment for work done, they are a first charge on any business; this gives workers the necessary security of income. On the other hand, profits, which represent income remaining after all costs are paid, vary greatly with changes in management policy, business fluctuations, and other matters over which workers have no control; they cannot be relied on for daily living expenses of low-income groups.

(4) Wages should be at the highest level industry can reasonably be expected to pay and should provide customary standards of living, rising as rapidly as increased productivity and reduced cost make possible. Profit sharing cannot replace this steady increase in workers' wage income which forms the basis for increased living standards and the expanding market necessary to absorb industry's increasing products.

(5) The risks of industrial enterprise are borne by all who participate in it. The worker who invests his work experience and labor power risks loss of his entire income through unemployment, accident, or industrial disease; the owner of capital who invests a portion of his capital risks loss through bad management or emergency and accepts a varying profit in return. Each bears his part of the risk, and the worker's risk may often be the greater.

(6) We see no objection to the establishment of profit-sharing plans provided they are established by collective bargaining and do not interfere with normal wage increases, and that workers are given adequate facts on company earnings and share equally in administering the plan.

The CHAIRMAN. What do you mean by "maintained wages"?

Miss SCATTERGOOD. I mean wages that are based on higher productivity, lower costs, and can be maintained at a higher level. Not wages that would be up in a profitable period and down in an unprofitable period.

The CHAIRMAN. But the free-enterprise system, the economic freedom, on which theme you opened your discussion, necessarily involves, does it not, that there may be losses as well as profits?

Miss SCATTERGOOD. Certainly.

The CHAIRMAN. And a free-enterprise system, which is really an independent competitive system—and I do not mean when I refer to free enterprise to refer to the industrial concentration of economic power, but to a really competitive system—would necessarily involve fluctuations, would it not?

Miss SCATTERGOOD. Yes; it would.

The CHAIRMAN. And if there were then a partnership between labor and management in such a free competitive industrial system, would there not be a partnership also into the fluctuations?

Miss SCATTERGOOD. We do not feel that workers whose incomes as a whole provide little, if any more, than the bare necessities of living, sometimes not even that, are the ones who should take that risk. We feel that the risk has to be taken——

The CHAIRMAN. I would think that any system of profit sharing would have to be based upon an agreement that proper wages should be paid.

Miss SCATTERGOOD. Now we are getting to the point. We do not feel that profit sharing should replace proper increases in wages. We do not think it should be a substitute for a steadily rising level of wages.

The CHAIRMAN. I think that is very reasonable.

Miss SCATTERGOOD. I hesitate again to commit the A. F. of L., because I am not quite sure what our policy is, and I would rather submit it to you in a memorandum, but I believe our policy is that profit sharing is all right provided it is not substituted for wage increases and not substituted also for action by the union. We have had the experience of having profit sharing used to defeat a union.

Senator TAFT. In reference to this labor-management relationship, when you sit down around the table, do you think perhaps the consumer should be there, too, and then perhaps decide whether they should lower prices instead of raising wages and thereby benefit the consumer?

Miss SCATTERGOOD. Our policy is to raise wages without increasing prices.

Senator TAFT. You claim that increased productivity is the proper basis for wage increases?

Miss SCATTERGOOD. We have maintained ever since the war that we should not force prices up, that we should cooperate in reducing costs so that wages can be increased without increasing costs.

Senator TAFT. Sometimes you condemn those who have asked for too much; is that right?

Miss SCATTERGOOD. I do not think we condemn them for asking for too much. Our movement is a very free movement, and we allow each affiiliated international union——

Senator TAFT. The report of the A. F. of L. in 1946 says:

This drastic living cost need not have occurred if the President's wise wage policy of August 18 had been observed. Those unions which broke price ceilings to get 18½ cents followed a short-sighted policy. Early in July their press statements claimed they had lost most of the increase by rising living costs, and they brought the same losses upon all other workers.

Miss SCATTERGOOD. That is true. That is our statement. But those were not A. F. of L. unions.

The CHAIRMAN. Mr. Pennybacker, you have not had your turn. Let's have the new council of industry speak now.

Mr. PENNYBACKER. Thank you, Senator O'Mahoney. I represent small business. I am a small-business man with a small plant in Connecticut.

I was interested in your statement with regard to the farmer and industry, that we have two independent economies more or less that have to learn to live together. I think that analogy can carry over into industry itself. We have small business and we have big business, whose interests in many cases are the same but whose interest in all areas are not identical. I would like to present some viewpoints, especially those of small business.

For example, the concept that the President's Council has so effectively proposed, the continuously expanding economy, is of even greater importance to small business than to big business, because in periods of even moderate recession the small-business men—or at least a considerable number of them—are likely to be squeezed out. The big-business man may suffer some loss of profit, but he may actually gain in terms of his percentage control of the industry. He may be able to buy out some smaller competitors at more favorable terms. So that the small-business man is, I think, most directly concerned with this problem of a continuously expanding economy.

Mr. Keller took it as a sort of trite aphorism that everyone accepted this, that when the Council said our economy should continue to grow, that was something everybody accepted. Well, I have heard representatives of big business say that they thought some considerable recession was very wholesome, that even unemployment up to 5,000,000 was a good thing. It increased productivity per worker and tended to clean out deadwood, and that sort of thing. So that these new concepts, while they are being accepted, they have not been universally accepted by big business representatives.

Now, to get down to the more specific recommendations that the President makes in his report: In general we are very much in favor of them, but we believe that they are perhaps inadequate, that they are sending a boy on a man's errand, that we are not fully recognizing in this report the adverse factors that we may encounter over the next 5 years, which have not been present in the last few years.

For example, if there is a happy reconciliation that makes possible a reduction in our expenditures for the cold war, that would be a reduction of perhaps quite substantial amounts. The effect of these expenditures on our economy, which has been great in recent years, might be withdrawn. Also we are not going to be able to draw on consumer savings to the same degree over the next 5 years as we have over the last few years. Therefore, some plan should be made for substantial replacement of such spending.

When we get down to the individual item here which proposes to make some revision in the tax structure, I would like to repeat again the necessity from our standpoint of reducing or eliminating the wartime excise taxes. A small example of that is in my own industry, which is cathode fluorescent lighting.

We as a manufacturer are obligated to pay a 20 percent excise tax, which means in the case of one of our cold cathode lamps about 40 cents per lamp. This lamp has a very long life, and we can say to the customer, "This will last 10 times as long as the incandescent lamp on which you may pay an excise tax of 2 or 3 cents."

He says, "That is very fine, but I have a limited amount of money to pay for this installation, and I have to get it done now as economically as possible."

So that this added excise tax on our goods is a very important factor that puts us at a disadvantage in comparison with a large manufacturer of incandescent lamps and even with others whose fluorescent lamps have shorter lives but are selling at a lower price and are carrying a smaller tax in dollars.

We think also that this question of redistributing purchasing power can be creative, not merely a reshuffling of the cards, and that the tax reduction which the last Congress, the recent Congress, put into effect is some evidence of that. Higher taxes on large incomes are consistent with balancing the budget, which we agree is a desirable thing in times of prosperity, and we should be willing in times of prosperity to withstand those higher taxes.

Going down among the recommendations, the third one, of substantially increasing the maximum maturity period for business loans made by the RFC—of course, we agree with that, but it is very, very minor in its effect on small business.

Here again the policy of reducing corporate income taxes on the first $50,000 of income would have a far greater effect in encouraging equity capital to start new business and enhance those businesses which are already going.

Establishing the Columbia Valley Administration and authorizing the St. Lawrence Seaway—this is a step in planning which we think is very desirable, but it does not go very far. If we are going to have real problems in the years ahead in this continuously expanding economy, as we are likely to have, we must have bigger plans than that, and I think that the Murray bill, introduced in the last session, is the kind of thing that contemplates the planning that is necessary on a big enough scale. In other words, to send a man on a man's errand. It is not necessary that those projects be put into effect, and we do not think they should be put into effect in times of prosperity such as this. But certainly the plans should be made so that we do not have to go very far into recession before those plans become effective in Government spending.

Extend and liberalize the social-security structure—we think that should be done, and particularly that an extension of the time of unemployment compensation would be desirable. In Connecticut, for example, a pretty high percentage of those unemployed have now reached and have gone beyond the end of their unemployment compensation period.

Continue the foreign recovery program—this again should be planned and projected on a large scale. What we have done in Europe, in western Europe, is an indication of what can be done even though a large percentage of it there was directly or indirectly related to the cold war. But apart from that, we know that our technical assistance and guidance and investments can be a tremendous help in stimulating world economy. We do not think it should be restricted to western Europe. We think it should be planned more definitely on a larger scale. We also approve of the charter for the ITO, the International Trade Organization.

