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82D CONGRESS
1st Session

SENATE

REPORT
No. 210

JOINT ECONOMIC REPORT

REPORT

OF THE

JOINT COMMITTEE ON THE ECONOMIC REPORT

ON THE

JANUARY 1951 ECONOMIC REPORT OF THE PRESIDENT

APRIL 2 (legislative day, MARCH 26), 1951.—Ordered to be printed with illustrations

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JOINT COMMITTEE ON THE ECONOMIC REPORT

(Created pursuant to sec. 5 (a) of Public Law 304, 79th Cong.)

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JOINT ECONOMIC COMMITTEE REPORT ON THE JANUARY 1951 ECONOMIC REPORT OF THE PRESIDENT

APRIL 2 (legislative day, MARCH 26), 1951.—Ordered to be printed with illustrations

Mr. O'MAHONEY, from the Joint Committee on the Economic Report submitted the following

REPORT

[TOGETHER WITH INDIVIDUAL STATEMENTS AND RESERVATIONS]

[Pursuant to Public Law 304, 79th Cong.]

With a national debt hovering at a pinnacle of $257 billion since 1946, and the cost of living still rising above the all-time peak reached in December 1950, the people and the Government of the United States are face to face with the imperative necessity of stopping inflation and turning it backward if the national hope for the winning of the peace is to be achieved.

Rising prices, which have already destroyed the savings of millions of the people and are making it constantly more difficult for many people in the lower-income brackets, especially those whose incomes or wages have not been increased, to stretch their incomes to meet their needs, are at the same time increasing the cost of national defense. Milk and munitions are both mounting in cost and as a result the problem which every householder faces in providing for his family is faced by the President and the Congress in providing the necessary military power by which freedom is to be defended.

When it is realized that the national debt, which was less than $50 billion at the beginning of 1941, had risen to $277 billion by the time Japan surrendered, it is clear that deficit spending cannot be contemplated even for the current defense program, unless we are willing to invite the crack-up of the American system. We cannot permit the cost of living to continue to rise, nor can we pile a new national defense debt on top of the unpaid debt of World War II without creating the very conditions upon which the dictators of the Kremlin are relying to destroy the economic basis of this Government and thereby the hope of a free world.

The international program upon which we are launched cannot possibly be carried to a successful conclusion unless economic stability is maintained; it cannot be maintained if we lack the foresight to turn back the forces of inflation and the will to pay out of current income the cost of raising and maintaining the military power necessary to prevent an attack upon the free world by the modern tyranny of communism. The United States has the spiritual power, the economic strength, and the productive resources to perform the task it has undertaken. The people of America can do again in the defense of human freedom what they have done before in two world wars, namely, produce the commodities, the services, and the military strength which can be depended upon to deter Russian aggression.[1] It is within our power to achieve the goals set forth in the President's Economic Report—a 7 percent expansion of production in 1951 and at least 25 percent within the next 5 years. To do it, however, Congress and the country clearly need to understand the basic economic facts upon which alone an intelligent defense program can be maintained and carried through to success.

It would be unrealistic to restate the great importance of expanded production without recognizing that inflation constitutes a continuing threat to its achievement.[2] Inflation invites business to seek profits by manipulation of markets rather than by efficient expansion of production. Inventory accumulation becomes a foolproof way to make money. Manpower and capital facilities are absorbed in distributing output rather than increasing it. By encouraging the hoarding of materials and of labor, inflation disorganizes the flow of production and makes a shambles of allocation orders and procedures. Inflation frustrates the thrifty, especially those who patriotically buy Government bonds, and brings bitterness and disillusionment to those seeking to cooperate with the defense effort. Inflation gives its biggest rewards to groups whose spending and manipulative activities provide a sardonic contrast to the sacrifices asked elsewhere on the home front and on the battlefield.

Efforts to increase production, moreover, at present high levels of employment, are likely to bring about increased inflation for the time being in at least two respects. If additional capacity is built—and more capacity must be built—the additional investment, whether in a steel mill or atomic energy plant, will in itself cut the supplies available to civilians at the same time that those who build such plants are earning high wages and profits. If additional production is obtained through premium payments for overtime labor or higher incentive prices, incomes will be increased faster than production, again serving at least temporarily to aggravate the problem of inflation.

Unless, therefore, we are willing to resist inflation straight across the board, increased living costs, increased wages, increased profits, and the increased cost of Government will lead inevitably to an increased debt and more inflation. The times demand courage and firm resolution to win the fight against inflation on the home front, in order that the Nation may win the struggle for peace upon the international front.

If we are to avoid deficit defense spending of a kind which could easily cause the whole structure of Government finance to collapse,

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[1] On July 18, 1950, soon after the outbreak of the Korean War, this committee, in its press release of that date, heavily underscored the contrast between the totalitarian ideology and the ideas underlying our own American Revolution and our own political and economic system. Such a contrast is outlined in appendix 1.

[2] In the absence of detailed analyses and quantitative estimates, even in the Council's Annual Review, of how increases in output can be obtained over the next year or 5 years, this committee asked its staff to spell out quantitatively the processes and the problems of increasing production. These analyses have been published in two reports: The Economic and Political Hazards of an Inflationary Defense Economy, and Underemployment of Rural Families.

we must be willing to pay-as-we-go. Such a program was advocated by this committee on July 21, 1950, when we unanimously recommended an immediate increase in taxes sufficient to balance the budget; restoration of consumer credit control; contraction of Government housing loans; etc.[3] We must be willing to provide current income to meet the expenditures we authorize. This means that we must raise the revenues required to meet such expenditures, and that we must keep all expenditures, both military and civilian, as low as possible.

THE PARAMOUNT NEED FOR GOVERNMENT ECONOMY

We cannot refrain from making the expenditures necessary to feed, clothe and equip the men we call to the services. We cannot fail to authorize the purchase of the most modern airplanes, naval vessels and weapons without which an efficient, modern military force cannot be maintained. But we must be prudent, frugal, even parsimonious. We must avoid duplication, swollen inventories and extravagant construction—in short, all unnecessary military expenditures. This is no time for luxury, waste, or extravagance anywhere, not even in the armed services. Since the new obligational authority asked for the military services and international security is now estimated to total $71,890,000,000 for 1952, all appropriations and expenditures must be subjected to continuous and close scrutiny both by the Executive and by the Congress.

It is not always understood that the appropriations made by Congress annually are controlled by authorizations enacted and obligations undertaken in previous years. The appropriation bills for 1953 and ensuing years, for example, will reflect the new expenditures Congress is now in process of authorizing in the proposed enactment of universal military training.

Furthermore, expenditures in any particular year cannot be measured by appropriations for that year because the current outlays at any particular time depend upon the accumulation of prior authorizations and the maturing of obligations. When, for example, Congress authorizes the construction of a new aircraft carrier or the building of a high-speed long-distance bomber, the Government launches upon an expenditure program which may cover 3 to 5 years. It is therefore impossible to cut certain appropriations without canceling existing contracts, or repudiating existing operations, or stopping work which has already been initiated, thereby inviting the loss of expenditures already made. An economy program, therefore, involves not only the recommendation by the Executive of the sums necessary to carry out existing law but also a determination by the Congress to what extent it is willing to continue expenditures previously authorized.

It will be necessary also to economize in the civilian branch of the Federal budget. Stimulated by the Congress, the Bureau of the Budget last summer at the direction of the President made an auspicious beginning in cutting back public works, reclamation and other expenditures more than $580,000,000 in accordance with the principle that programs which are not essential to the defense effort, or to maximum civilian productivity (without which the civilian economy will be unable to produce the revenue on which the defense program rests)

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[3] For a complete copy of the committee release on July 18, 1950, see appendix 2.

should be rigorously cut, if not eliminated. Such cooperative economy efforts must be greatly expanded. It may be difficult, and yet it is extremely important, to recognize the difference between productive and nonproductive expenditures. We must, of course, build every dam needed to conserve scarce natural resources or generate electric power. A shelf of plans should also be kept up to date. But expenditures not directly productive of increased economic capacity or military strength should so far as possible be postponed or eliminated. Thus great care must be exercised in determining precisely where the nondefense expenditures of the Government are to be cut.

The President, in his Economic Report, and Mr. Charles E. Wilson, Director of the Office of Defense Mobilization, have both estimated that disbursements for military purposes of all kinds will not, at the first at least, exceed 20 percent of the national income. It is only sensible, therefore, and, fortunately, it is apparently possible to so increase production that ultimately it will meet both current civilian and military needs, thereby making the task of preventing inflation less difficult.

This committee is making an intensive study of the 1952 budget, some results of which are to be found in the staff materials and in appendix 3 of this report. There it is noted that existing laws may have to be altered or repealed if major economies are to be effected in nondefense spending. The appropriate legislative committees of the Congress should study and recommend what changes shall be made. In fact, economy is a vital responsibility of every Member of Congress and every citizen.[4]

Many significant suggestions for economy have been brought to the attention of this committee. Thus, for example, the American Farm Bureau Federation, like the National Grange, in the interest of maintaining farm output without inflation, supports a pay-as-you-go policy including higher taxes and reduced Government expenditures. Further, the Farm Bureau specifically recommends that the "authorization for a 1952 agricultural conservation program be reduced from the budget recommendation of $285,000,000 to $150,000,000." (Joint Committee on the Economic Report, Hearings on the January 1951 Economic Report of the President, p. 490.) Thus a great farm organization, in its desire to strengthen the national economy, expresses the willingness to accept for farmers reductions of Federal soil conservation payments in fiscal 1953. This is the earliest that reductions in such payments can be made under commitments already entered into with farmers under the Conservation and Domestic Allotment Act of 1936 and the authorization contained in the 1951 Appropriation Act passed last fall.

These and similar items must, of course, be examined by the appropriate committees in order to be certain that such payments are geared into the stimulation of the production of needed agricultural commodities, rather than result in the production of surplus agricultural

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[4] In the field of reducing expenditures, as well as in the field of raising revenues, the responsibility of Congress is paramount, and mere lip service will not suffice. Any cut in appropriations is bound to hurt someone, and is bound to evoke cries of pain. There will be a great temptation to be generous in attaching "defense" labels on nondefense programs.

In order to pass beyond the lip-service stage, specific nondefense programs should be listed, in which substantial savings can be made. I am one who believes there is considerable degree of overstaffing in most Government departments, that a large proportion of our expenditures for rivers and harbors is wasted—or at least cannot fairly be tied to the mobilization program—that Federal aid for secondary road construction should be curtailed, that irrigation projects should be slowed down, that economies in printing, travel, and transportation should be effected, and that farm subsidies should be reduced.—Senator Douglas.

commodities for the purchase of which, by the Government, 30 percent of customs duties are diverted by the act of August 24, 1935.

New obligational authority for Federal grants to States, which are carried in the budget for 1952 at a total of $2,883,000,000, should likewise be examined so as to maintain a balanced productivity and high-level national income. These Federal grants to States include public assistance, $1,300 million; maternal and child welfare, $33.0 million; general and other public health assistance, $31.2 million; vocational rehabilitation, $23.0 million; national school lunch program, $83.5 million; low rent housing, $15.0 million; colleges for agricultural and mechanic arts, $32.0 million; postwar highway construction, $500.0 million; airport construction, $21.0 million; hospital construction, $75.0 million; agricultural extension services, $32.0 million; agricultural experiment stations, $12.5 million. The general level of these programs should be reduced.

To take but one example from among these. The new obligational authority of $500 million for Federal aid to highways was authorized by the Federal-Aid Highway Act of 1948. A substantial part of this proposed expenditure is for the liquidation of obligations already incurred. Another part is to carry through contracts for road construction to be made by the various State highway departments during the next fiscal year. The basic law authorizes the making of contracts and provides for compulsory apportionments of the appropriated funds among the States. An efficient highway system is essential to the efficient operation of the economy. Accordingly, reductions in the Federal grant for the cooperative Federal-State highway program can be made wisely only after careful scrutiny. No programs should be authorized or expenditures made until the fact has been made certain that such programs or expenditures are necessary to keep the national economy moving at high speed and have a greater priority than the pressing need for reductions in Government spending.

Moreover, the defense program now under way, it has been generally agreed, may last 10 to 20 years. If such be the case, expenditures for defense will make expenditures wholly unnecessary which were originally undertaken for purposes of recovering from a depression. Authorizations for expenditures stemming from such legislation should be examined by appropriate legislative committees so that in a time of *in*flation we shall not be making appropriations which were authorized for the purpose of fighting *de*flation. Moreover, a survey should be made of all permanent appropriations and revolving funds with the objective of eliminating expenditures authorized under wholly different circumstances than those now existing.

REDUCING THE COST OF LIVING

In 1950 the United States free enterprise system operated at a level of physical output second only to that attained in 1944, at the highest hourly and weekly earnings ever recorded in industry. Stockholders received larger dividends and business made notably higher profits than in any previous year in the history of business. But 1950 was also a year in which the business system of the country was rocked to its foundations by frenzied outbursts of consumer buying, by record construction and investment activity, by a fearsome military involvement in Korea, and by a succession of extensive moves toward speedy defense mobilization. All of this resulted in a galloping inflation which has raised the cost of living and the cost of armament to new high peaks.

The economic key, therefore, to the successful accomplishment of the national objective is to prevent further increases of the cost of living and of armament so that the pay-as-you-go system for national defense may be established and securely maintained. It will be impossible to economize in Government expenditures for either military or civilian purposes if inflation and living costs continue to increase, thus making inevitable increased wage costs and increased delivery costs, to the people and to the Government, of the services and commodities they need.[5]

Inflation has not only knocked a hole in consumer budgets but has knocked out of the sky a large fraction of the airplanes our taxes might otherwise have bought. Or to quote a report of the Department of Defense reprinted in appendix 4, "In terms of the number of guns that can be procured with available funds, the effect of inflationary price increases is almost the same as if half the guns on order had been destroyed by enemy action."

The first attack on inflation must accordingly be made on the high cost of living for the masses of the people. The so-called freeze order of the Office of Price Stabilization has been explained as only a preliminary step. Roll-backs have been promised, but adjustments to date have been on the upward side. It has been explained that inflation, like an automobile going 60 miles an hour, cannot be brought to a full stop immediately by putting on the brakes—and much less thrown in reverse. The brakes to inflation having been applied, the time has arrived for positive action to stabilize and, without Government subsidies, to reduce the cost of living.

One of the measures receiving emphatic endorsement from the overwhelming majority of the witnesses who appeared before this committee is increased taxation. It was uniformly urged as the most effective way to absorb the purchasing power which will inevitably continue to drive up the cost of living as shortages of supply of needed or desired commodities result from the diversion of industrial activity from civilian to military production.

Purchasing power necessarily increases as the military program increases. Every man who leaves civilian life to enter the armed services ceases to produce civilian goods or services, but he continues to be paid; his purchasing power remains to become part of the upward pressure which demand exerts upon prices. So a defense economy with stepped-up production for military purposes and a traditional belief by a large segment of the population that great profits are to be gained in producing more goods for the Government has always been marked heretofore by inflation. Heretofore, when attempts have

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[5] This report has given considerable emphasis both to the prospect of a long period of mobilization and to the need for increased production if inflation is to be combated effectively.

Production is not increased overnight. Just as any business requires certain basic investments in its capital equipment if it is to expand production in the future, the Nation must also undertake certain basic investments in resource development or conservation which will only bear fruit in years to come. This includes the development of human as well as material resources.