We believe, also, that the provision of additional authority over banking reserves for the Federal Reserve System is a desirable recommendation.

However, primarily we would want to place our emphasis on the type of planning contemplated by the Murray bill. We believe that once business realizes that the Congress is committed to a policy of preventing depression, then business will not retract so much in the event of a minor recession, but will have confidence in the guarantee that purchasing power will be maintained and if it is not maintained automatically through the forces of a free market, the Government agencies will step in early and on a large enough scale to make their action effective. We believe that such Government guaranty will act in somewhat the same manner that Federal Deposit Insurance does. The mere fact that the Government commits itself to such a policy makes it almost unnecessary to carry it out to a large extent and, hence, the total cost to the Government will be minimized.

The CHAIRMAN. Thank you very much.

The Chair received a telegram from Mr. Henry L. Miller, chairman of the Small Business Advisory Committee of the Department of Commerce, expressing regret at his inability to be present and requesting that the statement which he had prepared for this session should be made a part of the record.

(The statement is as follows:)

STATEMENT OF HARRY L. MILLER, PRESIDENT OF THE CHESTER-JENSEN CO., CHESTER PA., AND CHAIRMAN OF THE SMALL BUSINESS ADVISORY COMMITTEE TO THE SECRETARY OF COMMERCE

Accompanied by the members of the Small Business Advisory Committee to the Secretary of Commerce, of which I am the chairman, I had the honor to appear before the Joint Committee on the Economic Report on December 6, 1949, and present the views of small-business men concerning the need for increased availability of bank credit and certain modifications in the tax laws. I consider it a privilege to again appear before your committee and emphasize certain phases of the small-business man's problems which are appropriate to the deliberations of your body.

After completing my college work at Swarthmore College, I embarked in a very small manufacturing business in Chester, Pa., and, although my firm has grown, I still consider myself a small unit in the dairy equipment manufacturing industry. I have always given serious attention to the problems of my fellow small-business man and for that reason have served 3 years on the Commerce Secretary's small-business committee.

This past year has been good to businessmen, both large and small. The usual turn-over in the small business group has occurred but even that situation, while disheartening to some, has been healthy and normal. Employment levels are high, profits have been good, wages have increased, and gross national business has been satisfactory. Only in America has this situation prevailed and all of us should be happy, confident, and determined.

The business outlook for this new year is as good or better than a year ago. True, there are disturbing rumblings here and abroad which might cloud our picture. However, if businessmen will go back to work and if distributors will distribute, and if our Government will act wisely and promptly to eliminate the causes of some of the businessman's problems, then I believe our free enterprise and profit system will grow and grow and America will continue to be the best place in the world in which to live, work, and die.

One cannot appraise the problem of small business without immediately facing up to several phases of the present taxing system. The present methods for obtaining revenue to operate the kind of Government we Americans demand fail to recognize that we Americans also cherish our heritage of free enterprise, the right to start our business and succeed, the right to fail and start over again. The desire to have our own business, to have our name over the door is as impelling in the soul of every American man and woman as is the desire to own our homes, or to enjoy the freedom of speech and the right to worship as we please. If we are to prevent the concentration of wealth and power, if we are to remain an example of democracy, if we will perpetuate "Main Street," then we must continue the incentive and the reward for individual commercial venture. These incentives and rewards are becoming atrophied by the insidious disease of taxation.

Businessmen recognize the greatly increased national and international commitments which our country has been forced to undertake, and their cost. These commitments have been judged to be necesary to preserve our American way of life, which we are all determined can and must be preserved at all costs. However, these costs should be distributed in as fair and equitable a fashion as is possible against all income-producing elements of our society. And it appears that there is now a need for a careful review and appraisal of the effects of the present revenue system. Full production in an expanding economy is essential to full employment and the combination of the two presents the greatest possibility of meeting our great commitments in such a manner as to be beneficial to all.

If we are to achieve this goal, full production and justifiable expansion of small businesses must not be stifled by a program of taxation which prevents the growth which is so imperative to healthy economic life. I cannot see the justice of allowing some types of business activity to operate on a tax exempt basis, when they are operating in direct competition with other business in the same field which are required to carry a heavy tax burden. I feel that such business operations should be required to pay taxes on income on the same basis as competing businessmen—otherwise, how can you say there is any true equality of opportunity?

It is the natural and human desire of every man to provide as well as possible for his family during life and to wish to leave them secure upon his demise. Every father would like to see the business which he has built up continued successfully by his children. However, in the smaller business field, where the success of the company is frequently due to the personal efforts and attributes of the owner-manager, his death frequently involves disaster for his family, due to the application of the inheritance tax laws. The assessment of the inheritance tax on a business on the basis of its value as a going successful enterprise before the death of the proprietor, may readily result in a tax charge in excess of the liquidating value of that business shortly after his death. True, it is possible under some circumstances to obtain as much as 10 years' time in which to pay off this tax. However, this requires that the business be continued successfully so that there is evidence that the tax can be paid off promptly and requires review and reapproval each year. What then happens to the widow who has no business knowledge and so must either liquidate immediately or continue under hired management in the hopes of being able to pay out?

The large companies whose stock is listed on the exchanges and which are usually operated by hired executives do not face this hazard. As has been brought to your attention before, this situation has a strong tendency to increase mergers of small successful businesses with large integrated concerns, primarily in an effort to provide greater security for the heirs of the smaller proprietor.

Section 102 of the Internal Revenue Code as it stands today is a mental if not in fact a real hazard to all small-business men. This section makes it incumbent on the incorporated small-business taxpayer to justify and defend to his tax collector, the portion of net earnings retained in his business and not distributed as dividends. This, I believe, denies the small-business man access to the greatest source of operating capital—earnings. Modernization, expansion, promotion, rainy-day reserves, all must give way to the small fellow's fear that he may some day, usually 3 to 5 years later, be called upon to pay a penalty tax. I urge you to remedy this situation by clarifying section 102 of the Internal Revenue Code by, among other things, placing the burden of proof upon the collector of internal revenue that profits were retained in a business to avoid individual income-tax payments.

Today the basis for the establishment of depreciation schedules and percentages for income-tax purposes are as changeable as a chameleon on the coat lapel of the several internal revenue auditors who call on the small-business man. This entire business of determining depreciation allowances is now an "administrative matter." They change from year to year with delayed action penalties, and vary from one revenue district to another and from one business to another. There are a great many industries which today cannot compete for available business because of obsolete facilities and equipment and which cannot afford to modernize because of uncertain or inadequate depreciation allowance privileges. The textile industry of New England is but one example. The equipment manufacturers, which could supply new modern equipment, are denied this volume of business by this same tax-reporting practice.

On the basis of my conversations with many manufacturing, retail, wholesale, and service businessmen, I recommend your support for legislation which would stabilize depreciation allowances as a matter of law and not leave this important element of business management and budgeting to "administrative determination."

It is my opinion that the taxpayer should have the right to establish his own depreciation factor on the basis of the cost and useful life of his plant and equipment, his store, furniture and fixtures, delivery equipment, etc., and that a schedule once adopted by him should not be subject to change by him or the Internal Revenue Bureau. I further believe that this depreciation factor should not exceed 20 percent per year unless the taxpayer can prove that the useful life of an item will be less than 5 years in the operation of his business or the production of precision products which he manufactures.

I am convinced that the double taxation of corporate dividends imposes an undue hardship on smaller corporations which prevents normal growth. Corporate dividend payments are in truth an expense item to the corporation and should be allowed as a deduction rather than as a taxable item. Dividend payments represent the cost to the enterprise for the use of the money which has been needed for operations, which they have secured through sales of stock or ownership rights If such double taxation were not in effect I am sure that larger dividend payments could and would be made and the tax collected at the proper source—from the persons receiving the additional income as dividend payments. I do not say that this would account for all of the possible tax revenue loss occasioned by such a method, but I believe it would account for a substantial portion of the loss and make for a much healthier business operation.

There is an increasing demand for repeal or modification of wartime excise taxes. I have recently seen a letter from a dealer in furs in which he states that in 1945 he paid excise taxes in the neighborhood of $6,000. In 1949 the same firm paid less than $2,000 in excise taxes. From this it would appear that revenue, from some excise taxes at least is rapidly diminishing. Unless some action is taken on these taxes, or until a positive authoritative statement is made that no action will be taken, many small businesses will be driven into failure. Unless it is absolutely essential, the public will not buy items subject to such a tax so long as they have the idea that perhaps if they wait a while longer they will be able to buy the same article tax free.

I have discussed at some length my beliefs on the effects of taxes as they are presently assessed on business, with particular reference to small businesses, and what I consider to be the absolute need for some changes, if business is to attain full productivity and we are to achieve any measure of full employment and an expanding economy.

However, growing out of this tax dilemma there is a further serious problem of small business which needs to be solved. This is the lack of availability of long-term loans and equity capital for smaller enterprises. The Small Business Advisory Committee of the Department of Commerce, of which I am chairman, has recognized this need for some time. This Committee has had the privilege of sitting with members of the joint committee and of outlining their ideas and plans in some detail. We feel that there are two distinct areas of financing small business, both of which require courage. First, there is the very real need for long-term loans which can be repaid out of earnings without any loss of ownership. I am talking here about loans in an amount, let us say, of possibly $10,000 or less, for a period of perhaps not more than 5 years. This would be repayable in installments. Such loans should all be made by our present commercial banking system rather than through any system of governmental loaning activity. To encourage such loans and make them attractive to these commercial banks, we are proposing a plan of insured loans patterned along the lines of the FHA title I system. This would require enabling legislation by the Congress. The administering agency would have no loaning or preview authority but would become custodian and operator of the insurance fund. The insurance premium to cover possible losses and administrative expenses would be a part of and included in the original charge to the borrower.

If such a program operated as successfully as the FHA title I program has, and there is no reason to believe that it cannot do so if properly conceived and managed, this would prove of greater assistance to small business at no cost to the Government. This proposal has been developed in considerable detail by Mr. Walter Bimson of Phoenix, Ariz., a very highly regarded banker, who is a member of the Small Business Advisory Committee, and is known as the Bimson plan. Since all this has been presented to your committee in open hearings and since you have been furnished copies of the proposal, I do not feel it necessary to go into further detail at this time. However, I do strongly urge your support and the prompt enactment of such legislation as may be necessary to bring it into active use.

Second, there is a further need for true equity capital, in considerably greater amounts for the larger medium-sized small-business enterprises. Again, largely because of the tax situation, there is a lack of incentive for investment of a risk nature in these enterprises. The risk element is entirely too great in relation to the amount of return which may be expected after taxes. They cannot obtain such capital through the big-business method of stock or bond issues. The underwriting cost of such issues is prohibitive in amounts of less than a million dollars.

Dr. A. D. H. Kaplan has proposed a plan of regional capital banks to provide such equity capital at this higher level. Under the plan commercial banks would subscribe up to perhaps 3 percent of their capitalization, to the capital of the capital bank in their area. The capital bank would assume some managerial direction of the enterprise being financed, but the borrower would have the right to buy back his ownership interest whenever he was able and desirous of doing so. It is my opinion that the Kaplan capital bank plan should receive your consideration and study as a possible means of meeting this second financial need of small business.

In conclusion I would like to state that I have no grave fears for business in the near future. No doubt it will become increasingly difficult to meet competition. Small-business men will have to learn to become better all-around operators. They will have to improve their management know-how and production techniques to meet increasing competition in a buyers market. Given the incentive to do so which arises out of the possibility of greater returns for their efforts and a reasonable degree of hope for the future, they will certainly try.

I believe we should bend our efforts toward strengthening small business, rather than toward damning big business as the source of all evil. There is no harm in bigness as such. Indeed there are industries of which we are all aware in which bigness is an essential if we are to have the production necessary to our great economy. Bigness is harmful only when it results in great concentrations of economic power which stifles competition and freedom of enterprise. One of the greatest counters for such a situation is a large number of strong, self-reliant small businesses.

Mr. FLEMING. Mr. Chairman, you made a statement a while ago that I wanted to comment on at the time.

It is with regard to the point you made that it was not the province of this committee to deal with the so-called Brannan plan as such. I agree with that point of view.

On the other hand, there are people who seem to infer that any discussion of production payments is a discussion of the Brannan plan, which I attempted to make clear this morning, I am certain it is not.

Production payments have to be hooked up with high level price fixing type government, guaranties in order to constitute the fundamentals of the Brannan plan.

Also, I would like to raise one question that I had hoped to direct to Mr. Kassalow before he had to leave. It may be that the representatives of the A. F. of L. who are present may want to comment, but I certainly do not want to direct the question to them. It relates to a sentence included in Mr. Kassalow's statement, which reads as follows:

> Raising the personal income-tax exemption is the most helpful step Government can take to advance the Nation toward the avowed goal of higher consumption.

During recent weeks I have discussed Government farm policy questions with people especially interested in the consumer point of view, and I have made the statement that I made this morning, that there is no cheap food in the Brannan plan.

From those conversations I have gotten this impression: some people have decided that even though the Brannan plan might cost $10,000,000,000 or more annually, it might still serve the interests of individual consumers to have the Government pay out of tax revenue a sizable proportion of the grocery bills of everybody, providing you could raise the level of income-tax exemptions to the point that the benefit they might get in Federal subsidy on food would be greater than the taxes they would pay.

I raise the point here because if there is much general thinking in that direction, I would like to say that I think it is a cruel delusion. I am confident that it won't work out that way. Of necessity our income-tax base must be broad. This means all of us are going to have to pay our fair share of the tax load.

Mr. Warne. I think the feeling on the part of the consumers is that under the existing scheme we pay a kind of artificial tax in the current price we pay for a great many foodstuffs. For example, take the worst case, the price of potatoes. A year or two back we were paying an exceptionally heavy price and the potatoes did not even come into our hands in full volume, and a great many of them rotted and were sold for other purposes than consumption.

So that what you have currently is an artificial price going to the farmer as a subsidy, and we would be very much better off to have the price drift to an appropriate market level and at the same time let the agricultural income be sustained directly from the Treasury. That could be tried out, perhaps, as an experiment. Certainly, we could not have a worse scheme than the one we now maintain in terms of consumer welfare.

Mr. Fleming. I would like to make two comments. One I had intended to make following your presentation this morning. We support repeal of the Miller-Tydings Act.

The Chairman. Will you tell the National Retail Druggists that?

Mr. Fleming. We have told everybody that by setting it out specifically in our resolutions. Sometimes we get to discussing alternatives when they are not necessarily the alternatives. You mentioned the potato program. I know of no responsible farm organization that supported the program put into operation on potatoes. I know, furthermore, the Department of Agriculture did not recommend that program. We ought not to judge the alternatives on the basis of a third choice, which certainly was not the one being recommended by the folks most interested in discussing this policy.

Likewise, it was because of the recognition that it was desirable not only from the farm point of view, but from the consumer point of view, to give consumers an opportunity to share in larger production, and to avoid the kind of thing that was involved in the potato program, as an example, that farm groups gave support to a flexible price-support program that would allow prices to decline as production increased and vice versa. Thereby when you multiplied production by price you would get a stability in income and at the same time give consumers an opportunity to share in the benefits of that abundance. The potato program is not one that resulted from the recommendations of either the farm organizations or the Department of Agriculture.

The CHAIRMAN. Are there any further comments?

Miss SCATTERGOOD. I want to make one further comment that should have been made far back in our meeting after Mr. Keller of the Chamber of Commerce brought up what minimum unemployment should be.

My understanding of what he said is that he would have a minimum level about 2,000,000 and that we should not try to keep it down to 2,000,000 or consider that we should work for 2,000,000.

The CHAIRMAN. Mr. Keller is violently shaking his head.

Mr. KELLER. Thank you, Mr. Chairman. "Violently" is the word.

All I say is: The question you are facing is not whether it is a good idea to have people who are involuntarily unemployed, because on that we have the answer. The problem is how far can you go with Government measures to combat unemployment without committing yourself to the perpetual pursuit of inflation?

I am not prepared to give you the answer. If you are prepared to show that the figure of 2½ million is much too high, perhaps it ought to be 1 million. All I said was that there is a good respectable body of economic opinion holding that to be an inflationistic goal.

Now, I have no quarrel with anybody who is prepared to demonstrate the contrary. If we can shoot at an unemployment maximum of 50,000 or 5,000 or 5 without running into inflationistic policies, that is fine.

The CHAIRMAN. I take it your position is this: If conditions are such as to wipe out unemployment completely, they are bound to be such as to cause demand greater than the available supply and thereby cause rising prices and thereby call for price controls of one kind or another.

Mr. KELLER. Perhaps I say the same thing when I say the only conditions in which involuntary unemployment could conceivably fall to anything like zero would be conditions of destructive inflation, so far as our experience runs to date. All I said in the statement I made was that if the Council has some basis in support of its goal, it certainly has not yet made it clear.