Certain programs, while not necessarily bearing a "defense" label, represent such basic investments, and their delay may ultimately be far more costly to the Nation than the cost of undertaking them immediately. Examples of such programs are the construction of dams to generate hydroelectric power, and Federal aid in meeting the current operating deficits of medical schools, without which standards and quantities of medical education cannot but fail to slip backwards in the immediate future. These programs should be clearly distinguished from, say, rivers and harbors programs which come nearer to being amenities during a period of mobilization.—Senators Sparkman, Douglas, and Benton and Representative Bolling.

been made to control prices without heavy increases of taxation, final payment has been made through increases of the national debt and inflation. This we cannot afford now for reasons already set forth.

There seem at the present time to be special reasons, therefore, why some additional taxes should be promptly enacted, and not delayed, as ordinarily such action is quite properly delayed, pending action on appropriations. Increases in individual withholding rates are necessary to curb current excess consumer demand and increases in taxes on business and corporate profits are needed to reduce current excess business buying. Such increases in taxes may help to put a damper on price increases progressively gnawing away at civilian income and Government appropriations. Prompt action now may save billions of dollars later this year and tens of billions thereafter.[6]

But the fact should not be lost sight of that one of the most troublesome problems now before Congress arises out of its uncertainty regarding the size and the cost of the preparedness program. The budget contains an estimate of expenses in the fiscal year 1952 of $71,600,000,000, but the estimate for military expenditures like that for military appropriations had not yet been worked out in detail when the budget was submitted. It is highly desirable that all branches of Government agree substantially on the scale of Government expenditures which will be absolutely necessary, during the initial period of the preparedness program, in order that a comprehensive tax bill may be written with some reasonable hope that it will serve the purposes of the country for 2 or 3 years. As a general principle, it is obviously not wise to engage constantly in piecemeal tax increases, first in one field and then in another.

There is another reason why it is important that the maximum scope of Federal spending be agreed upon. At some point taxation itself becomes inflationary, even though the budget is balanced. If tax burdens are so great as to shock the sense of justice or equality, some way is found to avoid them or to pass them on into higher prices. Just where the limit is, is difficult to judge, but it is to be hoped that the total defense expenditures be held to 20 percent of the national income, the balance of Federal expenditures, including veterans' benefits and interest on the public debt, to 8 percent, and the State and local expenses to 8 percent of the national income.

Such general limits are the more necessary the more closely the burden of additional taxes approaches the limits of taxable capacity. Thus, for example, whatever tax proposals are advanced for consideration should take cognizance of the fact that the people in the lower income brackets, that is to say, the people with incomes of $3,000 a year or less, are already overburdened, as is spelled out in the staff materials attached hereto, by the increasing cost of living and the present level of taxes. The Government cannot look to them for

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[6] In this respect, the responsibility is clearly fixed: Only Congress can raise the necessary revenues to place us on a pay-as-we-go basis. It is all too easy for Congress to support the principle of "pay-as-we-go" overwhelmingly and yet shy away from the unpleasant task of raising enough taxes, on the grounds that we do not know precisely what our revenue needs will be. While it is true that Government expenditures cannot be precisely forecast, the chances of avoiding at least a $10,000,000,000 cash deficit for the fiscal year 1952 are negligible unless additional revenues are raised. Therefore the Congress should proceed immediately, as fast as the legislative process will permit, in enacting legislation to raise an additional $10,000,000,000 in revenue.

Such taxation will be a heavy load, but it will be less of a burden for society than a failure to tax and the consequent credit and price inflation which would result. If matters are allowed to drift, the Government will probably begin to run a deficit by late spring of this year, and this deficit will increase to large proportions.—Senators Sparkman, Douglas, and Benton and Representative Bolling.

any substantial new revenue. The new tax bill must be directed to absorb surplus purchasing power where it exists. In addition to closing loopholes, we need a tax system that seeks to eliminate all profiteering and to make impossible that this defense effort produce a new crop of war profiteers.

But taxation is not enough. The familiar programs for priorities, for allocations, for control of credit and the like, all must be used. Even more than that. Legislative remedies must be sought to correct a condition that now exists by which prices increasing the cost of defense and the cost of living are geared to the industrial practices which have for years driven up the prices of industrial commodities. Farm parity, for example, is a device which was invented at the depths of the agricultural depression for the purpose of gearing the prices of agricultural commodities to the prices of industrial commodities. The prices of the products of the farm during the great depression fell like a plummet, but prices of the goods the farmer bought were held relatively stable. The manufacturer reduced his production, but not his price. Although at first farm relief, and then World War II, and then maximum employment in the 5 years following the war, raised the agricultural producer to a more equitable standard of price compared with industry, yet the parity system continued to link agricultural prices to rising industrial prices.

The Defense Production Act contains a provision which, in general, prohibits the establishment of any ceiling upon agricultural prices below parity, or below the highest price received by producers during the period May 24 and June 24, 1950. This provision is to be distinguished from the agricultural price-support law which was enacted for the laudable purpose of maintaining stability of agricultural prices as compared to industrial prices. One cannot quarrel with the principle of the price-support law, the purpose of which is to maintain general parity between agricultural and industrial prices. It is an altogether different problem, however, to what extent the price-stabilization law should prevent price-control officials from holding the line on agricultural prices. It should always be borne in mind that the farmer, generally speaking, sells his commodities in a free market, whereas industrial commodities for the most part are sold in organized markets in which it is possible for industrial producers to maintain what the economist calls "administered prices." This explains why it was during the depression that agricultural prices fell while agricultural production was maintained, but in industry production was reduced while prices were maintained.

The provision in the Defense Production Act therefore tends to gear agricultural prices to the highest level of industrial prices. The advisability of a reexamination of the provision of the Defense Production Act, from the point of view of its effect upon the fight against inflation, is clearly indicated.

Likewise when in certain industries, such as the motorcar industry, the compensation of labor was based upon the cost of living, another escalator was brought into existence. However desirable such cooperative arrangements between management and labor may be in ordinary times—and on that point no reflection of any kind is intended—one of the effects important for these times is that it serves as a basis to push up prices.[7] Congress itself has long used the same principle. Government pay has in recent years likewise been increased upon the justification that the Government worker, like the farmer and the industrial worker, was entitled to larger compensation because of the rising cost of living.

Thus a challenge is presented to the Congress to modify, by legislative enactment, this engine of inflation which will continue to press constantly upward on prices unless we find the way to stop the inflationary spiral so that a just stabilization ratio may be attained between agricultural prices, wages, industrial prices, and profits. All must be stabilized on a just basis by the removal of every factor contributing to the inflationary spiral.

To permit administered prices to be maintained in some important industries with undiminished force, to allow the resultant corporate profits to continue at present extraordinary levels, to try to keep farm prices by Government price-support programs on a parity calculated from such industrial prices, to allow escalator clauses to continue in force in wage contracts tying wages to the cost of living, to make price-ceiling adjustments on the basis of increases in materials and labor costs and thereby to raise further the cost of living—is merely to set up an unbeatable mechanism of built-in inflation that, however, endurable for a short war, could prove disastrous during a long preparedness period. As a minimum a waiting period of 3 or 6 months might be established before automatic adjustments are allowed to take place, such as that between increases in the cost of living and wage rates, thereby bringing somewhat greater stability and less frequency of change into the price-wage-cost picture.

Effective attack on inflation has been so long delayed and inflationary pressures since Korea have gained such phenomenal heights that it is now imperative for Congress to act. Price freezes at the top levels reached after Korea, followed by adjustments and mark-ups to take care of increasing costs make imperative a careful congressional review of all existing legislation including stabilization programs and authority so that the cost of living may be reduced and inflation brought to a full stop. The public interest would be served by the early recommendation of legislation to Congress by the defense mobilization and stabilization agencies. No one can deny the great complexity of the problems of price and wage stabilization but no time should be lost in definitely establishing the price line which must be held.

The Defense Production Act of 1950, by which authority was granted to fix ceilings on prices and wages, terminates on June 30, 1951. It is accordingly essential that the act be extended. The Banking and Currency Committees of the two Houses, after the enactment of the law during the last session of Congress, set up a special joint committee to observe operations under the law. The two Banking and Currency Committees, therefore, are already well equipped to receive and evaluate suggestions for amendments growing out of the experience of the stabilization agencies since the enactment of the law.

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[7] Escalator clauses in wage contracts only attempt to permit wages to advance to meet price increases that have already taken place. Such wage increases that come about because of such clauses are the result and not the cause of these antecedent price increases.—Senators Douglas and Benton and Representative Hart.

This committee regards the undue expansion of bank credit in recent months as extremely dangerous. It is unanimous in the belief that bank credit must be controlled if further inflation is to be avoided. Such control ought not to jeopardize the maintenance of an orderly Government bond market though it should be noted that if fear of inflation hinders the public sale of Government bonds at the agreed on rate so that the price can only be maintained by large-scale open-market purchases, this will in itself increase inflation.

The committee notes with approval that the two great agencies most directly involved, the Federal Reserve Board and the Treasury Department, have apparently cooperated in evolving a program of action genuinely accommodating and reconciling their sincere differences in point of view (briefly stated in appendix 5). Such techniques of quiet compromise are likely to yield happier results for the country than intensive insistence on measures historically successful under different conditions whether of war or peace. The requirements of a long preparedness period are poorly served except by such cooperative, constructive innovation.[8]

SOLUTIONS FOR A LONG PERIOD OF WATCHFUL PEACE

Perhaps the most important fact that needs to be constantly kept in mind is that the situation now facing this country appears to be neither one of all-out war nor of peace. It may be rather a 10- or 20-year period of two-way preparedness or armed alert, although the possibility should in no wise be ruled out that a relatively shorter period of extremely critical danger may lie immediately before us. Should, on the one hand, such all-out war come (may God forbid it), this Nation must be equipped to advance to full military strength inside a few months rather than years. On the other hand, we must always remain ready for the day (and may it soon come) when we can again fully devote our loyalties and our energies to the ways of peace to which we so much long to return.

The economic problems of a long period of armed alert cannot be met by indiscriminate application of the techniques useful either in war or in peace. We cannot afford the luxury of thinking with our memories. New problems require new solutions. Nor can we find the way out of our predicament by carping criticism of one another or by searching out and condemning one another's economic and political sins. The way out lies along the road of quiet tolerance and patient cooperation.

It is not enough merely to apply formulas that had a measure of success in World War II. Those that work well for a short period may fail utterly in a long period of less intensive effort. There is no solution of our long run economic problems in production for war.

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[8] While the cooperative evolution of a program is always advantageous, the committee should not ignore the tremendous cost to the country incurred as a result of the delay in reaching an agreement between the Federal Reserve and the Treasury. During the 8 months following the outbreak of the Korean conflict, Government holdings of securities increased literally by billions of dollars—dollars which found their way into bank reserves, which the banks multiplied and pumped into the economy, and which were used to finance the post-Korean buying spree. The price of this delay makes it imperative that such delays be avoided in the future.

In its report of January 1950, the Subcommittee on Monetary, Credit and Fiscal Policies urged the use of a vigorous monetary, credit, and fiscal policy. As long as policy is made through a political tug-of-war, the chances of evolving and effecting a vigorous policy are slim.

One of the agencies, therefore, should be assigned primary power and responsibility in the event of a policy conflict affecting credit regulation. After extensive hearings and deliberations, the subcommittee recommended vesting their power in the Federal Reserve System, a full year before this controversy broke into full public attention. Since then, there have appeared no compelling reasons for altering this recommendation. Senators Douglas and Taft and Representative Herter.

Neither can normal techniques of peace be indiscriminately applied. For example, in the emergency ahead we cannot afford to fight inflation by the traditional method of directing controls toward reducing the general level of employment and productive activity. Ours is the harder job of keeping down prices while expanding employment and production toward maximum levels.

Moreover, it is not enough merely to increase industrial capacity. Nor is it enough, in addition thereto, to develop natural resources with maximum speed and economy, and to direct public-works programs toward increasing farm output and industrial production. More is required. To promote productivity means above all developing and husbanding the most important resource which this country possesses: the potentialities, the skills, the loyalties of its workers, its farmers, and its businessmen, irrespective of differences of background, affiliation, status, and point of view. No nation can either be strong or prosperous in which groups mutually frustrate and exhaust each other by striving to gain position at the expense of the general welfare.

Finally, this committee wishes to reiterate the increased necessity for alertness to preserve whatever competition can be preserved. There are many points, particularly during a long mobilization period, at which small and independent enterprise is imperiled. Almost inevitably the Government turns to large enterprises to secure a major portion of the munitions and other supplies it requires, as is clearly shown in appendix 6. During a short war such strengthening of existing tendencies toward concentration of output in the hands of a few firms is a necessary cost of the war. In World War II, the prosecution of violations of the antitrust laws, for example, was postponed until after the war.

But such extreme concessions to military necessity cannot be tolerated during a long period of preparedness. Far from granting exemptions or postponement of antitrust action, the Government must more vigorously than ever push programs to aid small business. Much more attention should be given to small business in the distribution of Government contracts, in the allocation of materials, in the granting of priorities, etc. We should make the fullest use of the productive facilities of small business. Particularly helpful would be the publication regularly, within the limits of security regulations, of information on distribution of defense contracts and subcontracts, on the rate of defense spending, on the areas of expansion and defense needs, and other mobilization activities. Every effort must be made to expand free, private, competitive enterprise all along the line, because economic freedom is usually the first casualty of a garrison state. In the long period of armed alert ahead, this Nation cannot afford to set aside such long-run objectives as decentralization of political and economic power. We must seek to preserve free competitive opportunity, and to advance our political and economic freedoms.

It will not do merely to pile the unsolved problems of war upon the unsolved problems of peace. In the long preparedness effort ahead, a much harder task must be faced—that of devising a consistent and comprehensive set of economic policies that will attack our economic problems on all fronts. This involves skillful coordination of policies regarding production, military procurement, preservation of small and independent business, governmental economy, taxes, prices, cost of living, bank credit, debt management, manpower, and wages.

COMMITTEE COMMENT ON THE PRESIDENT'S RECOMMENDATIONS IN THE ECONOMIC REPORT[9]

It is in the light of these principles that the recommendations of the President for economic legislation will be individually reviewed. These recommendations center around four essential goals: (1) Expansion of production; (2) extension of health services and education; (3) economic stabilization; (4) maintenance of international economic programs.

Expansion of production

1. *Renew priority and allocation powers* (p. 13, sixth paragraph).

There will probably be little opposition to this recommendation. Until such time as the industrial capacity of the country has been expanded sufficiently to take on the additional burden of preparedness now necessary, allocations and priorities will be needed, but they should be guided by the fact that practices necessary in the frenzied haste of a shooting war may wreck the economy in a longer period of armed alert. Thus, for example, military manpower and material procurement programs based on the principle that the armed services will never be criticized for having obtained too much too soon, even though at high prices—such patterns of thought and action involve too great a disregard for the civilian economy to be tolerated throughout a long-run preparedness effort. Military hoarding of manpower and materials must be kept to a minimum.

2. *Make available more funds for loan program for expansion of productive capacity and supplies* (p. 14, fourth paragraph).

If such authority be granted it should be hedged in with rigid requirements of vital defense necessity. Precisely because this is an effort likely to last many years, the Government should not embark on an indiscriminate loan program. One of the major causes of inflation is excessive credit. Corporations and others have more liquid funds than ever before. Moreover business can secure the equivalent of V loans and procurement advances from the Department of Defense, techniques which worked with considerable success during World War II. The cases in which additional Government money should be lent, while they may exist, should be clearly established.[10] The machinery for Government loan programs should be examined by the appropriate legislative committees to assure compliance with these rigid requirements.