The CHAIRMAN. You have no quarrel with the idea that government should maintain such conditions as would create employment opportunities for those able and willing to work?

Mr. KELLER. At any time, you mean? I certainly would have no quarrel with the proposition that government ought to set its policies in such a way as to produce a healthy economy with the maximum employment of a healthy economy. I would agree with that, certainly.

The CHAIRMAN. Miss Scattergood?

Miss SCATTERGOOD. I think that covers what I wanted to bring out.

Mr. KELLER. I would like to raise one question, if I may.

There is a little bit of an anomaly in this conception of parity, I think, that might be just worth mentioning. The basic idea seems to be that a certain relationship, income relationship, between different groups, different parts of the American public, is healthy; and that, when a large group suffers in relation to the others, that is an unhealthy thing. That seems to have been the idea.

The CHAIRMAN. What Mr. Sanders said has been said, of course, many times before; namely, that organized industry will reduce production in order to maintain price, whereas the farmer, on the other hand, produces, and he gets a lower price for the same production.

Mr. KELLER. I got that. My point was, if there are some healthy relationships that can be at least approximated in definition and if this parity concept, for example, suggests a healthy relation, then, when farmers get as far out of line on the up side as they have done in recent years, that must not be too healthy. It must mean—because it is all relational—that other groups are suffering in relation to farmers.

I am not going to come to the ridiculous recommendation—and it would seem to me politically ridiculous—that we abandon all interests in this problem and that we just say, "Let the market run its course." I am not going to make any such recommendations.

The CHAIRMAN. Would you state you are not going to suggest that the Government abandon an agricultural program?

Mr. KELLER. This does seem to me to be the prescriptive implication. All the way through the emphasis has been on what happens to farmers in depression, what happens to various groups on the downswing.

The CHAIRMAN. My fear is that, if we permit farmers to go into the downswing, it will not be long before the rest of us will be drawn along.

Mr. KELLER. I think we get into the hen-and-egg argument a little bit—as to why the farmers get into the downswing in the first place, that is. However, it seems that here we do have additional basis for every possible effort to achieve healthy stability. There is the possibility of mitigating, ameliorating, meeting this problem in some measure through healthy stabilization. And if it be true that the distortion on the up side will never be corrected—and it is a distortion—then perhaps we have additional reason to get on the evenest keel consistent with healthy economy and stay there.

Mr. WARNE. There is one item that worries me about the healthy stabilization. There are organized groups in our community—organized labor, perhaps one out of four—organized farmers, but you have a great many unorganized people. I have wondered a little as I have seen the Council's reflection suggesting that the advance in the national productivity be achieved by collective bargaining techniques, which would certainly have our approval. Would something of the same result not be attained if we could let the price level drift downward by breaking up, to an increasing degree, these price-maintaining techniques that have, I think, plagued many industries, curtailed a great deal of production, and which are in a substantial measure responsible for the current lack of markets?

I have a feeling that a great many businesses, due to these rigidities, are pricing themselves out of the market. They could sell more washing machines at $150, to use my earlier illustration, than they can sell at $190. And yet we maintain this seeming stabilization at a higher level, and our productivity during the last year has slightly fallen, even though we had a great increase in installment buying; and I fear this coming year may find the dip even greater at the same time when the prospects should be for greatly amplified production and employment.

I would prefer not pressing certain groups ahead as much as letting this price level drift downward, which would allow all to buy a greater volume of goods.

The CHAIRMAN. There was a very dramatic illustration of that a year ago when General Motors had a representative, the executive vice president, Mr. Coyle, at this table. He brought with him a physical illustration of the point of view with respect to price.

In this room he had a chart, and out on the street in front of the Senate Office Building he had two cars. One was a Buick car of 1929 and the other was a Chevrolet of 1948.

Now, the substance of the presentation was to show that the 1948 car was more automobile, had more horsepower, more speed, more fashion and style, for less money than the Buick of 20 years before. That is to say, the car of 20 years ago cost considerably more than a much better car of the current period.

Mr. FLEMING. A point was made by Mr. Keller that, if parity is fair, then, since farm prices have been quite a way above it on occasion, that must have meant such prices were unfair. As a matter of fact, that is one of the basic reasons why farmers are not asking the Government to guarantee 100 percent of parity.

I recall distinctly Senator Anderson asking a question a year ago of a witness during the Senate Agriculture Committee hearings, on this proposal, which question in essence was, "If you are for guaranteeing 100 percent of parity support prices, and you agree that parity is fair, then I presume you are willing to have the support price be the ceiling too?"

That is a basic question. Our members throughout the country have said, in effect, "We don't want Government support prices at that high a level, because we don't want out-and-out Government price fixing." We believe a flexible price-support program as outlined in the 1948 platforms of both political parties, is a better method of assisting farmers to earn and to get satisfactory incomes and at the same time enable consumers to share in abundant production efficiently produced.

The CHAIRMAN. Miss Scattergood and gentlemen, my attention has been called to an appointment which I have, and therefore I am forced to express the appreciation of the committee for the participation. I think we all found it very enjoyable, and I am sure we have all found it very helpful.

Now, if any of you desire to supplement what you have said upon the basis of the discussion which has taken place here, the committee will be very glad to receive a brief statement from you to be included in the record.

Mr. MARSH. Mr. Chairman, may I ask whether you will let the People's Lobby submit a brief and also a little pamphlet entitled "The Consumers' Program the Eighty-first Congress Should Enact"?

The CHAIRMAN. Mr. Marsh, you know I could deny you very little that you might ask. The brief will be received and made a part of the record.

Mr. MARSH. That is another evidence of your intelligence, and I thank you, Mr. Chairman.

Whereupon, at 4:45 p. m. the hearings were ended.

(The statement above referred to follows. The pamphlet will be found in the files of the committee.)

STATEMENT BY BENJAMIN C. MARSH, EXECUTIVE SECRETARY, PEOPLE'S LOBBY, INC.

While the President, discussing America's moral leadership, "as we seek to inspire freemen everywhere with confidence in their cause," says, "The economic power of the United States, at its full potential, is the keystone of this support," he ignores, in the Economic Report, the only sound method of getting our "full potential."

Your committee stated that sound method in your statement March 1, 1949:

"The Government, which is the only instrumentality that can balance the needs of agriculture, industry, and labor, cannot afford to be without a plan."

Over 5 years earlier the Interbureau and Regional Committees on Postwar Programs of the United States Department of Agriculture stated:

"The agricultural production of the United States should be adjusted to national requirements, with due regard for export demand and desirable imports."

There cannot be any inclusive program for America's economy unless we recognize the accuracy of the statement Secretary of State Dean Acheson made recently about the situation in Asia:

"Two factors are pretty nearly common to the entire experience of all these Asian people. One of these factors is a revulsion against the acceptance of misery and poverty as the normal condition of life. The other is the revulsion against foreign domination. They have had enough of it, and they want no more."

This is equally true of the peoples of Africa, Europe, South America, and Australia.

Our economy must be organized to meet the fact we cannot longer safely seek to exploit or dominate other peoples to maintain our own standards of living and give them in exchange the benefit of our theological and economic doctrines.

Failure of the President even to mention the necessity for an over-all Government plan, which your committee stressed, makes his message devoid of basic constructive significance; while his advocacy of more underwriting by Government, without specific programs for meeting those costs, makes it really another plea for spending in the dark.

To put is concisely, this message is not a blueprint; it is a "redprint" for the Nation, "which cannot afford to be without a plan," with a few exceptions:

1. The recommendation that rent control be extended for a year.
2. The recommendation that the powers of the Federal Reserve Board be increased, particularly to control credit.
3. The recommendation that the charter for the International Trade Organization be approved.
4. The recommendation that the tax structure be revised—elaborated in his subsequent budget message, though this did not meet the situation.
5. The recommendations to continue foreign recovery programs and to "authorize the program for technical assistance to underdeveloped countries," provided it be "the policy of the Government to encourage investment abroad only when it is carried on in a way that protects the interests of the people in the foreign countries concerned."

It is quite obvious that we are not doing that now.

United States News and World Report, December 20, 1949, stated:

"Top question in western Germany right now is whether the Nazis are coming back into power. People in Bonn and Frankfurt see these as straws in the wind:

"Banker of Hitler Germany, Herman J. Abs, is permitted by United States officials to visit the United States, pave the way for new loans by United States banks to German industry.

"Men who helped Hitler are slipping back into key posts in government, finance, industry. Nazi Party bigwigs, of course, are either dead or out of circulation.' But the less conspicuous Hitler supporters are on the back.