3. *Authorize direct Government construction of industrial facilities* (same paragraph).

While such might be necessary in an all-out war effort, it handicaps our long-run chances to maintain a maximum of free, private enterprise and reduces our reliance upon the creative impetus of private initiative. We recommend against this proposal except in limited fields where clearly demonstrated to be necessary.

4. *Authorize start of St. Lawrence seaway and power project* (top of p. 15).

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[9] The page references in the paragraphs that follow are to the Economic Report of the President, transmitted to the Congress in January 1951.

[10] Small manufacturers in particular, if they are to survive in a mobilized economy, must have the kind of access to funds for expansion which was recommended by our Subcommittee on Investment in its report on Volume and Stability of Private Investment, S. Doc. No. 149, 81st Cong., 2d sess., March 1950, especially pp 13-17.—Senators Sparkman, Douglas, and Benton and Representatives Patman and Bolling.

Altogether aside from the debate over public power, such a proposal will have to be carefully examined to see how and when it can be fitted into the over-all Government program for national defense, the establishment of world peace, and the extremely heavy expenditures now being incurred for these purposes.[11]

5. *Support nursery schools* (p. 15, fifth paragraph).

This matter would seem to be one for which local authorities are better equipped with the detailed knowledge and neighborhood leadership to do effectively. In special short-run emergencies caused by Federal defense activities, the problem of freeing mothers for productive work may, however, be a national problem. The possibility of Federal help, including technical assistance and adequacy standards, should not be ruled out if studies indicate its value and if the costs do not seem excessive.

6. *Provide improved unemployment insurance protection for workers who take defense jobs in other States* (p. 16, first paragraph).

The need for mobility of labor, and in particular for persons of scarce skills to move to areas in which vital defense jobs are being undertaken, no doubt will continue to exist. However, such mobility is likely to affect only a fraction of the labor force. Rather than disturb State unemployment insurance systems, normal incentives should be permitted to influence those who take defense jobs in other States.[12]

7. *Provide housing and community facilities and services for defense workers* (p. 16, second paragraph).

In view of the large installations which were erected during World War II and the vigorous housing program of this Government which was partly instrumental in making the year 1950 the largest single construction year in our history, the need for Government provision of housing and community facilities can hardly be large for the Nation as a whole, although there will undoubtedly be special areas where new atomic energy or other defense installations will bring critical local problems beyond the power of such small communities to cope with. In such areas Federal aid will be necessary.

But so far as the economy in general is concerned, private housing construction is being rigidly limited with respect to credit and mate-

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[11] If, as the Director of the Office of Defense Mobilization, Mr. Charles E. Wilson, has stated, the St. Lawrence seaway and power project can be shown to be necessary to bring more ore from Labrador to the Great Lakes ports, to replace a gradually reducing supply from the Lake Superior region, it may be a vital part of the defense effort.—Senator Taft.

The rapid expansibility of iron-ore sources in Minnesota was one of the primary factors that permitted the United States to expand steel production rapidly in two world wars. This expansibility of our domestic-ore supply will be lost in a comparatively short time. Soon ore in the amount of 40 to 50 million tons a year will have to be imported. Alternative sources of open-pit ore, therefore, must be easily accessible to our steel industry if the long-range mobilization program is to be carried out economically. These new sources are now being developed in Venezuela and Labrador. The latter source has the added advantage of being within the continental limits of North America which may be transported by inland routes without exposing a vital supply line to submarine warfare. Without reflecting on other sources of iron ore, it is considered good insurance to make Labrador ore accessible to our steel mills, over 70 percent of ingot-steel capacity being located in the Great Lakes area.

"These are the fundamental considerations," Mr. Charles E. Wilson, Director of Defense Mobilization, testified before the House Public Works Committee on February 21, 1951, "that have brought me to the conclusion that the St. Lawrence seaway—in addition to its undoubted general contribution to our transportation system—*is essential* if we are to put our steel production—which is to say our entire mobilization effort—on a solid and secure foundation. Without the seaway we shall become steadily more vulnerable in this most strategic of all strategic industries. We must not permit that to happen."

The St. Lawrence project has the added attractive feature that, once constructed, it will be a source of revenue to the Government as both power and navigation investments will be returned, with interest, to the Treasury.

Under these conditions, it may well be that the seaway-power project should be prosecuted expeditiously.—Senators Sparkman, Douglas, and Benton and Representative Bolling.

[12] We urge improvement in State unemployment insurance laws—both as a permanent and long-range proposition, and as a method of protecting those workers who may be seriously affected temporarily by curtailments in civilian production. Such liberalization was recommended by this committee's Subcommittee on Unemployment last year.—Senators Douglas and Benton and Representatives Hart and Bolling.

rials. Numbers of contractors are looking for jobs on which to employ their facilities. By adequate allocations and other measures not involving Federal governmental loans, the construction industry should be increasingly relied upon to take care of new needs as they arise. If additional Federal aid be granted, it should be hedged in by very rigid tests. An era of inflation is no period in which to extend more Government credit to enterprises to bid for scarce defense materials.

8. *Provide increased Government assistance to housing in defense areas* (p. 16, third paragraph).

Similar considerations should be carefully kept in mind with respect to Government assistance to housing.

Health services and education

9. *Increase training of medical personnel* (p. 16, sixth paragraph).

10. *Expand local public health services* (p. 16, seventh paragraph).

11. *Provide general aid to States for school operation and maintenance* (p. 17, second paragraph).

It is recognized that proposals to provide increased training for medical personnel, to improve local health services, and to provide general aids to States for school operation and maintenance are designed to promote defense expansion by improving human resources and human productivity. So far as Federal participation is concerned, however, these proposals probably will have to be delayed but only for a minimum of time and subject to frequent and careful reexamination. The Government has undertaken so large an armament program, and the prosperity generated thereby has in turn so greatly aided the budgets of various State and local governments, that the traditional local methods of financing education and medical aid and public health should again be more fully relied upon. In a period of inflation and long-run strain upon the Federal exchequer, the role of the Federal Government with respect to State governments might well be reversed, leaving the practice of Federal aid to States in abeyance. The long period of preparedness ahead is the time for maximum State and local assumption wherever possible of local governmental burdens, including local defense programs.[13]

Economic stabilization

12. *Adopt additional tax measures to finance the cost of national defense on a pay-as-we-go basis* (p. 17, fourth paragraph); *specifically, corporation taxes, individual income taxes, excise taxes, and close loopholes in existing tax legislation* (p. 17, seventh paragraph and top of p. 18).

This committee emphatically endorses the proposition to put defense on a pay-as-we-go basis. It, in fact, would wish to go further.

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[13] If we were facing a period of all-out mobilization, expenditures for these programs could perhaps be delayed without irreparable deterioration of our health and education levels. But it has been generally agreed that we must plan in terms of a 10- to 20-year period of defense mobilization, during which time a whole generation of children will mature. In dealing with the immediate problems connected with transferring a part of our resources from peacetime to military use, we should not neglect the necessary needs of the civilian population, nor be persuaded that their needs are less urgent simply because we must expand our Armed Forces. As a matter of fact this expansion will increase the need for trained medical personnel by both the civilian population and the Armed Forces. Large deficits of medical schools, merely to meet their current needs, are upon us now, and the defense effort will directly cause a demand for increased numbers of doctors. Federal aid to medical education should, therefore, proceed without delay. Then, too, the postwar growth in our juvenile population has been phenomenal. Accounts of overcrowded classrooms and first- and second-graders going to school in shifts are legion. The need of the States for financial assistance to expand their school systems to provide for this new generation has been well documented before committees of Congress and elsewhere. We believe that we should apply Federal funds to provide adequate educational facilities for the children who will be growing up during this long-term period of armed alert.—Senators Sparkman, Douglas, and Benton, and Representative Bolling.

It feels that the defense garment should be cut to the revenue cloth. Measuring with care the things that must be done, Congress, short of all-out war, should make no military appropriation unless and until adequate Federal tax revenues are definitely in sight. In a long period of heavy defense expenditures such as now faces us, there does not exist the urgency to spend first and then look around and see how much the Government will need to borrow in order to pay its bills. Instead, total Federal governmental spending for defense, including not only the military items but also foreign aid, atomic energy and other noncivilian programs, should be limited to a figure not in excess of 20 percent of national income. In a long period of armed alert ahead, lavish military expenditures might readily wreck the economy if not limited to ceiling levels. In the fiscal year 1951–52 the levels advocated in the budget message of the President represent in our judgment an absolute maximum.[14]

Revenues from proposed taxes must be estimated with extra caution and conservatism. All groups should over a long period bear their fair share of the new tax burden. Loopholes should be closed, including new ones that may arise under the defense program.

The National Production Authority in a press release of March 3, 1951, indicated that 3,319 applications for tax-amortization deduction certificates had been made, and 447 certificates issued, totaling nearly $3 billion. It seems probable that, in order to minimize liabilities under the regular corporate income and excess profits tax, corporations and other businesses may have applied for and been granted certificates of eligibility for tax-amortization deductions with respect to facilities which may have been planned and begun in many cases months before the war broke out in Korea.[15] Until there seems a more imminent danger of all-out war soon, we recommend that appropriations for military defense be limited to the amounts we are willing to raise in taxes.[16]

13. *Consider increased social security contributions* (p. 20, first paragraph).

This committee agrees that increased social security contributions should be considered. In fact, in order to provide a damper on inflation, the levy for social security purposes might well be increased earlier than is now contemplated in existing legislation.

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[14] We are opposed to this recommendation. It states that "the defense garment should be cut to the revenue cloth." In our judgment, the revenue garment should be cut to fit the defense cloth. Furthermore, we oppose the level of defense spending in the President's budget as an absolute maximum. We may need more. We may even need to build up our defense to a greater degree than present plans call for. Freedom is more important than opulence and without freedom opulence will disappear.—Senators Douglas and Benton and Representative Bolling.

[15] The widespread practice of granting accelerated amortization for plants which will expand capacity is susceptible of great abuse, and needs to be carefully checked. The immediate effect of such amortization privileges is to deprive the Government of tax revenues at the very time when the tax burden is likely to be heaviest, and to transfer tax payments to later years when presumably the rate of corporate and excess profit taxation will be much lower. This will be an unearned gain for firms constructing plants which will be used for peacetime production if and when the war emergency ultimately subsides.

The principle of accelerated amortization is valid only to the extent that it covers investments which will have no permanent usefulness. If it is true, as the committee indicates it may be, that amortization certificates have actually been approved for facilities which were either planned or begun before the outbreak of the Korean conflict, this practice should be stopped immediately. In the case of applications for the accelerated amortization of expanded steel or aluminum, or other basic productive facilities, the plea can be made that there is likely not to be a permanent market for the added steel or aluminum to be produced by these facilities during the postemergency period. This is an assumption that can hardly be firmly documented, since past experience has shown that for such basic commodities as electric power and aluminum, uses grow as fast or faster than production.

In view of the immediate harmful effects of liberal amortization privileges, outlined above, the National Production Authority would be wise to follow an extremely conservative policy for the moment, in determining the percentages of basic facilities investments for which accelerated amortization is granted. If, following the emergency, the Congress finds that there is, in fact, no market for the products of the added facilities, it can then devise a means of compensation for the war-connected portion of the investment.—Senator Douglas and Representative Bolling.

[16] For Senator Benton's comments on this point, see his supplementary statement of views, p. 22.

14. *Authorize credit controls on purchase of existing homes* (p. 18• fourth paragraph).

The extension of rigid credit controls to the purchase of existing houses is vitally needed in a period of inflationary credit buying.

15. *Authorize control of speculative trading and of stronger regulation of commodity exchanges* (p. 19, third paragraph).

The course of commodity prices during 1950 has demonstrated again that the cost of living, not to speak of costs of production in general, should be freed from uninformed and indiscriminate speculative manipulation. Wise controls might well be instituted to bring stability in such markets.

16. *Extend and strengthen rent-control law* (p. 20, fifth paragraph). It seems clear that if rent controls are continued, some owners of rental properties, particularly those who own small properties, will find their costs increasing with current inflation and in rent-control areas will be unable to secure compensatory rental revenues. Since the imposition of rent controls in 1941, prices of all items have increased on the average nearly 70 percent. Housefurnishings have increased 91 percent. Fuel, electricity, and refrigeration have increased 41 percent. Meanwhile, rents have gone up only 18½ percent. This situation has heretofore been justified on the basis that rent controls would be temporary. But this disparity between costs and income must be taken into account in enacting further rent-control legislation.

The abolition of all rent control, however, could do serious damage particularly to renters in the lower income brackets. Since it is a problem that lends itself readily to State and local legislation, a continuation of the principle of the present law leaving the initiative insofar as possible in the hands of the State and local governments may prove adequate. This problem will have to be studied by appropriate committees of the Congress.[17]

International economic programs

17. *Provide for continuing military and economic aid to free nations, including programs for underdeveloped areas* (p. 21, first paragraph).

There is danger that the inflation which already exists abroad will be increased still further by undertaking vigorous programs for international investment at this time. When economic aid is extended it should not be hog-tied to military objectives, but should to the maximum extent feasible represent the assistance which one freedom-loving people extends to others seeking to find and travel their own roads toward winning similar freedoms for their own peoples. All such programs should be well within the capacity of the countries concerned to undertake, and be programs which they want to achieve.

18. *Extend power to control exports* (p. 21, third paragraph).

For a limited period of time the power to control exports will no doubt be needed in order to conserve the supply of vital materials that are used for defense within the United States.

19. *Extend Trade Agreements Act* (p. 21, fourth paragraph).

The extension of a program which has operated with some measure of success for many years is but a continuation of the effort of this country to encourage all free nations freely to do business with each

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[17] We feel that a strong Federal rent-control law should be enacted, similar to that in existence during World War II.—Senator Benton and Representative Hart.

other, modified, in so far as necessary, by international agreements affecting commodities in short supply. Such agreements may be required in all countries cooperating for mutual defense in order to control the drain on scarce resources, channeling them to uses most vital for defense purposes. The House of Representatives has already passed an extension bill which is now being considered by the Senate Finance Committee.[18]

20. *Simplify customs laws and procedure* (p. 21, fourth paragraph).

Any simplification that can be brought about in customs legislation should, of course, be achieved so that commerce may flow unobstructed by needless "red tape" or bureaucratic harassment.

21. *Waive import tax on copper* (p. 21, fourth paragraph).

To impose barriers on any vitally needed material, and in particular on so important a defense item as copper, is to hamper the defense effort. All governmental barriers which tend to restrict the deflationary inflow of productive resources from abroad are, in the long period of defense mobilization ahead, a luxury which we cannot afford to maintain.

STATISTICAL GAPS AND THE WORK OF THE COMMITTEE

The committee wishes to reiterate its continuing interest in, and support of, efforts to fill the statistical gaps in the Government's program of economic information. In a long period of high level output and preparedness the economy cannot afford to permit the defense agencies to hamstring the collection and publication of economic information on security or other grounds valid only during a major fighting war. Appendix 7 provides a brief survey not only of the progress made during the last year but of new complications presumably introduced because of security regulations and defense activities. A similar precis of the research studies now under way or projected by this committee is given in appendix 8 together with a list of recent committee publications.

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[18] I would omit all except the last sentence in this paragraph.—Representative Herter.

In the present state of world unrest with so many areas dependent upon the United States for economic rehabilitation as well as military aid the Trade Agreements Act seems to me to be little more than a symbol.

The reestablishment of world commerce upon an international scale must necessarily await international political stabilization. The concept of reciprocal trade is one which is necessarily bound up with the concept of nations and peoples living in peace and amity and until that condition has been attained there is little prospect that mutually beneficial trade agreements can be written. The United States has given ample evidence of its willingness to cooperate with all the peoples in the world for the reestablishment of peaceful relations and it is to be doubted whether a failure to extend the Trade Agreements Act could be reasonably interpreted anywhere as an indication of any desire on our part for economic isolation. Moreover, the Act has always been subject to the criticism that it constitutes a far-reaching delegation of congressional power to the Executive.—Senator O'Mahoney.

SUPPLEMENTARY VIEWS AND STATEMENTS

Supplementary views of Senator Benton

Production

I believe we must place even more emphasis upon expanding production than if we were in an all-out war. This is because we now have a larger part of our resources to devote to the expansion of production than if we were in an all-out war. And it is because only through the expansion of production can we create a sufficiently strong industrial base to be ready for whatever dangers may come in the future, or for bearing the defense burden with less strain if these greater dangers are successfully averted.

Our productive power is our greatest economic asset. It is what distinguishes us most from the rest of the world. In the long run, more and more production is the key to sustaining the defense burden without crippling the whole economy. It is the key to servicing a huge national debt, and in time to reducing that debt, without a crippling rate of taxation. It is the key, in the long run, even to the conquest of inflation—even though, in the short run, the efforts to expand production may add to inflationary pressures.

A major feature of strengthening the economic base is the expansion of industrial capacity. Another major feature is the development of sufficient machine tools and equipment. Still another major feature is the provision of enough tools and fertilizers to maintain and build up farm production. Other major features include the strengthening and further modernization of our transport facilities, and the development of more power—private wherever possible, public in some instances.

This build-up of the economic base cannot be achieved solely by saying that so much of our resources be devoted to military purposes, and that the balance be left for utilization by the civilian economy according to a normal peacetime pattern. If $50 billion be taken out of a $300 billion economy, the way in which the other $250 billion is to be used is immensely important. Relatively more must be devoted to the industrial build-up, and relatively less to ultimate consumption, than in normal peacetimes, at least for the next 2 or 3 years. This is the only way to prevent a permanent impairment of our standards of living, in view of the long and sustained defense burden. Furthermore, it is not enough to say that we must stimulate investment, increases of capacity, tools, and techniques. The current or potential short areas must be identified, so that materials and manpower are made available in these areas, while less essential areas are cut back. There must be a bold and vigorous "programming" to accomplish this objective, with particular attention to the vital role of small manufacturers in our economy. And this objective must be stated clearly in factual terms, for when it is so explained to the people they will understand its importance, realize why restraints must be placed upon consumption, and look forward with hope to the ultimate lifting of these restraints as a strong and imaginative production program lifts our total national output to new heights.

The fifth annual report of the Council of Economic Advisers, entitled, "The Economics of National Defense," and the January 1951 reports of the President and of the Council, place great and proper stress upon comprehensive and consistent programming of needs and the matching of these needs against available and potential supply lines. In a time of acute shortages, it is only by careful programming, as we learned at such great cost during World War II, that the separate fragments of economic policy can be blended together into a successful total effort instead of competing and conflicting with each other. Only by defining our basic objectives clearly and realistically with a long look ahead can we develop effective policies to accomplish these objectives. Not only production programs, but also tax programs and control programs, must derive their guidance from this kind of programming because controls to influence the use of resources can be fully effective only when we know what kind of resource diversions are called for by the defense effort.

Economy

The problem of economy in public outlays in these times is complex. It cannot be settled by any simple rule of thumb. Either the expenditures seem desirable now because they were desirable in the past, or the expenditures seem undesirable now because we have moved into a new type of situation. In a defense economy, we must maximize both our military strength and the productive machinery—both inanimate and human—which supports that military strength. But crippling the programs which serve this purpose, whether they be military programs or civilian programs, would be penny-wise and pound-foolish. On the other hand, our resources while great are not limitless; and we should put first things first. There are thus many things which we must eliminate or postpone. In general, the recent reports of the Council of Economic Advisers establish sound criteria for distinguishing between essential and nonessential expenditures in a defense period. But it is up to the Congress to apply these criteria to the precise and careful scrutiny of individual appropriation items.

In distinguishing between useful and wasteful expenditures, not only Government programs but also private outlays must be considered. A public outlay is not the only type of outlay which can be wasteful or inflationary in these times. In cutting down on nonessential and inflationary expenditures, both the private and the public side of this problem must be vigorously attacked. Where other considerations are equal, it is the responsibility of the Government to practice economy in its own house before it preaches economy elsewhere. But private expenditures for luxuries and nonessentials, either by business or by consumers, should not be given priority over those public demands upon our resources which are essential to our national strength. Since the Government in times of crisis, through both direct and indirect measures, has the power to curb or to stimulate both private and public spending, it must try to view the whole picture and seek to base its action upon the priority of national needs. Private spending for investment in productive tools which produce armaments is obviously of higher priority than some types of peacetime private spending. But public spending to support the military and civilian components of long-range military and economic strength is just as obviously of higher priority than private spending for nonessential construction and for luxuries. A sound economic program must eliminate nonessential and inflationary spending, both private and public, and must sustain and help to direct that spending, both private and public, which fits into the objectives of the whole economic mobilization program in this period of acute shortages.

Inflation and the cost of living

There are some who believe that a little inflation is necessary, that it will help rather than hinder production.

One trouble with this easy doctrine is that we have already had more than a little inflation. Another obvious difficulty is that if we consciously aim at a little more inflation, we are almost certain to get a lot more inflation. This policy not only risks the creation of widespread misery and cynicism among those unorganized groups who are unable to keep up with an inflationary spiral, but also disrupts the productive potential of the American economy.

It is now regarded as axiomatic that the only sound way to deal with inflation and the cost of living is through a broad program of economy, taxation, credit controls, priorities, rent control, savings, and price-wage measures. While considerable attention has been given to each of these measures, special emphasis should be placed upon (1) the encouragement of savings and (2) the development of a much more hard-hitting and realistic program first of price and secondly of wage controls.

Encouragement of savings

The case for a national program to encourage savings has been expertly put in a recent publication of the Committee for Economic Development, entitled "Conditions Necessary for Effective Price-Wage Controls" (February 1951).

The CED analysis first makes a strong case for governmental economy, for a balanced cash budget by the latter part of calendar 1951, and for restraints upon the expansion of bank credit. The CED statement then makes the following proposal:

> A national program of education is needed to bring home to our people their individual responsibility to save. As part of such a program we should enlist the cooperation of the leadership that exists in our communities. The Government should cooperate by instituting an aggressive campaign for the sale of savings bonds. The program should be more than a drive for savings bonds—all forms of savings should be encouraged.

The total earnings of American consumers are bound to rise as a result of the defense mobilization program—due to increased employment, longer hours, and inevitable increases in wages and salaries. No matter how much of these earnings we take away from people in new taxes, nor how strongly we clamp down upon them through controls, these earnings after taxes will nonetheless rise substantially. One of the best ways to prevent them from contributing to the inflationary spiral is to encourage people to save for the future.

Thus far the administration has not started a major effort to sell Savings Bonds. A successful effort would in fact have been difficult during the last 8 or 9 months. One does not have a very appealing case if he asks people to save at a rate of about 3 percent a year while the value of the dollar is declining at a rate of about 1 percent a month.

But now that more vigorous efforts are being made to fight inflation, now that it becomes possible to hold the line on the cost of living, the initiation of a major Savings Bonds campaign should no longer be delayed.

It is difficult to see how a well-rounded anti-inflation program can be developed unless this eminently practical proposal is accepted.

Cost of living

A major need is for a well-rounded stabilization program that deals firmly with business prices, farm prices, and wages. This will require sacrifice from every group.

It is idle to talk about stabilization on the wage front or on the farm-price front unless much more dispatch and firmness is demonstrated on the general front of price stabilization. This will necessarily compel many business concerns to absorb rising costs out of profits, with due flexibility in the case of new and growing businesses. Unless such a policy is adopted, the price-control system will include a built-in escalator for business prices which will be at least as dangerous to the entire economy as the various escalators that affect farm prices and wages. If business prices are stabilized, the problem of dealing with wage increases based upon cost-of-living adjustments and farm-price increases based upon the parity concept will be reduced to manageable proportions and can be met with greater justice and firmness.

The Government's basic objective should thus be *to establish a price line that can be held and then to hold the line.*

The provisions of the Defense Production Act that provide the basis for price and wage control expire by June 30. If this legislation is to be extended—as it must be—it seems reasonable to expect that by that time at the latest its administrators will have been able to establish a clear-cut hold-the-line policy and program.

If price control is to make its contribution to a broad stabilization program, *it is essential that the present type of price control be supplanted by dollars-and-cents ceilings that can be posted by sellers and identified by consumers.* While this cannot be done in every field, it should be done wherever practicable. It will make a major contribution toward consumer enforcement and reduce the need for a large enforcement staff on the Government payroll.

It may also be questioned whether such stabilization can be achieved without selective subsidies, as were found necessary during World War II.

Selected subsidies have already been authorized in the Defense Production Act as a means of expanding the production of essential metals and minerals. Somewhat similar provisions are needed with respect to agricultural commodities.

Many farm prices have already reached parity and are under control. Here the major need is sound administration and sound enforcement. Yet in some cases a small amount of subsidies may be needed to keep high-cost processers in operation.

In other cases, prices have not yet reached parity, and under the present provisions of the Defense Production Act cannot yet be controlled. Here again some limited subsidies will be needed—to help hold the line on the cost of living and at the same time to give farmers adequate incentives for production and a fair share of the national income.

There might also be some merit in establishing a waiting period of 3 or 6 months before automatic increases in farm prices are allowed to take place under the parity formula. But if such a device merely served to give us a series of increases in farm prices every 3 or 6 months, it would be of little help in fighting inflation. The real need is for soundly conceived controls, genuine enforcement, and a limited amount of cost-of-living and production subsidies.

It is important for all Americans to realize how a small minority of chiselers and profiteers, if given leeway, can break down the entire stabilization effort. It is all too easy to find loopholes or ambiguities in a price regulation and then to use these loopholes or ambiguities as a means of breaking down price control itself.

It is imperative, therefore, that both Congress and the Executive make it perfectly clear that they stand squarely behind an effective enforcement program and that they will not tolerate profiteering or chiseling of any variety. Where examples of profiteering or chiseling are brought to the attention of the Congress, they should be investigated with as much vigor as the Congress has investigated subversive activities, gangsterism, and political corruption.

Tax revenues

Furthermore, I believe that the committee statement "until there seems a more imminent danger of all-out war soon, we recommend that appropriations for military defense be limited to the amounts we are willing to raise in taxes" fails utterly to take account of the critical short-term danger of all-out war. It is wholly keyed to the longer term tension, which may last 10 to 20 years even if we overcome the immediate threat. This threat must be met with all urgency. Military defenses cannot wait on the legislative jockeying and political compromising involved in putting new tax laws on the statute books. For these reasons also, it is likewise unsound arbitrarily to limit new defense expenditures to a fixed sum or to a rigid percentage of our national income, particularly in the first two or three critical years.

If Congress fails to enact a tax program that is sufficiently large, we face a most unhappy dilemma. But shall we compound our failure by deciding to have a military program that is likewise too small?

It must be remembered that military authorizations and expenditures can be stated in definite terms but estimates of revenue to be obtained from a tax law are guesses that can prove wrong by as much as several billion dollars. If a revenue estimate turns out to be $3,000,000,000 too low—and many revenue estimates have so proved—the United States would, under the policy here recommended, be in the ridiculous position of stating that we could have had and should have had $3,000,000,000 more of airplanes, tanks, and guns—but that we failed to get them because somebody in the Treasury Department made a bad guess on estimated revenue.

International economic programs

Foreign aid.—As soon as we probe below the surface of the current dangers to our security it becomes perfectly clear that the foreign aid required to deal with them should not be limited to military assistance. The sound approach, combining military strength with economic strength, is outlined in the following statement on page 12 of the President's Economic Report:

> There is no water-tight distinction between military assistance and economic assistance. Our friends abroad need both. For their military efforts to be strong, their economies must be strong. When we contribute to their military strength, we leave more of their own resources free to improve their economic strength. When we contribute to their economic strength, we leave more of their own resources free to build up their military strength. The relationship between the two types of assistance should be determined realistically on grounds of efficiency, not by arbitrary labels.

> The programs of economic assistance thus far undertaken have added greatly to the strength of other nations friendly to us—nations believing in freedom and justice. This gain could be dissipated, if the military build-up which they must now undertake should weaken their economies.
>
> The close connection between a nation's economy and its military efforts makes it impossible for peoples to be allies on one front and strangers on other fronts. When we join together for military purposes, we must also cooperate for economic purposes. When we consider jointly the distribution of armed forces, we must consider cooperatively the use of strategic economic assets.

The most immediate problem we face is to secure an expansion in production of commodities which will be scarce in relation to essential needs. This means greater concentration than we have had in the past on programs yielding quick results in the form of military items and raw materials. In some cases, however, it means projects which will yield their results only after a few years. In still other cases the common security can be greatly strengthened by expanding production even of goods unrelated to military strength, if these goods improve economic and social conditions. The development of productive capacity in all the free countries is a vital factor in the common strength, both directly as a source of goods acquired for the defense effort and indirectly as a means of improving their economic strength and increasing their stake in maintaining their independence and the free way of life.

Without question all such programs should be programs which the other countries concerned want to achieve and to which they should make an active contribution.

Extend power to control exports.—The power to control exports will be needed not only to conserve the supply of vital commodities used for defense within the United States but also to guide the direction of exports so that the most essential requirements of security and all the needs of friendly and cooperating countries are met before nonessential uses.

Waiver of import tax on copper.—The imposition of barriers on any vitally needed material hampers the defense effort, as the report states. Such barriers are worse than a luxury. They provide no national benefits whatever but simply involve a waste by concentrating the effort on getting resources inefficiently while allowing resources which can be obtained more efficiently to remain partially unused.

Supplementary views of Senator Watkins and Representatives Wolcott and Herter

We are pleased to note the marked shift in position and emphasis of the majority as compared with their previous reports. This is particularly true in regard to their rejection or curtailment of Government spending programs, wherever possible, the achievement of a balanced budget, and the stated recognition of the financial limitations as to what the Federal Government can do, both in military spending and civilian programs, without creating run-away inflation and endangering our efforts to defend ourselves militarily. We concur with the majority when it says, "that existing laws may have to be altered or repealed if major economies are to be effected in nondefense spending," just as we seriously challenged previous reports recommending a vast array of new and expanded expenditures. In the 1950 minority report we stressed the need for changed fiscal, monetary, credit, spending, and lending policies which were inevitably carrying the Nation toward inflation and financial chaos, and warned that the "result of 'spend-thrift' government places us in a most vulnerable position with the first downturn in economic activity, *or any crisis we may be called upon to face.*"

We believe the recommendations of the report recognize, though belatedly, the thin margin of safety left in our economic structure as a result of unsound and too-long continued fiscal, monetary, and other national economic policies. In accord with the positions consistently taken in previous minority reports, we, therefore, join in the specific recommendations of this report, with such footnote modifications we have individually indicated.

Aside from the section on recommendations we find many statements, conclusions, and implications in the report to which we cannot subscribe. In their context they contribute little, if anything, to constructive analysis or understanding of current economic problems, and they often create ambiguity and confusion as well. Accordingly, our agreement with the section on recommendations does not constitute general approval of all the language of the report.