"Pro-Nazi parties are growing in strength. Altogether, they command votes of about 10 percent of electorate. Hitler took power with minority backing.

"Criticism of the Allies is increasing, getting bolder.

"Allied concessions to western Germany, at the same time, are piling up."

The Council of Economic Advisers concludes its Annual Economic Review, which the President transmitted to Congress:

"In the underdeveloped countries there is an enormous potential demand for the products of western Europe and of the United States which will become active as their resources are more efficiently used and the standards of living of their people raised. It is the purpose of the point 4 program to activate these powers of economic growth. In doing so, it will also expand the opportunities for world trade.

"Here lies the opportunity for the countries of western Europe to escape from the limitations of existing world markets in which they are now confined, and within which they find little room for adjustment.

"Our own policies under the point 4 program and the business policies of western Europe should be directed to permit them to participate in this expansion of world trade. They will then find an outlet for their increasing production and will begin to create a new source of dollars to support their purchases in the United States."

In contrast to this somewhat narrow approach, we quote from the statement made on point 4, January 12, 1950, to the House Committee on Foreign Affairs by Dr. J. T. Sanders, legislative council, the National Grange:

"This point 4 proposition must be approached with the maximum realism. This Nation must of necessity be even a greater proportionate financial contributor to a world-wide or international point 4 program than we were with UNRRA—over two-thirds of all its financial support. The main difference is that UNRRA was a one-way street; point 4 must truly be mutually profitable to the suppliers of financial support and to the recipients. As long as we believe implicitly in the superiority of the capitalistic system and in democracy, practical politics tells us that point 4 cannot be set up so as to stimulate the growth of a totalitarian economy in any country. That to my way of thinking was the basic reason the United States abandoned support of UNRRA. Yet any point 4 program will miserably fail if it incorporates means whereby investing nations can and do interfere with the liberty and freedom of the recipient nation.

"We also cannot support any point 4 proposal that does not coordinate integrally with and enhance the functions of the UN. Our official pronouncement on this score is forceful and unmistakable, as follows:

" 'We are convinced that our policy should be one of wholehearted support of the United Nations and that we should do everything in our power to build it and strengthen it as an instrument of peace. A strengthened United Nations undoubtedly should provide a legislative body to enact laws related to world peace, with some practical and equitable system of weighted representation, a world court to interpret the law, and a world police force to enforce it.'

"Since we favor maximum use of the UN, we believe that through the point 4 program nations must act in concert for common ends in the present world, where even a powerful nation as the United States cannot afford to stand alone. If we support the principle of cooperative action with other nations, we must do everything possible to effectuate the principle. Having set up the UN, we must use it so that it can mature in capacity and effectiveness as a world government and consequently as an agency of world peace.

"Even though we know that our motives toward the underdeveloped areas are not those of the exploiter, we must realize that real fears of this exist, and can be fanned into flame, against the United States and her alleged imperialist schemes. The way to counteract this is to retain our program as it is contemplated in the Kee bill, but to lean over backward in our every word and deed to make our intention incapable of misinterpretation. Use of the UN is one of the best ways we can show our genuine intent to give assistance, not dictation.

"We must not forget that other countries have technical resources which will be as valuable to underdeveloped areas as is our technology. Especially can better pooling of technical assistance be achieved through UN, and channeling the major part of the technical assistance program through UN will also insure that other countries contribute their share of costs."

The President seems to ignore the fact we are deficiteering, and have been deficiteering for so long, that it has become a chronic, though not incurable, malady.

This means we are passing the buck to Providence and the bill to posterity, while the President blithely says:

"Despite the current deficit, the fiscal position of the Federal Government is basically strong."

This smacks of the reiterated statement in the first of the thirties, of then President Hoover, that prosperity was around the corner.

These facts should make every American think:

1. The dollar has only about half the purchasing power it had in 1932.

2. The national debt has been increased every year except two, since 1932, and will be increased about $5,500,000,000 in the year ending the coming June, and probably as much the following year, possibly $12,000,000,000 in the 2 years.

3. Government and non-Government debt (including speculative land values) is about $585,000,000,000—or some $200,000,000,000 more than the national wealth—fairly valued.

4. Starting with 1942, through 1948, total disposable income (income less taxes), has been $1,062,800,000,000 and personal savings have been $146,200,000,000, or more than half of the national debt. Personal savings were 13.7 percent, nearly one-seventh of total disposable personal income received during these 7 years, though most of the savings were made by those with incomes over $3,000.

5. Deficiteering means living off future generations, leading to inflation, such as we have had since 1932, or repudiation, chaos and dictatorships, as the experience of Germany and other nations, shows.

The paramount immediate responsibility of Congress and the administration is twofold:

1. To reduce costs of production and distribution of all products, which means greater individual and collective efficiency.

2. To cut our national clothes according to our national cloth.

Exhorbitant costs of production of food, fiber, housing, etc., must be reduced, instead of being allowed to spiral.

United States News and World Report, January 20, 1950, says:

"If trends of the last 50 years continue in the 50 years ahead, the dollar's worth, by the year 2000 is to be 18 cents * * *

"If building costs go on rising at the past rate, the $10,000 house of 1939 will cost nearly $70,000 to build at the end of this century.

"A good rib roast will take $3.75 a pound if meat prices go on up at their past rate of rise.

"A medium-priced suit will cost $250."

America should have all the welfare state, unemployment insurance, health measures, old-age pensions, etc., we are willing to pay for currently, but should stop, in prosperious years, living off the next few generations.

In prosperous years such as America has had since the war, payments on the national debt should be at least two or three times as much as the interest on this debt, now about $5,600,000,000 a year.

Such payments should come from taxes on large incomes, large business surpluses, and land values, not on consumption.

Inflation threatens America more seriously than any ideology or imperialistic ambitions.

SUPPLEMENTAL STATEMENTS

(The following statements were submitted in compliance with an invitation extended by the chairman to each participant in the roundtable to supplement his remarks with a statement for inclusion in the record:)

SUPPLEMENTARY STATEMENT OF CHAMBER OF COMMERCE OF THE UNITED STATES

The Economic Reports of the President and the Council of Economic Advisers expressly recognize at many points that our primary reliance must be on a viable free-market economy. The crucial role of expanding investment in job-making facilities is clearly acknowledged. Business and businessmen are praised for "the large and imaginative programs of expansion and modernization of plant and facilities which have been undertaken since the war * * *" (p. 9, President's report).

Again the President says: "Under our system * * * private economic policies provide the motive power of the economy. Public economic policies provide the framework for economic activity" (p. 8).

The Council states: "* * * the efforts to promote expansion of the total production and income of the economy are more significant than measures to 'redistribute' the current product." (Council's report, p. 6.) The Council (p. 5) explicitly rejects the doctrine of secular stagnation which has for many years motivated and even determined Government policy and the thinking of many writers and speakers.

Although broad generalizations, these sentiments may find widespread and perhaps almost universal agreement.

In spite of these plusses in the reports, there is a deep underlying and often explicit espousal of ideas, policies, and programs which many persons will question for their inconsistencies with the above broad generalizations. Throughout the reports the view is repeatedly expressed or implied that somehow the Government can and must blueprint the right kind of balance, stability, and economic progress of our economy. While taxing, borrowing, and spending by the Government must be kept within certain bounds so as to stimulate initiative, investment, and production, this taxing and borrowing and spending is given an exceedingly high priority in the reports so long as it is done in the name of certain broad social purposes to create better living with which nobody could quarrel as ideal targets.

This question of "balance" in the economy, the problems, the difficulties, and the adjustments are largely matters calling for public-spirited conferences of Government with wage earners, farmers, and business groups.

The President states that in 1949 "businessmen, workers, and farmers demonstrated much greater judgment and restraint than in earlier similar periods." No doubt the purposes of these conferences is to stimulate a continuation of this judgment and restraint. But how the farmers, unions, or businessmen demonstrated this judgment and restraint is not made clear and serious doubt may be raised that anything of the kind really happened. What really did happen is that the labor market changed. The market for farmers' and processed goods changed. "Businessmen, workers, and farmers" adjusted themselves to this change. For this reason the usefulness of the type of joint conferences proposed will be questioned by some people.

The President states, "The relatively safe passage from inflation to greater stability was no accident." This is reminiscent of the classic remark by President Roosevelt in late 1936 when recovery was thoroughly under way and he said, "We planned it that way," only to be followed in 1937 and 1938 by the most precipitous down-turn in prices and business in our history.