Statement of Representative Boggs

I wish to make it clear that I was not appointed to committee membership in time to participate in any of the committee hearings or deliberations, except three brief executive sessions called after this report had been drafted. Therefore, it would seem improper and misleading for me to join in this report.

I would like to observe, however, that I have noted the marked shift in position of the majority views as compared with previous reports. This is good, especially in regard to Government spending programs and the recognition of the dangers of inflation.

Chairman's Acknowledgment of Cooperation by Members of Committee and Staff

It seems appropriate for the chairman to make acknowledgment of the cooperative spirit in which the members of this committee and of the staff have worked in the preparation of this report and in the hearings that preceded it, to develop a strong factual basis for an understanding of current economic problems.

This appreciation is in no wise diminished by the footnotes or the supplemental views, nor indeed by the reluctant concurrence of our colleagues of the minority, Senator Watkins and Representative Wolcott and Representative Herter, who seem to detect "a marked shift in position and emphasis by the majority as compared with their previous reports." The chairman is constrained to remark that this committee exists by virtue of the Employment Act of 1946, the purpose of which is to declare and implement the responsibility of the Federal Government "to promote maximum employment, production, and purchasing power."

How well previous economic policies have worked toward the accomplishment of these aims is indicated by the fact that instead of serious unemployment following the end of World War II, the country under this act and congressional policies in harmony with it, has enjoyed maximum employment ranging from 58,000,000 employed in 1947, on a monthly average, to a monthly average of practically 60,000,000 in 1950. The Federal Reserve Board index of industrial production has risen from 170 in 1946 to a monthly average of 200 in 1950 and, indeed, 219 and 218, respectively, for January and February 1951. National income has risen from 180.3 billion dollars in 1946 to 236 billion dollars in 1950, and corporate profits before taxes have risen from 23.5 billion dollars in 1946, to no less than 40.2 billion dollars in 1950.

The "shift of position and emphasis" seen by our three colleagues is no shift at all; it is merely a recognition of the fact that when the Government, under the necessary impetus of an expanded preparedness program, is forced to incur unusual expenditures for national defense, no logical basis remains to continue expenditures which were wholly justified at a time when the objective of government, largely supported without partisan division, was to expand employment, production, and business enterprise. The simple theory of this report is that the Government, when fighting inflation, must necessarily adopt an economic policy different from that which is wholly justifiable when it is endeavoring to fight deflation.

It is worthy of note that this report is exactly the same in principle as the unanimous report which this committee rendered last July, when it took the lead in recommending increased taxation, rigid governmental economy, and a pay-as-we-go policy, to carry on the Korean War.

JOSEPH C. O'MAHONEY, *Chairman.*

SUPPLEMENTAL STAFF MATERIALS

(These materials have been prepared by the committee staff. It is to be clearly understood that neither the committee nor the individual members are in any way committed to any of the views expressed or to any of the conclusions that may seem to follow, directly or indirectly, from any of the analyses or statistical data selected for presentation. These materials supplement the staff reports recently issued by the committee, entitled, "The Economic and Political Hazards of an Inflationary Defense Economy," "General Credit Control, Debt Management, and Economic Mobilization," and "Underemployment of Rural Families."—*Senator O'Mahoney, Chairman.*)

(In signing the foregoing report, I wish to make it clear that I do not approve many of the conclusions reached by the committee staff and printed at the end of this report under the caption "Supplemental staff material."

The matter relating to the distribution of incomes, the burden of taxation, the analysis of corporate profits, is interesting and provocative, but the conclusions particularly as to the proper method of taxation to finance the mobilization effort are certainly open to question.

As a member of the Finance Committee, I will be required to pass on these questions at a later time, and I do not desire, therefore, at this time to state specifically my differences with the staff report—*Senator Robert A. Taft.*)

Human liberties are the inspiration and creative source of man's progress toward full development of his latent abilities. To be on guard against those that would enslave, while indispensable, is not enough. Maximum economic strength, while essential, must be supplemented. The sword and the dollar are not enough. These are valuable only when harnessed to quiet spiritual strength, a tireless concern for justice, freedom and righteousness. These are the qualities that have put this country at the head of universal spiritual forces propelling the free nations of the world toward a relentless challenge of all imperialism, monopoly, race discrimination, and tyranny. To uphold the dignity of the individual and the sovereignty of the human spirit, all economic, military, scientific, democratic, and spiritual resources must be continuously and efficiently mobilized. Eternal vigilance is the price of liberty.

So far as economic mobilization is concerned, the Economic Report of the President, together with the Annual Economic Review submitted by the Council of Economic Advisers, outlines in general terms a program of action. It states that current expenditure for defense will have to be stepped up from 7 percent of current national output to 18 percent of an increased output in 1952. It lays down three requirements: (1) That a comprehensive unified programming operation be devised in order to balance competing requirements against available supplies; (2) that in the initial stages there be considerable emphasis on speed of mobilization; (3) that the economic burden of defense be distributed with equity among all groups in the population—consumers, farmers, businessmen, and workers.

Production, states the report, is at the heart of our economic strength. To that end it advocates materials controls to enable high priority industrial expansion projects to get what they need. It also recommends a limited amount of Government financial assistance and other incentives, maximum development of regional resources, and workable priorities. New sources of supply of defense goods must be developed, as safe as possible from enemy attack—iron ore, bauxite, zinc, lead, copper, and liquid fuels.

Additional manpower can be obtained, states the report, not so much by increasing the length of the workweek as by employment of older workers, more women, industrial upgrading, vocational training, and the use of management-labor committees for cooperative production adjustments and settlement of grievances and disputes. It urges the removal of impediments to voluntary transfers of workers from less essential to more vital activities with protection of seniority, pension rights, and other job appurtenances.

One of the major threats to increased production is named as inflation. Three types of control are mentioned: (1) Indirect controls such as taxes and credit measures which mop up excess purchasing power; (2) physical controls such as allocations, defense orders, limitation orders, and priorities to channel vital materials away from consumer durables and low-priority capital investments; and (3) direct price and wage controls. The problem of properly combining these controls is considered unavoidable.

In certain respects inadequate emphasis is given to the problem of inflation. For the fact needs to be constantly kept in mind that partial mobilization, extended over 10 or 20 years, cannot command the all-out energy and support of a shorter more intensive effort. A smaller part of total manpower is in uniform. Voluntary postponement whether of consumption or investment can be much greater over a short period than a long one. Moreover, mobilization now is starting with but little slack either in the labor force or in materials or in financial resources. Furthermore, not only businesses and the banks, but individuals already possess a large amount of cash and other liquid assets. It is easier to save in the fervor of all-out war of short duration, especially if one has little in the way of savings at the beginning, than to keep on saving for years and years. There is an enormous Government debt totaling $257 billion. Clearly additional borrowing of any magnitude is fraught with danger.

I. The First Requirement—Increased Production

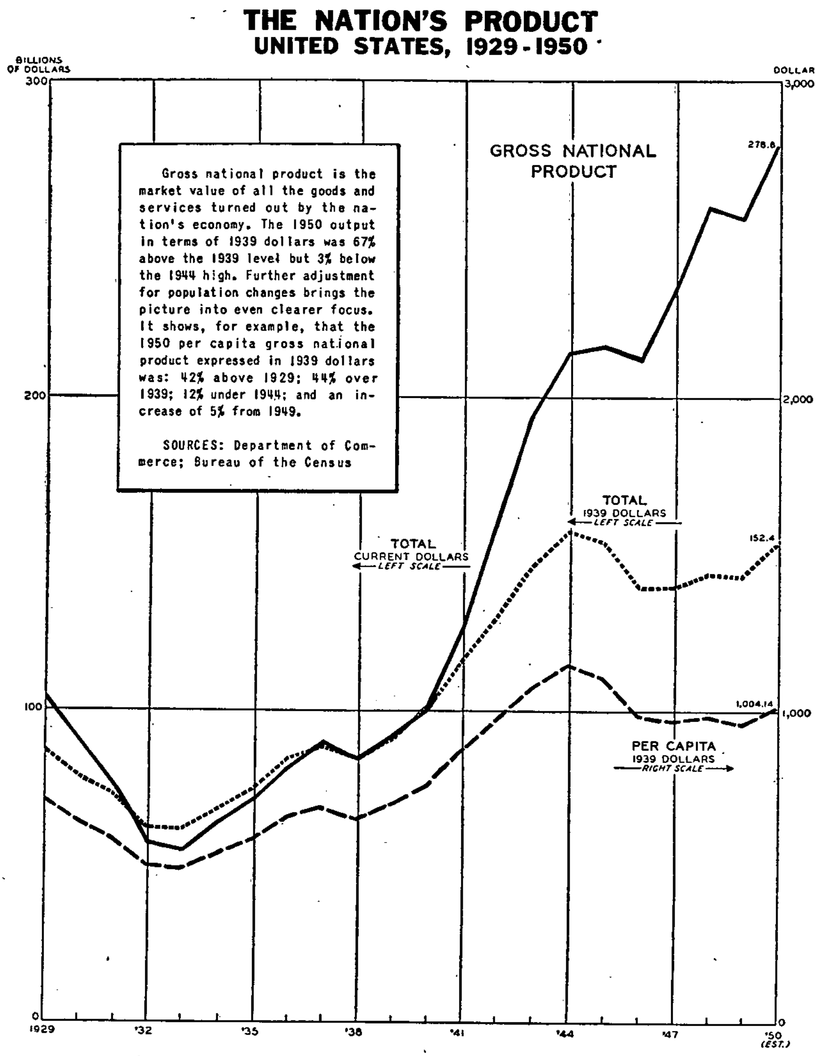
The high level of national output from which this Nation catapulted its defense mobilization program is clearly evident in chart 1. As compared with 1940, total output in 1950 was roughly 50 percent higher; farm output was 25 percent higher; there were 9 million more persons in the total labor force; steel capacity was 20 percent higher; electric power capacity was up more than 70 percent; and manufacturing capacity higher by at least 25 to 30 percent and possibly by as much as 50 percent.

Note in the chart that real production has lagged considerably behind increases in gross national product. The gap between the two for the most part represents the price inflation that has occurred since 1939. The middle line shows that the goal of increasing real output by 7 percent in 1951, and 25 percent in the next 5 years, is not beyond reasonable expectation. Note that total real output in 1950, measured in dollars of constant buying power, was still 3 percent below the 1944 high.

The line at the bottom of chart 1 shows the possibilities of expansion in average individual output that can be achieved. Levels comparable to 1944 may only be attainable under the stress of war (though total war mobilization brings diseconomies of hasty organization which can be avoided in a longer period) but aided by recent large investments in capital equipment, the businessmen, farmers, and workers in the less strenuous period ahead can, by lengthening of the workweek, by shifting to defense jobs, and by developing better skills, come reasonably close to increasing their productivity somewhere near the levels attained in 1944.

CHART 1

THE NATION'S PRODUCT
UNITED STATES, 1929-1950



Gross national product is the market value of all the goods and services turned out by the nation's economy. The 1950 output in terms of 1939 dollars was 67% above the 1939 level but 3% below the 1944 high. Further adjustment for population changes brings the picture into even clearer focus. It shows, for example, that the 1950 per capita gross national product expressed in 1939 dollars was: 42% above 1929; 44% over 1939; 12% under 1944; and an increase of 5% from 1949.

SOURCES: Department of Commerce; Bureau of the Census

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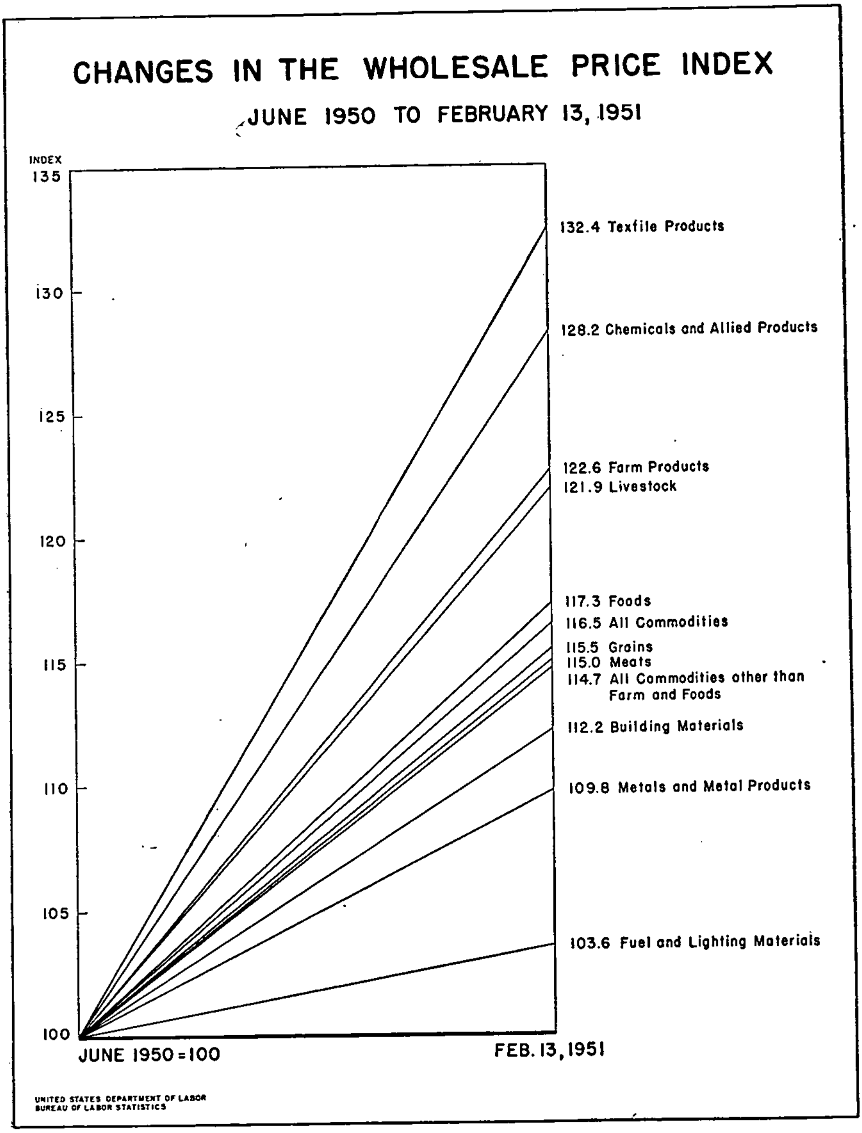
In short, this economy can produce the defense goods it needs without requiring more than a small sacrifice in existing levels of consumption. The capacity, the labor force, the productivity exist.

II. THE MAJOR THREAT—INFLATION

The outstanding contrast between the attainment of the high levels of production in 1944 and the increase in output attained last year is the difference in the behavior of prices. In 1944 prices rose very little.

CHART 2



UNITED STATES DEPARTMENT OF LABOR
BUREAU OF LABOR STATISTICS

But the rate of price increases since April of 1950—nearly 10 percent annually for living costs and 20 percent for wholesale prices—represents about the steepest price increase and the worst experience in American price history. (See chart 2 and table I.) Nor has there been any diminution of the rise in recent weeks, that is, up to March 1.

The largest increases from week to week continue to occur in the areas where the largest increases have taken place during the last year—livestock, meats, textiles, and chemicals.