Reverting to the "no accident" comment of the President, a moment later in his Economic Report he says, "In earlier Economic Reports, I emphasized the dangers of permitting inflationary pressures to continue, and urged measures to hold them in check. Most of these measures were not adopted * * *." In his state of the Union message, he said that the state of the Nation is good.

Now, here are elements of confusion which the Joint Committee on the Economic Report might well try to clear up. If the state of the Nation is good in January 1950, if we traversed the year 1949 without serious disruption—despite the fact that "Most of these measures were not adopted * * * " who or what was really responsible for the goodness of the state of the Nation? This question is raised to emphasize the great need for more modesty, more humility, and more reservation on public policy and public pronouncement. Do we really know what makes for prosperity? Do we really know the proper place for private and public effort?

These questions are important because running through all of the Economic Reports there is a very significant tenor in favor of Government blueprinting or at least guiding, "balance," "stability," and "progress of our economy."

In the light of the foregoing, just what is the meaning in concrete terms as guidance to the legislative branch of the Government of the following:

"The expenditures of Government should be large enough to provide those services which our resources permit, which our people need, and which cannot so effectively be provided in any other way, but not so large as to overstrain our resources or to dampen the incentives of free enterprise or alter the essential character of our economy. Our supply of goods to foreign countries should be sufficiently large to promote a more prosperous and more peaceful world, but not so large as to undermine our domestic strength and thus defeat the very objective which we seek. The whole task of economic policy, both private and public, is to work out these arrangements bit by bit, pragmatically, as we go along, benefiting constantly by the lessons of past experience." (P. 80, Annual Economic Review.)

Does this general blueprinting really help in deciding the scores and perhaps the hundreds of proposals that will come before the several committees of the House of Representatives and the Senate?

Is the Joint Economic Committee capable in terms of the staff and the time of its own members to decide whether or not this or that bill contributes or deters implementation of this blueprinting?

Assuming that the answer is "Yes" (which is doubtful), do we have the machinery to check this or that proposal in the light of the blueprint?

In spite of the praise received by business, labor, farmers, and the Government for the performance of 1949, the President and the Council state clearly and repeatedly in effect "but we must do better."

Both the President and the Council insist that maximum unemployment should not exceed 2,000,000 or at least 2,500,000 persons. This is a very delicate subject and no matter how carefully treated, conclusions are likely to be challenged and motives are put in question. No one wants unemployment for its own sake and certainly our society is rich enough to make provision for everyone who is without means of income through no fault of his own. Unemployment compensation is one, but only one, of the indispensable tools to meet the irreducible minimum of unemployment.

Nevertheless, experience indicates that any viable economy must have some slack. There must be vacant office space, there must be vacant housing, there must be some unused capacity in all resources including human resources, if the economy is to be adaptive to change and if powerful upward thrusts on costs and prices are to be avoided. Costs include rentals, prices of materials, and labor. While this may sound harsh, it is not intended to be so but experience in the war period as well as in the postwar period indicates that when unemployment drops to the goals now firmly demanded by the President and the Council, the upward pressures on the demand for labor, the demand for materials, the demand for rental space, all create an inflationary situation.

The President's and the Council's maximum unemployment target would put the economy on a bicycle. It would set our economic system up on stilts. Any deviation from wartime boom under this philosophizing becomes intolerable.

Because of this, the joint committee must make a choice. If the wartime boom and the postwar peaks become levels, dipping below which will not be tolerated, will the administration and the Congress not be forced into all manner of controls, including rationing, price controls, wage controls, and perhaps even the allocation and direction of manpower, to say nothing of the allocation of investment.

The 12-point program set forth in the President's Economic Report is partly current and partly long range. It is partly regulatory and in part it involves heavy short-run as well as long-run commitments.

Whether this program is consistent with the general philosophizing about the importance of private investment and free enterprise depends in part on the degree to which the various components of the program are implemented and the speed with which they are implemented.

It should become common practice for the administration and indeed for every Member of the Senate or House to spell out in detail, year by year, the total expenditure involved in all programs set forth. Only in this way can it be determined whether this program can be accommodated within the system of private investment and private enterprise espoused in the Economic Reports.

Many of the President's proposals involve substantial invasion of the private sector of our economy. They will discourage business confidence and increase the difficulty of raising venture capital. There is considerable evidence that venture capital is powerfully deterred by the present tax structure. (See National City Bank Bulletin, January 1950.) Loan capital still appears to be reasonably adequate but it is the venture capital that is the activating and vitalizing factor without which loan capital is impotent in the private sector of our economy.

There is substantial deviation between the President's and the Council's general philosophizing about the importance of private investment and private initiative and the specific programs that are advanced. The trend toward chipping away increasing sectors of the private economy is unabated. If one believes that we must maintain an overwhelming volume of private transactions, uncontrolled by government, one must take this trend seriously.

The general philosophy of the 1950 Economic Report constitutes an improvement over its predecessors but the failure to abandon earlier trends in specific measures, the refusal to abandon Government bond price supports and the continuation of a rugged money market, all do a great deal to negate the favorable impact of the more generalized philosophizing. The rapid development of union monopolies and the widespread disregard by union leaders of the public interest and the growth of unions apparently more powerful than the Government itself, is undoubtedly convincing many people that epithets applied to business in the past years may have been based on inferior and incomplete analysis. Even if business management performed to the complete pleasure of its critics, there would remain a great many unsolved problems. Recognition of all this helps to explain the tenor of the general outlook of the Economic Reports.

The behavior of the U. S. S. R., the failures of British economic planning, the shift in the electorate in New Zealand and Australia and the supreme catastrophe of our foreign policy all help to undermine the abounding and abiding faith in Government action which many people have embraced until the very recent past.

There is an important role for Government in our society. But every proposal should be subjected to this test: Does it enlarge the area and scope for competitive enterprise in the goods market, the capital and money market, and in the labor market? If the answer is "No," then it should be most critically studied with a view to rejection. Otherwise, the creeping socialism as fully explored in the Chamber of Commerce of the United States "Socialism in America" will be promoted either wittingly or unwittingly, and its sponsors must share the blame for the ultimate tyranny and totalitarianism of which it was a small but important step.

Supplemental Statement of New Council of American Business, Inc. (Miles Pennybacker, President)

Optimism is the dominant note of President Truman's economic report.—In his economic message to the new session of Congress, the President reinforced the current mood of optimism in the business community. But the wise businessman takes a second look, mixed with a good dose of skepticism, at "prevailing moods." He wants to know just how and why the economy faltered last year and exactly what the reasons are for the expected improvement ahead for business. Therefore, consider first the following comparison between what took place in the key economic sectors (production, employment, and market demand)

and the goals set by the President in January a year ago as needed to get full utilization of capacity in 1949 and for healthy progress of the economy:

THE GOALS OF MAXIMUM PRODUCTION AND EMPLOYMENT SET FOR 1949	THE ACTUAL ACCOMPLISHMENT OF THE ECONOMY IN 1949
1. One million more jobs; no increase in unemployment.	1. There were on the average some 700,000 fewer jobs. And, because there were 600,000 more persons seeking jobs in 1949, unemployment grew by 1.3 million to an average of 3.4 million, or 5 percent of the labor force.
2. A 3 to 4 percent increase in national production.	2. Total production of goods and services last year dropped below the 1948 record. Most of the drop in gross national product from $262,000,000,000 in 1948 to $259,000,000,000 in 1949 was due to price reductions. But, even after allowing for the price changes, the total output of the economy fell short of the goal indicated in the adjoining column by 4 to 5 percent, or $10 to $13 billion dollars.
3. Market demand by Government, business, and domestic and foreign consumers should increase in proportion to the rise in total output required by the goals above.	3. Total market demand fell. For the year as a whole, domestic consumers' demand was the same as 1948. Business spending was down by 20 percent. Foreign demand decreased. Only Government demand rose; but its $8,000,000,000 growth was not enough to outweigh the decline in demand in other areas.

This contrast between goals and accomplishments high lights not only the problem of 1949 but also the question about the future: a successful economy means more business and more jobs each year. An advanced industrial technology and an alert business community mean continuous growth in industrial productivity and relative reduction in labor costs. Taken together with increase in population, this means that there has to be a continuous growth in production and sales to sustain markets and attain full production and employment. Hence, the weakness in 1949 was not merely the small declines in the over-all picture, but more important the failure to keep up with the goals for sustained growth. The main significance of this lies with the future; for a continuation of such failure must end in a serious decline in all phases of the economy.