TABLE I.—*Advances in wholesale and consumers' prices*

Wholesale prices	Indexes 1926=100			Percentage increases to Feb. 27, 1951 from—	
	Feb. 27, 1951	Feb. 28, 1950	June 20, 1950	June 20, 1950	Feb. 28, 1950
All commodities	182.9	153.0	157.4	16	19
Farm products	201.6	159.6	166.6	21	26
Grains	189.3	162.9	167.9	13	16
Livestock	266.3	200.7	224.0	19	33
Foods	188.7	157.2	162.1	16	20
Other commodities	171.1	146.0	148.8	15	17
Textile products	181.9	138.0	136.9	33	32
Chemicals	148.5	115.2	114.2	30	29
Building materials	227.9	193.6	202.8	12	18
Metal and metal products	188.7	168.5	171.9	10	12
Fuels and lighting materials	137.8	131.2	132.9	4	5

Consumers' prices	Indexes 1935-39=100			Percentage increase to Jan. 15, 1951 from—	
	Jan. 15, 1951	Jan. 15, 1950	June 15, 1950	June 15, 1950	Jan. 15, 1950
New index:					
All items	181.5	168.2	170.2	7	8
Food	221.9	196.0	203.1	9	13
Apparel	198.5	185.0	184.6	7	7
Rent	133.2	129.4	130.9	2	3
Old index:					
All items	181.6	166.9	170.2	7	9
Food	221.6	196.0	204.6	8	13
Apparel	199.7	185.0	185.0	8	8
Rent	126.0	122.6	123.9	2	3

Source: U. S. Department of Labor, Bureau of Labor Statistics.

The spurt in buying that was unleashed by the outbreak of war in Korea was commented upon editorially on page 1 of Barron's Weekly of January 8, 1951, as follows:

> During the past 6 months, business and the public have been on a wild buying and hoarding spree. Fed on easy bank credit until quite recently, inventories now are bulging the sides of their warehouses. Out of its 1950 income, swollen to the highest level in history, the United States saved less than it did during some depression years. In contrast, Federal spending has been moderate.

This editorial goes on to quote a statement of Mr. Donald B. Woodward, second vice president, the Mutual Life Insurance Co. of New York, as follows:

> The American civilian economy already has much the highest standard of living in the world, is spending more than seven times as much on its stomach and its back as on protecting its freedom—and is demanding some more so insistently as to threaten the value of its money and perhaps the defense effort as well.

The continuation of inflation represents a multiple threat to productive efficiency. It invites business to wangle easy profits by manipulation of markets rather than to earn moderate profits through efficient production. Inventory accumulation becomes a foolproof way to make money. Manpower and capital facilities are absorbed in distributing output rather than increasing it. By encouraging the hoarding of materials and of labor, inflation disorganizes the flow of production and makes a shambles of allocation orders and procedures. Price rises inevitably lead to wage increases which if unsatisfactory are bound to bring strikes. Inflation frustrates the thrifty, especially those who patriotically buy Government bonds or life insurance, rewards individuals who scoff at the public interest, and brings bitterness and disillusionment to those seeking to cooperate with the defense effort. By inflation they suffer partial repudiation in the buying power of their bonds, something which, insofar as it is controllable by Government, comes close to being governmental breach of faith. Inflation gives its biggest rewards to the parasites and speculators whose spending and manipulative activities provide a sardonic contrast to the sacrifices of the savers and of the fixed income groups and their sons on the battlefield.

If production is to be maintained, inflation must be stopped. The only way to cure inflation is to prevent it. The methods are roughly six in number: (1) increase production, which. however, falls far short of being an effective remedy if increased output is obtained through higher profits; higher farm prices, overtime work at penalty rates of pay, or other ways by which incomes in the form of wages, dividends, and profits are increased faster than production; (2) rigid limitation of governmental expenditures to uses which increase the economic and defense productivity of available human skills and physical resources; (3) preventing past savings from being spent and rigidly limiting newly created credit; (4) increased thrift; (5) preventing incomes from rising through price and wage controls; and (6) increased taxation.

III. Governmental Budget

When considering the Government budget, one should keep in mind, so far as the effect on the economy is concerned, that the important factor to watch is the inflow and outflow of cash. The budget of the President, as submitted in January, is difficult to analyze because of the large number of items that are scheduled for later transmission. But preliminary figures indicate that total defense expenditures are likely, in the fiscal year 1952, to be about three times what they were in 1950. The detail is shown in table II.

Frederick J. Lawton, Director of the Bureau of the Budget, before the House Ways and Means Committee, February 8, 1951, pointed out that in the fiscal year 1952, $48.9 billion, or 68 percent, is scheduled to be spent for national defense, international security and foreign affairs, while another $11 billion is budgeted to meet interest on the debt and veterans' services and benefits. Taken together, present and past wars account for 83 percent of the budget. Even within the $11.9 billion remaining for civilian functions of the Government, $1.3 billion, or more than half in the natural resources category, goes for atomic energy development; $1.4 billion in the finance, commerce, and industry category includes outlays for defense production activities, economic stabilization and controls; $330 million in the housing and community development is earmarked for civilian defense; $100 million for providing housing, schools, water systems, and other community facilities for industrial workers and military personnel in expanded defense areas; $164 million in the general Government category is designed to provide dispersal for key Government agencies; and $354 million of the funds for transportation and communication is budgeted for maritime shipping. Other items likewise expanded by this emergency, but not measured here as to cost, are the new port security program of the Coast Guard, the expanded security activities of the FBI, and increased facilities for electric power.

TABLE II.—*Federal consolidated cash budget, fiscal years 1950–52*

[Millions of dollars]

Description	Actual, 1950	Estimated, 1951	Estimated, 1952
Payments to the public:			
Total	43,160	49,118	74,050
National defense, total	17,665	27,113	51,844
Military services	12,407	21,238	41,491
International security	4,708	4,776	7,482
Atomic energy	550	818	1,277
Promotion of defense production	0	260	1,100
Loans	0	104	440
Additions to commodity inventories—net	0	104	440
Defense production equipment	0	52	220
Civil defense	0	21	494
Dispersal of Government	0	6	164
Loans: RFC	0	5	65
Other	0	10	265
Economic stabilization and allocations	26	52	304
Past wars and emergencies	13,586	10,619	10,479
Interest	4,326	4,145	4,573
Veterans	9,260	6,474	5,906
Civil functions, total	11,883	11,334	11,422
Social security, welfare and health	2,969	4,194	4,834
Housing and community development	212	657	−374
Education and general research	115	144	484
Agriculture and agricultural resources	2,848	955	1,471
Natural resources	1,014	1,310	1,253
Transportation and communication	1,754	1,975	1,687
Finance, commerce, and industry	85	−58	82
Labor	2,268	1,174	927
General Government	929	1,120	1,063
Others	−311	−137	−5

Source: Bureau of the Budget data reclassified by the staff of the Joint Committee on the Economic Report.

Now more than ever the Government must get the most value possible for every dollar it spends. There is no economy too small, no scrutiny too rigorous. Except for vigorous and direct effort on the firing line or on the production line, no effort should be more tireless and unremitting than that devoted to economy. Every dollar of useless or unwise expenditure represents a subtraction from the total defense effort, whether spent by consumers, by businessmen, or by Government. Effort devoted to economy is doubly vital on the part of procurement officials and other spending bodies in the Government.

The fact should be remembered, however, that the period of high defense expenditures ahead is likely to last 10 to 20 years. That type of economy would not only be false, but almost treasonable, which would so injure capacity to produce as to make the total effort insufficient. Expenditures on natural resources, for example, that might be postponed for 2 or 3 years cannot be postponed over a decade. Expenditures for public works should be limited rigorously, but they cannot be postponed for periods of 10 to 20 years without a complete breakdown of highways, schools, streets, and public facilities generally.

Similarly in a democracy the fundamental truth needs not be labored that the most vital of all resources is the productive possibilities of its citizens. There is no precious resource that must be more carefully husbanded and developed than the capacities, the health, the education, and the incentives of the population. A healthy nation is vital not only for maximum military strength but also for maximum economic productivity. No greater service can be rendered the enemy than to pinch nickels and dimes on programs that increase the productive capacity of human or natural resources if thereby effective military and economic effort is reduced by billions of dollars.

Cutting civilian expenditures is, therefore, in no sense an easy job. It requires painstaking study and time. Most programs have been in operation for many years. In such cases there exist at least four stages at which the Government will have to act: Authorization, appropriation, exercise by the executive departments of obligational authority, and, finally, expenditure.

These stages are clearly shown in chart 3, depicting the present status of the $500,000,000 Federal public roads program. Cutting this program back cannot be tackled with effectiveness at the last, or expenditure, stage; it is then too late. It must be tackled at the stage of authorization, or appropriation.

In general, it should be remembered that authorizations and appropriations already made in the Eightieth and Eighty-first Congresses have so tied the hands of the executive departments that less than one-third of the governmental budget for 1952 is now flexible. In order to reduce expenditures in 1953 this Congress should act now to repeal or modify existing laws or to suspend existing authority. This means not one bill but an examination of scores of acts now in force and the revision of scores of programs now under way.

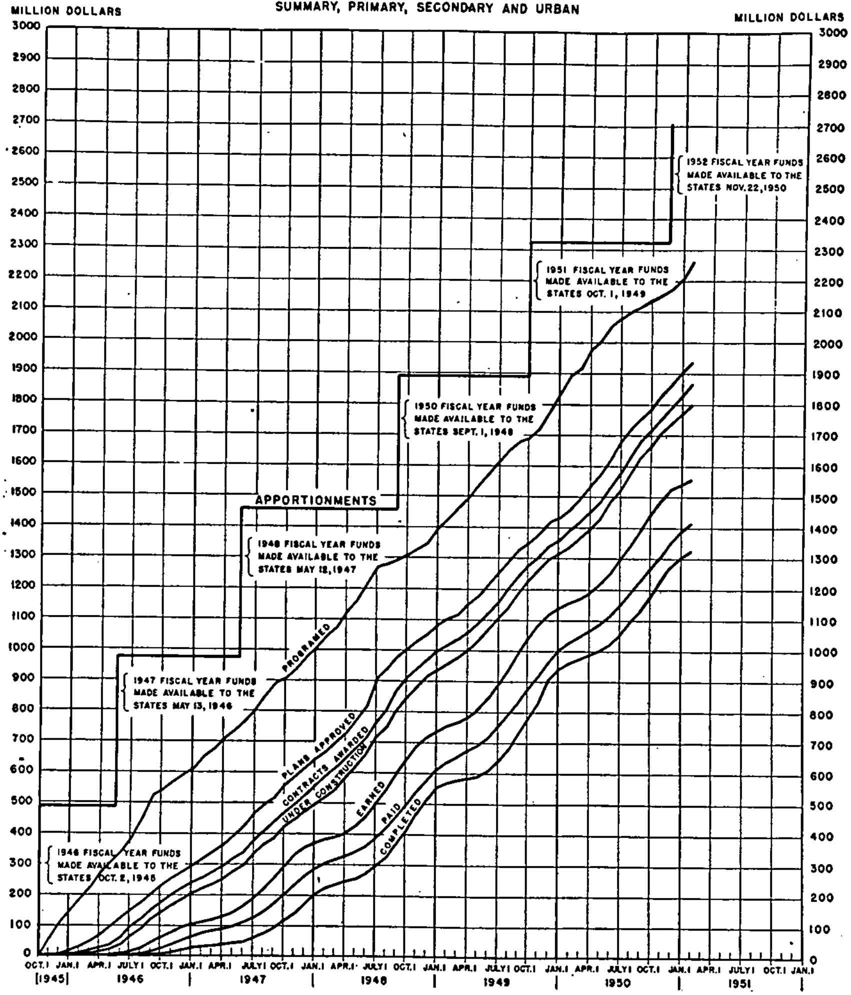
Efforts at budget balancing undertaken in the interest of restraining inflationary pressures must consequently choose between two alternatives. Either (1) the Government must levy and collect through taxes an amount sufficient to cover the costs directly of all of the services which it provides for the Nation, or (2) the Government must discontinue to render some of the services. While there is no doubt that, as the Hoover Commission Report points out, possibly more than $3 billion can be saved by increased operating efficiency and by economy in giving the same product and services, any real or substantial cuts of five to nine billions involve necessarily a cut in services now rendered or desired.

Here opinions concerning the usefulness, desirability, and indispensability of selected programs are certain to differ among individuals. Anyone can make up his own list of programs on which the Government might economize. Conversely, anyone can make up a list of services of the proper or, in his opinion, necessary services of Government. But each individual list is likely to be as personal as is a budget covering expenditures of personal funds. Some would eliminate programs such as public roads just as they eliminate an automobile from their personal budgets. Some would eliminate public assistance expenditures just as they eliminate consideration and care of aged or needy relatives from their personal budget.

CHART 3

FEDERAL-AID HIGHWAY FUNDS

SUMMARY, PRIMARY, SECONDARY AND URBAN



Source: U. S. Department of Commerce, Bureau of Public Roads.

In appendix 3 are listed a number of selected changes in legislation which it is believed would result in economies. Some of these economies would result from increased efficiency. Most of them would mean that Government would be doing less for the particular groups than it has previously done or would otherwise do. A summary of the economies thus made possible is given in table III.

TABLE III.—*Summary of estimated savings in selected cases where changes in legislation would result in economies*

[In millions]

For details see appendix 3, page—	Item	Fiscal year	
		1952	1953
87	Military services	$360.5	$385.0
89	Finance, commerce, industry	24.0	24.0
89	Labor	.5	.5
90	Transportation and communication	396.0	600.0
91	Natural resources	----------	----------
91	Agriculture	61.0	186.0
92	Education	2.0	2.0
92	Social security, welfare and health	159.0	159.0
93	Veterans	516.0	517.0
95	Interest	105.0	105.0
95	General Government	57.0	57.0
	Total	1,681.0	2,035.5

The formulation of a composite budget reflecting as nearly as possible a consensus of what people want their Government to do is, of course, the unavoidable task of Congress. It is the Congress that adds programs or increases total Government expenditures in response to public demand as a result of the democratic process. Every new Congress has enacted new basic legislation which, in due course, calls for new authorizations, new appropriations, new contractual commitments, and new expenditures.

Thus, it is not possible to regulate or adjust most expenditures at will within any one fiscal year. Most Government programs are large and complex. Many months frequently elapse between congressional authorizations to spend and actual expenditures. Federal expenditures cannot be turned on and off like a water tap. The 1952 budget, for example, is in large part the result of a tremendous number of decisions and commitments made in prior years. Almost half of all 1952 expenditures, or nearly $31 billion, will occur in 1952 as a result of appropriations, contract authority, and other authorizations already enacted. When other fixed items of expenditure, such as interest on the public debt, are taken into account, it can be seen that the area of flexibility for controlling expenditures in a single year is comparatively limited.

Moreover, although the expenditure figures for 1952 are important, the amount of new obligational authority requested is of equal, if not greater, importance. In a rapidly expanding defense program it is new obligational authority, rather than expenditures, which most directly affects the economy, which sets in motion an expanded Government program and structure, and which largely dictates the resulting level of expenditure in future years. In the fiscal year 1950, for example, the Congress granted new obligational authority amounting to $50.2 billion. In 1951 obligational authority, either requested or already enacted, amounts to $87.5 billion. In 1952, the estimated amount is $94.4 billion. Thus, over a 3-year span, new obligational authority is estimated at $232 billion. Expenditures, however, will lag far behind that amount, since they are estimated at $159 billion for the same 3-year span. The Federal Government, therefore, will enter fiscal year 1953 with unexpended balances from these authorizations of over $70 billion. These funds will be spent in 1953 and beyond.

IV. The Curbing of Bank Credit

Inflation is caused not only by the spending of current incomes on the part of consumers, business, and the Government, but also by large-scale borrowing from the banks. Indeed there are many who view the inflation of bank credit as more important than any other single danger at this time. The year 1950 saw a spectacular increase in commercial bank credit. Notice in chart 4 that the rise began in April 1950 and has shown no decrease to date.

Moreover, this jump of over $9.6 billion in loans (see Table IV) was accompanied by a rapid increase in the velocity of circulation of money. A careful scrutiny of chart 5 indicates that this velocity of circulation rose to levels right after the Korean War which exceeded by far any that had existed during the preceding 15-year period. Not only was there an abrupt rise in commercial bank credit largely to finance real estate and consumer borrowing, but there occurred likewise an uninterrupted continuation of the increase in customers' debit balances and money borrowed from the banks for the purpose of financing operations in the stock market. (See chart 6.)

Table IV.—*Money and credit data*

A. BANKS OTHER THAN FEDERAL RESERVE BANKS

[In billions of dollars]

	End of—	
	May 1950	December 1950
Demand deposits adjusted	85.0	92.1
Currency outside banks	24.7	25.2
Total circulating medium	109.7	117.3
Time deposits	59.5	58.9
Total privately held money supply	169.2	176.2
Loans (all banks)	51.2	60.8

Source: Annual Economic Review, table A-28, p. 198, for all items except loans. May loans, Federal Reserve Bulletin, December 1950, p. 1641; December loans, increase to Nov. 29, from Federal Reserve Bulletin, January 1951, p. 55; increase from Nov. 29 to Dec. 31 estimated on basis of increase for commercial banks shown in Annual Economic Review, p. 197.

B. OPERATIONS OF FEDERAL RESERVE SYSTEM

[In millions of dollars]

	May 31, 1950	Dec. 31, 1950
U. S. Government securities	17,389	20,778
Total credit outstanding	17,935	22,216
Gold stock	24,231	22,706
Member bank-reserve balances, total	15,814	17,681
Excess reserves	526	1,174

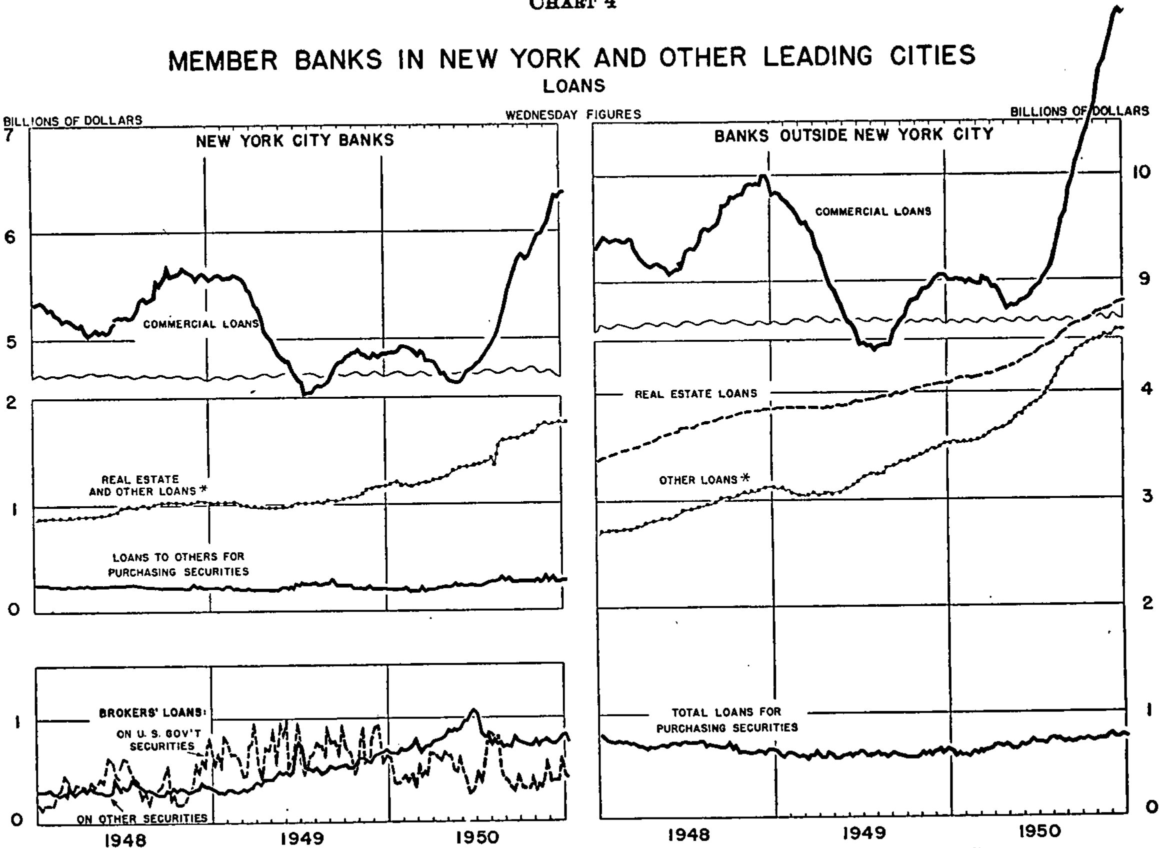
Source: Federal Reserve Bulletin, January 1951, pp. 43-44.

Note.—Taken from Congressional Record of Feb. 7, 1951, p. A651.

CHART 4

MEMBER BANKS IN NEW YORK AND OTHER LEADING CITIES

LOANS



LATEST FIGURES PLOTTED: JANUARY 10

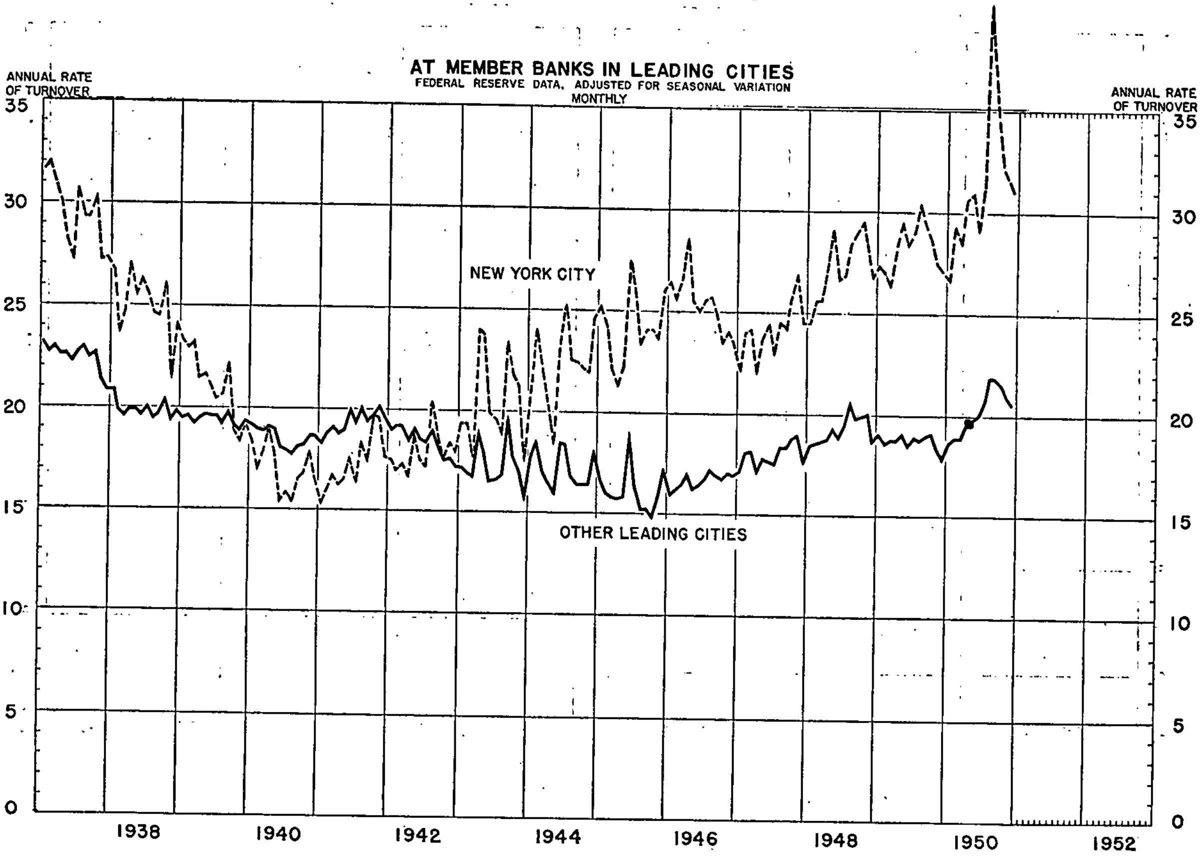
LATEST FIGURES PLOTTED: JANUARY 3

*LOANS TO BANKS NOT SHOWN

BOARD OF GOVERNORS OF THE FEDERAL RESERVE SYSTEM

CHART 5

Velocity of circulation of bank deposits



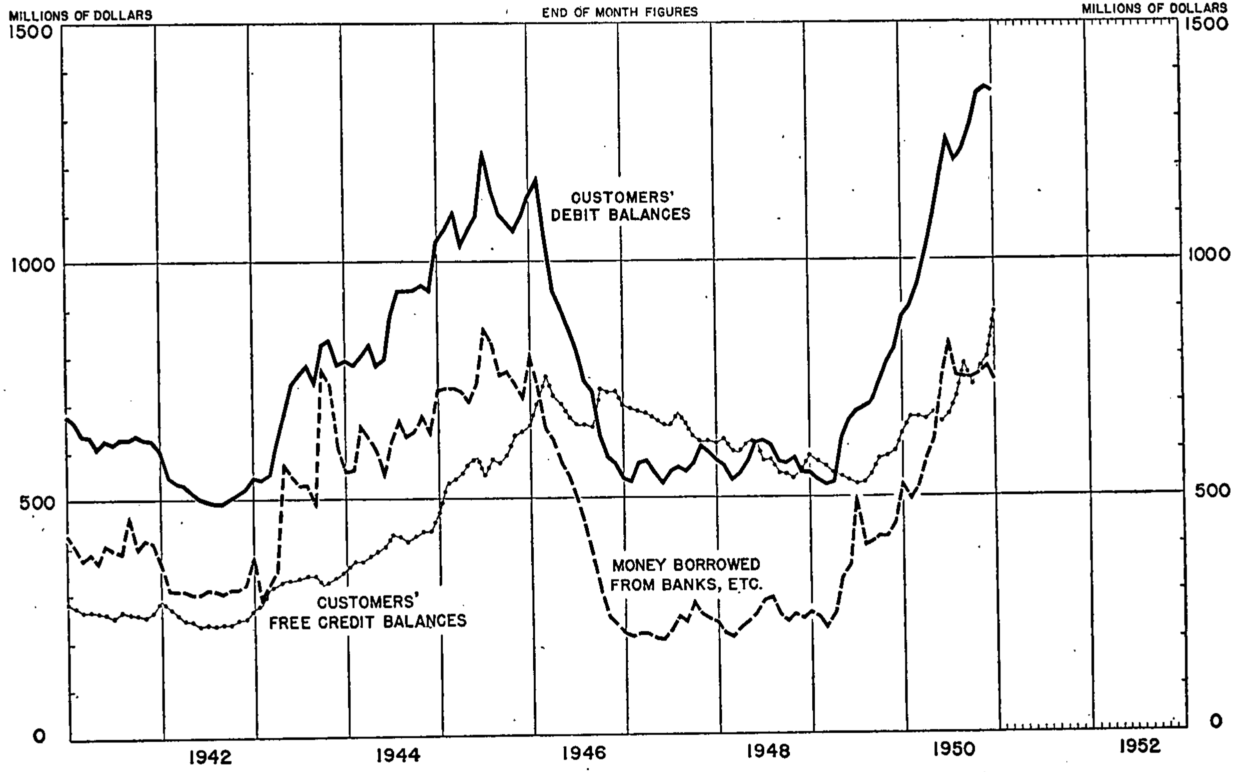
BOARD OF GOVERNORS OF THE FEDERAL RESERVE SYSTEM

LATEST FIGURES PLOTTED: DECEMBER

CHART 6

STOCK MARKET CREDIT

MEMBER FIRMS OF N.Y.S.E. CARRYING MARGIN ACCOUNTS



LATEST FIGURES PLOTTED: DECEMBER

BOARD OF GOVERNORS OF THE FEDERAL RESERVE SYSTEM

These developments have aroused a great deal of discussion. On the one hand, there are those who allege that the primary reason for the increase in borrowing was the *availability* of bank credit. The Federal Reserve System, they state, could not tighten bank reserves though it did take several steps to raise reserve requirements, to impose selective controls on installment buying (regulation W) and on housing credit (regulation X), on stock market credit, and to bring other direct controls to bear by moral suasion on the banking fraternity.

There was, however, one thing the Federal Reserve Board did, or had to do, which, according to some, counterbalanced the constructive steps to control credit mentioned above. It bought United States Government securities and thereby made additional reserves available to the commercial banks which in turn can be expanded by the banks in the form of demand deposits by five or six times the additional reserve. The essential facts are shown in table IV. Note that in the 7-month period from the end of May to the end of December, the Federal Reserve System did buy nearly 3½ billion dollars of United States Government securities, and that total credit outstanding increased $4.3 billion.

The other side of the picture is shown in chart 7. (See also sec. A of table IV.) Note that commercial banks steadily decreased their holdings of Government securities in 1950, while their loans rose by nearly 20 percent. These facts have led one member of the Federal Reserve Board to state that "The only way to stop access to Federal Reserve funds is by withdrawing Federal Reserve support from the Government securities market and penalizing borrowing by the member banks from the Federal Reserve banks."[1]

If the Federal Reserve System, for reasons of national policy, continues to peg Government bond prices, then substitute powers, Mr. Eccles urges, should be granted, such as the authority to prescribe reserve requirements for all commercial banks and other credit-merchandising institutions not now under the jurisdiction of the Federal Reserve System. In addition, banks might be required to hold an adequate percentage of their deposits in special reserves of Government securities, or at their option a like amount in cash. It might be essential for the Federal Reserve to have authority to require savings institutions, such as life insurance companies, savings banks, and savings and loan associations, to hold a certain proportion of their assets in Government securities in order to prevent them from selling in a market supported at pegged prices by the Federal Reserve.

The dilemma that faces not only the United States Treasury Department, but the country, if Federal Reserve support is completely withdrawn from the Government bond market, appears clearly in chart 8. Note that the Federal debt outstanding which until 1940 amounted to less than half of national income, by 1944 began to exceed it and since that time has steadily been considerably larger. Moreover, in the twenties and thirties it was smaller than the total of commercial bank loans, but at the present time it is more than five times as large. In order to affect the interest rate on the small sector or $60.8 billion of borrowing done by customers of commercial banks, must the entire mass of $255 billion of Government borrowing

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[1] Hearings, Joint Committee on the Economic Report, on the January 1951 Economic Report of the President, p. 158.