Inventory liquidation key factor in 1949

An analysis of the President's economic message and the report of the Council of Economic Advisers shows that the chief aspect of the 1949 declines was the liquidation of business inventories. The peak in the gross national product—the measure of total production of goods and services—was reached in the last quarter of 1948 when it recorded $270,000,000,000 at an annual rate. It dropped by $15,000,000,000 at an annual rate to $255,000,000,000 in the fourth quarter of last year. Nine-tenths of this reduction was due to a decline in business spending for plant, equipment, and inventories. But the most potent force—liquidation of business inventories—accounted for seven-tenths of the total drop in gross national product. The change in inventory position resulted in production and employment cuts, with its consequent pressures on income and market demand. With the changing supply-demand relation the income of farmers also fell. From past experience one would, and many did, expect a general decline in the economy in response to such widespread inventory movements. However, the large increase in Government spending, and the shift from a surplus to a deficit position, was sufficient to absorb most of the shock and provide the base for the upturns that appeared in the latter part of the year. To gain further insight into the forces that made up the 1949 experience, we are summarizing below the main developments, grouped according to their depressive or stimulating effect on the economy as a whole.

Economic sectors that experienced declines

1. *Business inventories.*—At the time when gross national product reached its postwar peak in the fourth quarter of 1948, business inventory accumulation also attained a new high. At an annual rate, business inventories increased by $9,000,000,000 in that quarter. While this accumulation was taking place, consumer spending began to slough off. A larger proportion of consumer income began going into savings and a smaller percentage of it came into the market for the purchase of goods. Consumers seemed to be holding back in anticipation of lower prices. Then the decline in farm income, the apparent satiation of the built-up war backlog, and the fear of getting caught with high-priced inventories all contributed to the abrupt change from inventory accumulation to inventory liquidation. By the third quarter of last year business inventories dropped 2.4 billion dollars at an annual rate, and in the fourth quarter, 1.5 billion dollars. This liquidation process takes time. First, distributors canceled orders and did not place new ones. This shifted, in time, the inventory from the distributor to manufacturers at the late stages of manufacturing and eventually to the manufacturers at earlier production stages. As inventories began to accumulate at the manufacturing level, production cuts were announced, workers laid off, and the cumulative process went into operation. However, toward the end of the year it seemed that the process began to reverse itself; but just as the downward phase took time the upward movement also must take time until its full effect is realized.

2. *Business outlays for plant and equipment.*—For the year as a whole, business spending for these purposes dropped 5 percent from 1948. The decline was continuous in each quarter of 1949. Almost all of the decline was accounted for by manufacturing business, although transportation and railroads, mining, and commercial industries also spent less for plant and equipment in 1949. Railroad investment rose slightly and only the utilities showed a substantial rise in investment purchases, but the gain became narrower from quarter to quarter. Farmers' investment did not change much last year. The significant character of the decline in manufacturing and the others was that it did not accelerate as a result of the inventory reductions in early 1949, but appeared to be an orderly tapering off in accordance with the plans made by businessmen late in 1948.

3. *Foreign purchases.*—Exports picked up in the first half of 1949; but, as the dollar shortages became more serious abroad, exports took a substantial dip in the latter half of the year. With reduced business activity here, our imports too were lower in 1949. For the year as a whole, the surplus of exports over imports was only slightly less than in 1948. Yet by the end of 1949 the surplus was more than a third lower than it was in the fourth quarter of 1948. This is an indication of the likely trend in this category unless Government and private loans and grants provide the dollars to maintain exports.

4. *Farm income.*—Large crops at a time when the economy was tightening up brought about a 12 percent drop in wholesale farm prices during 1949; by the end of the year these prices were 20 percent below their peak in January 1948. This produced a substantial decline in net farm income from $18,400,000,000 in 1948 to $15,000,000,000 in 1949. Remember that farmers' savings and income have been important contributors to the high demand for consumers' and business' goods in recent years.

5. *Consumer income.*—Here again we meet a development which seems to be typical of the 1949 experience. Comparing 1949 and 1948 as a whole, there was no decline in consumer income and expenditures; however, this constancy hides considerable change. The apparent stability between the two years is composed of an upward movement from quarter to quarter in 1948 and a downward shift from quarter to quarter in 1949. The major impact of the decline in business activity was felt in the lower-income groups, especially those hit by unemployment and part-time slack. During the first half of 1949, total wages and salaries fell, but has since remained stable. For the year as a whole, compensation to employees rose slightly. As was indicated above, farm income dropped substantially. Business and professional incomes were fairly stable in 1949 after a small initial decline from the fourth quarter of 1948. The other components of consumer income—rents, dividends, and interest—remained fairly stable throughout the year or increased slightly.

6. *Industrial production.*—The industrial output of 1949 was about 9 percent less than that of 1948. The industrial production index reached a peak of 195 percent of the 1935–39 average in October and November of 1948 and then fell steadily until it reached a low of 161 in July 1949. Since July the direction of

industrial production has reversed, and by last December had come back to 176 percent of the 1935–39 average.

7. *Employment.*—As indicated earlier, civilian employment in 1949 was 700,000 below the 1948 average; quite a contrast with the goal of 1,000,000 new jobs set for 1949 at the beginning of last year. The low point in nonagricultural employment was reached in May; since then the trend has been upward except for the period of the coal and steel strikes. The major decline took place in manufacturing employment. On the other hand, employment in construction, trade, Government, and services kept at high levels in 1949.

8. *Prices.*—Wholesale prices by the end of 1949 had declined some 7 percent from their level a year earlier and were 11 percent below their August 1948 peak. The largest declines took place in farm and food prices, while industrial prices fell the least. Most of the drop came in the first half of the year; farm prices experienced a slight further drop and industrial prices leveled off in the second half. Retail consumers' prices were firm during most of 1949. The decline which began in October 1948 continued steadily until February of last year; after that there were only minor changes for 8 months with further minor declines in the last 2 months of the year.

Economic sectors that experienced increases:

1. *Government.*—Although the Federal, State, and local governments spent $8,000,000,000 more in 1949 than in the preceding year, the Government impact on the economy was even larger. While in 1948 there was a $7,000,000,000 surplus of revenue over expenditures, last year saw the renewal of a deficit in Government finances in the amount of $3,000,000,000. This meant that the over-all contribution to the economy increased by $10,000,000,000 in 1949. Part of the reason for the deficit was the decline in revenues due to the tax cut in 1948 and reduced business activity in 1949. But more important was the rise in Government spending, mainly for (*a*) unemployment compensation, support of farm prices, and the increase in mortgages purchased by RFC; and (*b*) financing of military preparation and foreign aid under ERP. Another factor in Government expenditures was the increase in public-works activity.

2. *Construction.*—The strength in this area helped to minimize the general decline of early 1949 and was one of the main forces behind the revival in the second half of the year; from $18,800,000,000 in 1948 to $19,300,000,000 in 1949. Public construction rose considerably, while private construction evinced a small drop. However, the real stimulant was residential construction, which was particularly strong in the latter half of the year, rising to a new peak in the fourth quarter. At the end of the year, the total rate of activity was 11 percent above December 1948. Moreover, the backlog of contracts let is considerably higher now than a year ago.

The outlook for 1950.

The general conclusion of the President's economic advisers is that the short-run economic outlook is good. To back their confidence they cite the following reasons: (*a*) Liquidation of inventories has substantially slackened, and in many areas rebuilding of inventories is under way; (*b*) consumer-disposable income (income after taxes) though somewhat down from the peak level of the fourth quarter of 1948 is still above the average for that year as a whole; (*c*) the demand for automobiles is still very high; (*d*) high level of construction activity can be expected in the early months of the year, considering the large volume of contracts already let; (*e*) the rate of business investment in plant and equipment, although declining, remains relatively high; (*f*) the estimated increase of Government expenditures (local as well as Federal) of from $4,000,000,000 to $4,500,000,000 in 1950. Although these arguments are reasonable, they provide the basis for only limited optimism. If they operate as anticipated, these factors will act to keep the economy relatively stable; that is, the kind of stability that occurred in 1949, with recurring unemployment problems, declines in activity in many lines, hardship on small businesses, etc. It is reasonable to expect some uplift in early 1950 due to the distribution of $2,800,000,000 in tax-free insurance refunds to veterans in the first 6 months of the year, the high rate of construction activity, and the boost to production given by inventory rebuilding. On the other hand these same reasons do not give much hope for a balanced prosperity throughout the year. Possibly a further boost will be given by increased military appropriations. However, with the information now at hand, the type of analysis presented above would lead one to expect some downturn at the end of 1950. The reasons for a good 1950 are inadequate to attain the goals raised by the President for 1950: a 7 percent rise in national output and nearly 2,500,000 new jobs. At best, then, 1950 holds the prospect of another year with little basic change, but even at best one that will not prevent or hold back a major business downturn in the future.

SUPPLEMENTAL STATEMENT OF COLSTON E. WARNE, PRESIDENT, CONSUMERS UNION

Restrained optimism characterizes the Economic Report of the President. On the one hand, he speaks vigorously of "renewed confidence," "firmer ground," "greater stability," and "effective teamwork," while pointing to the 9 percent increase of industrial production since last July. On the other hand, he records that 1949 output of 259 billion dollars was 10 to 13 billion dollars lower than a maximum production level would have dictated, and that it was 1 percent lower than in 1948, instead of 4 to 5 percent higher as anticipated. He recognizes, moreover, the mounting joblessness which in 1949 averaged 3.4 million, or about 1 worker out of 20, and the ominous downward trend of business investment. Furthermore, he calls attention to the rise of installment credit to a new postwar peak and the expenditure by a third of all families during 1949 of more than they earned—a mortgaging of incomes which temporarily has augmented consumer demand. He also indicates the stimulus afforded by Government cash payments which in 1949 exceeded the 1948 level by $8,000,000,000, and created a total governmental deficit at the year's end of $3,000,000,000.

The President pleads for cooperation of all economic groups to produce an expanding economy which could, within 5 years, reach an annual output of $300,000,000,000 of current purchasing power—a gain averaging nearly $1,000 per family. If this goal were attained, 64,000,000 people would be employed; productivity would advance 2 to 2½ percent a year; and all economic groups would benefit. The immediate target for 1950 is placed at a 7 percent increase in national output and the creation of a million additional jobs. The President repeatedly stresses the obvious fact that such growth will not automatically emerge but will require the synchronization of forward-looking private and public policies. He calls for the Government to increase tax yields and at the same time iron out tax inequities and stimulate business activity. He asks for Federal assistance for housing for middle-income families; for alterations in the farm program to protect farm income and encourage agricultural output of needed crops. He champions Federal aid to education, the extension and liberalization of social security, and the continuation of rent control for a year. He urges approval of the charter of the ITO and the extension of further incentives of private foreign investment. He advocates certain additional banking controls and presses for the continuation of foreign aid. The St. Lawrence seaway project is also recommended.

"Our economic situation today is good and it can be better," the President concludes. Private enterprise is counseled that there are "few, if any, major areas" in which price increases should be made and, indeed, that some areas require price cuts. Calling attention to the excellent financial condition of corporations, he holds that private enterprise has the imagination to stimulate business investment. Labor and management are urged through collective bargaining to keep buying power adjusted to increasing productivity.

The foregoing recommendations of the President are interesting both for what they include and what they omit. Thanks to the Employment Act of 1946 and the improvement of statistical techniques, we are able to see the complexity of forces which last year came to balance in only a slightly deteriorated economic position. Quite correctly, President Truman stresses the sharp rebound of the Nation from the "inventory crisis" of the spring of 1949 and alludes to the impact of Government expenditures in creating a more favorable result than critics had predicted. He omits, however, to point out the full seriousness of the situation indicated by the appended report of the Council of Economic Advisers.

Let us consider some of the detailed elements in the Council's report which need emphasis.

1. Last year, the Council estimated that employment in 1949 must increase by 1,000,000 to absorb an advancing labor force. Actually, employment dropped 700,000. Are there adequate reasons to expect that the economy can, in 1950, find the 2.3 million additional jobs to bring the employment total to the target of 61,000,000?

2. Industrial production in 1949 dropped 8.8 percent from the level of the preceding year. This drop was in the face of a rapid expansion in installment payments which stimulated consumer purchasing. (Installment credit for automobile purchase, for example, increased during 1949 by 60 percent.) Moreover, the Federal Reserve survey indicates that during 1948 the lowest fifth of income recipients spent 20 percent more than their income for nondurable goods and services and that most income groups were rapidly liquidating the remaining Government bonds and other liquid assets they had accumulated during the war. Savings have become almost exclusively concentrated in the hands of the upper 40 percent of the population, which in 1948 received 69 percent of the income of the country. In the light of this setting, is it not most sanguine to feel that a heavy pent-up consumer demand exists which may in the immediate years ahead call forth expanding industrial production? This may be, perhaps, more clearly shown by reference to specific fields. While it is, for example, clear that the demand for automobiles still remains high, that building construction contracts are being let at a substantial rate, that Government cash payments will continue to mount as military and public-works programs are developed, and while the disbursement of a 2.6-billion-dollar veterans' insurance dividend will strengthen buying, the Council seems most modest in its prediction that even these forces place us "still a considerable distance from maximum employment, production, and purchasing power."

Perhaps the crucial factor which alleviated the 1949 situation was the shift from a governmental $7,000,000,000 cash surplus to a $3,000,000,000 cash deficit. This spending offset a corresponding decline in business investment and, together with relatively sustained consumer demand, brought a swift correction to the downturn of early 1949. In 1950, it seems doubtful whether even the most ardent deficit spender would advocate pumping an additional $10,000,000,000 into the economic system. This may, indeed, be unnecessary if a brighter outlook stimulates an upward chain reaction toward inventory accumulation and business investment. Few signs point to such buoyancy in the economy. The market for new automobiles and lower-cost housing, although by no means saturated, may not discover the large untapped demand among lower income groups that the Council predicts. Manifestly, the Council's own figures indicate that not a few of the bottom 40 percent of American families have already heavily mortgaged their incomes. Is it possible that the "elasticity" that our economic system has hitherto demonstrated may not be sufficient to bring a significant production advance in 1950?

3. The Council quite wisely mentions the steel industry as having raised prices unjustifiably last autumn and calls for selective downward adjustments in prices to take the place of increases. Such admonitions may well be commended. One does not, however, observe that steel corporation leaders have read the Economic Report.

4. It is similarly highly pleasing for consumers to be told that levels of consumption are not sufficiently high for the attainment of full prosperity and that the Nation cannot afford to operate at a level 10 to 13 billion dollars below our potential capacity. The Council unfortunately remains silent as to the appropriate steps which consumers may take to enforce their rightful claim to higher consumption. Seemingly the Council does not desire generally lower prices; rather it deems the answer to lie in advancing wages and salaries. In the period of rising unemployment, this policy would appear most difficult to follow.

5. The Council undertakes to spell out growth objectives for the Nation for 1950–54. By 1954, total output under full employment might exceed the 1949 level by some 18 percent, and per capita output by about 12½ percent. This vision of the future presents a most pleasing prospect. It forgets for the moment that in 1949 we drifted slightly downhill and that, in the barren decade of the thirties, the economic system not only registered no progressive advance but stagnated until rescued by war preparation budgets. To maintain a sustained advance in the years ahead, both consumption and investment will have to rise. In both areas, however, the grounds for optimism are not overwhelming. To be sure, it is easy to suggest that production facilities need modernization. Whether businessmen will feel that the potential consumption demand will warrant the risk of investment on a greatly enlarged scale is doubtful to say the least. Probably the Council is right in its summary: "Neither investment nor consumption can long sustain satisfactory growth unless both do; and the relatively modest growth in investment contemplated in the estimates presented above may well present even more difficulty of attainment than the larger growth set as a consumption goal. It is easier for public programs to stimulate consumer spending than it is for these programs to enlarge business investment direct."

SUMMARY

From the President's report it appears that the central dilemma of our time has become that of an economic system which for the past quarter of a century has been artificially sustained by the Government whenever it has operated with marked success. Agriculture now leans heavily upon Government. Housing leans upon Government through extensive Government guaranties. A vast segment of demand is sustained directly from the Federal treasury, including military and European relief expenditures. We are a long distance from free enterprise.

Actually we are operating at the moment not one economic system but several. Our economy is of a mixed character. One segment is of a monopolistic type, controlled by patents, price maintenance, and an elaboration of agreements between integrated companies. Another segment has its prices governmentally fixed by utilities commissions. Still another segment—agriculture—is assured of support prices below which competitive levels may not fall. Other less important segments are clearly competitive. Added to these is a sphere of Government enterprise including not only public housing, public power, and other welfare pursuits, but also a military economy which centers in the Pentagon. Coordination between these diverse sectors is largely absent. The Council of Economic Advisers to the President, which makes, semiannually, recommendations, is a competent researchers' body tucked off in a Washington office building, and heretofore given scant attention either by Congressmen or by our citizenry. As I view it, we have been most fortunate since the war that a slump has not thus far overtaken us. If future difficulties emerge, they will arise not because of a deliberate design but because of the lack of adequate national planning.

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