CHART 7

PRINCIPAL ASSETS OF COMMERCIAL BANKS

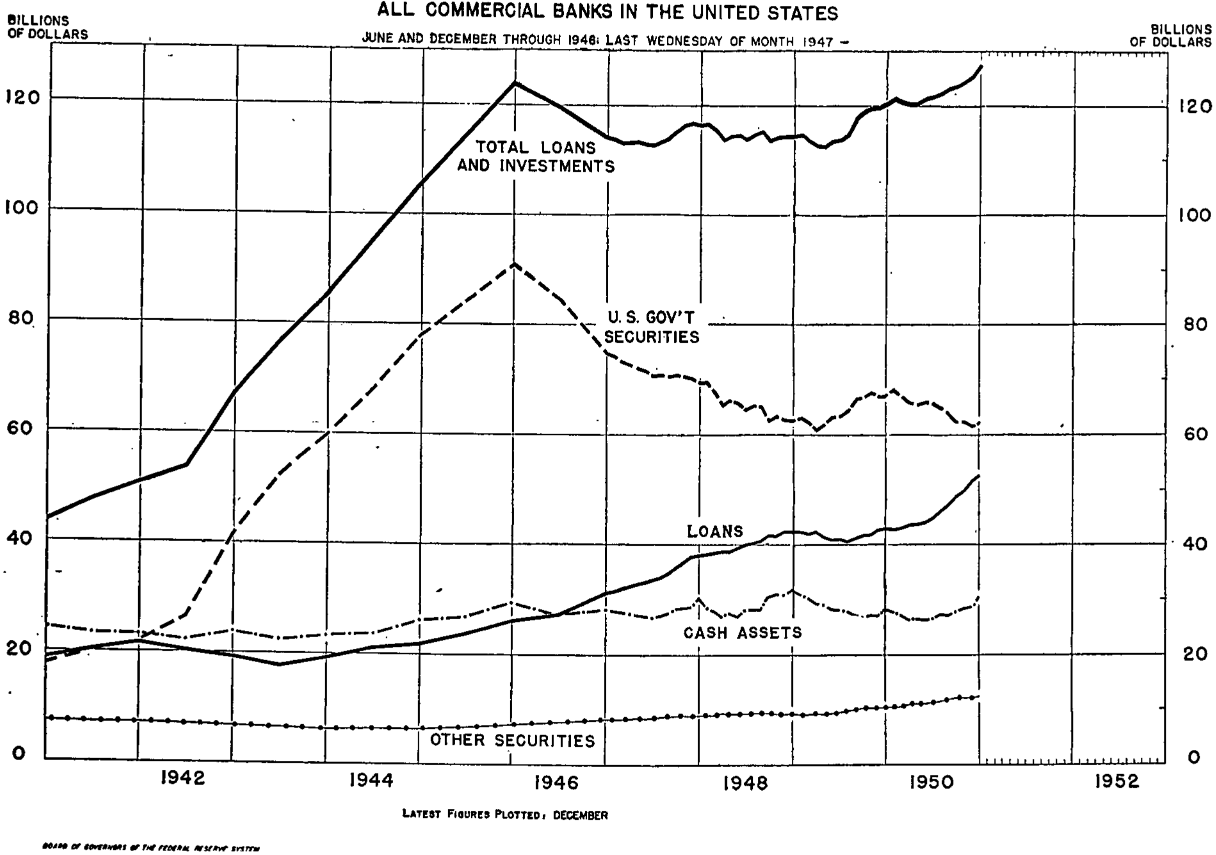
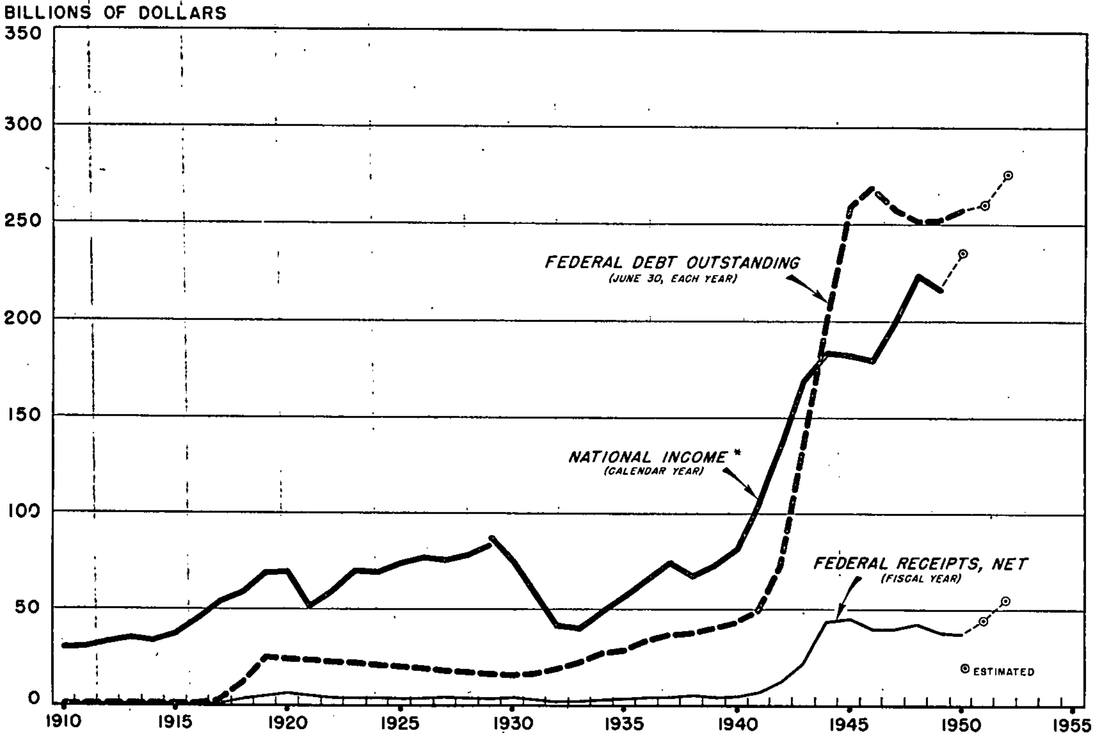


CHART 8

NATIONAL INCOME, FEDERAL RECEIPTS, AND FEDERAL DEBT



* DATA PRIOR TO 1929 ARE IN THE PROCESS OF REVISION.

SOURCES OF DATA: NATIONAL INCOME, U. S. DEPARTMENT OF COMMERCE, OFFICE OF BUSINESS ECONOMICS; OTHER DATA, U. S. TREASURY DEPARTMENT AND BUREAU OF THE BUDGET.

U. S DEPARTMENT OF COMMERCE, OFFICE OF BUSINESS ECONOMICS. *51-2* be made to conform? Should the tail wag the dog or does the new ratio make revision necessary of old techniques? Why not, for example, tackle commercial loans directly, issuing certificates of necessity for defense loans, and levying as heavy a defense tax as may be needed to curb the volume of nondefense loans. Insofar as an increase in interest rates or in costs of borrowing is effective, an excise tax on nondefense uses of vital credit resources would seem analogous to excise taxes on automobiles and consumer durables levied to conserve steel. Why raise the cost of all borrowing, including the interest on the governmental defense and war debt? Surely so large a volume of Federal debt must be managed with extraordinary care. The country can ill afford lightly to experiment with devices of uncertain impact, if thereby a five times larger debt market is upset or demoralized. If people lose confidence in Government bonds, wildcat inflation of a kind experienced in China might readily be unleashed.

The relationship between prices, gross national product, and the total amount of money, including war bonds, is clearly evident from chart 9 which well merits very careful study. The parallel fluctuations of total money supply (including war bonds) and gross national product are self-evident. The rapid rise in turn-over of demand deposits in 1950 is likewise striking. During the summer months it actually made a spurt to a figure comparable to that of 1930, more than double the level in 1945.

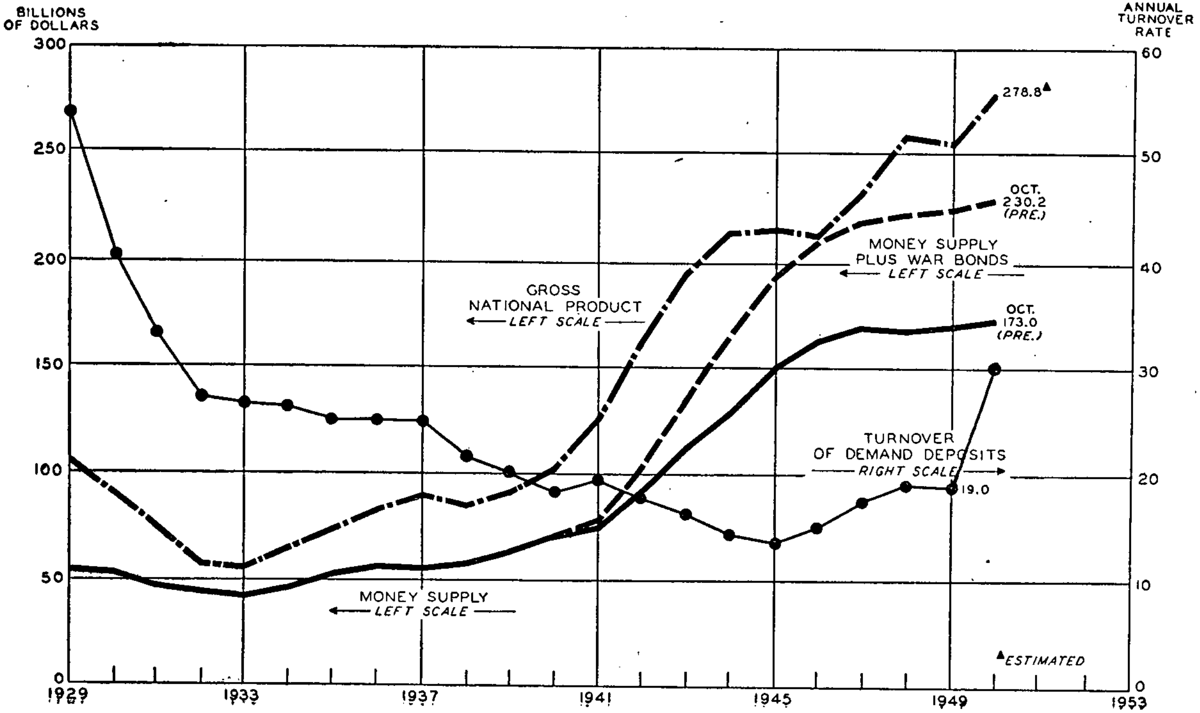
In addition to the problem of availability of credit touched on above, one of the points frequently debated is whether a one-half of 1 percent, or even a 1 percent rise, in the interest rate on Government bonds would substantially diminish the sale of these bonds by the commercial banks. On that point the paucity of evidence contrasts vividly with the abundance of conjecture. Those who feel that the 2½ percent bond rate should be maintained emphasize that the Government debt totals over a quarter of a trillion dollars. If the interest rate on all Government debt were increased by a full percentage point, total Federal Government outlays would thereby alone be increased by $2½ billion. Furthermore, there is no evidence that a rise of as little as 1 percent would stop the sale of Government bonds to the Federal Reserve by the commercial banks, especially in a long period of maximum production such as now lies ahead.

A brief look at history may throw a modicum of light. The only period of equally high prices in which a similar problem, though of a much smaller nature, occurred, was that after World War I. Then, too, the Treasury Department, by appeals to patriotism, managed to sell its securities at par, but in spite of progressively higher coupon rates, most of the issues sold in the open market below par before the war was over. With further stiffening of interest rates in 1919–20 4¼ percent Liberty bonds, callable in 1927, sold as low as $81.10 in May 1920 at which price they yielded more than 7½ percent to call date. The index for high-grade corporates, at $83 in January 1919, fell to $73 by mid-1920.

During the period from 1918 to 1922 the Federal Reserve banks generally held less than $250 million, or about 1 percent of the entire Government debt. There was no support for the Government bond market. Yet, despite only $25 billion of Government debt and a much less inflationary money supply, wholesale prices shot up to levels almost as high as those that now exist.

CHART 9

MONEY SUPPLY AND WAR BONDS
UNITED STATES, 1929-1950



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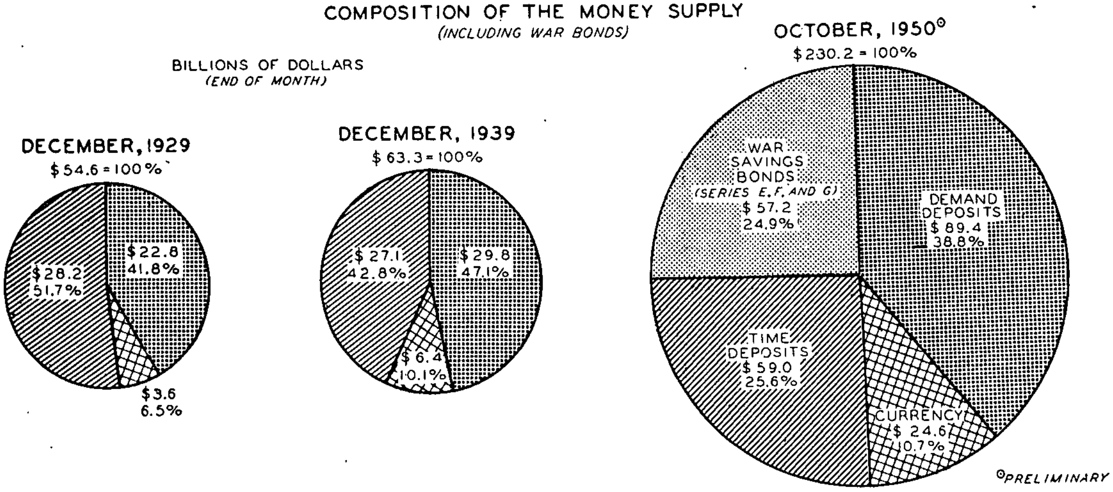

Privately held money supply plus war savings bonds outstanding totals more than $230 billion, over four times the 1929 level. Value of gross national product has not quite tripled. Turnover of demand deposits is still far below 1929, but has been rising since the 1945 low. Privately held money supply includes demand and time deposits, and currency outside banks. It excludes interbank and United States government deposits.

SOURCES: Federal Reserve; Treasury Department

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JANUARY 26, 1951
NO. 787

Discount rates on eligible paper at the New York bank (other banks followed somewhat the same pattern) were 4 percent from April 1918 until November 1919; 4¾ percent in November and December; 6 percent January to June 1920, when it was raised to 7 percent until April 1921. It then gradually dropped back to 4 percent by June 1922.

Rates on stock exchange call loans went from 4.67 percent in January 1919 to 14.9 in the week of November 15, and 17.25 percent in the first week of January 1920. Prevailing rates of prime 4 to 6 month commercial paper rose much more slowly, from 5.38 at the beginning of 1919 to 6 percent at the beginning of 1920, and to about 8⅛ percent during the entire latter half of 1920.

Despite these increases in interest rates, holders were not stimulated to hold on to their Government bonds, at least to do so to an extent sufficient to keep them reasonably close to par. Instead, as prices went down, liquidation drove prices lower. Millions of small holders became demoralized, and grew so bitter at having been compelled to liquidate their Government's promises to pay at substantial discounts as to erect a psychological barrier of such magnitude on the part of the general public that the President and successive Secretaries of the Treasury since 1941 have felt constrained to guarantee redemption at par to give the humble citizen, once burned and now twice shy, the confidence requisite to elicit his maximum subscription.

Finally, a considerable segment of business feels that, as Barron's Weekly phrased it in its editorial of February 12, 1951, p. 2:

> Viewed realistically, the dispute over interest rates promises soon to become academic. * * * Regardless of the different Washington viewpoints, the current heavy accumulation of surplus funds by insurance companies and savings banks may soon, because of the shrinking mortgage market, be pouring into Government bonds again. Further evidence of the strength of the high-grade bond market is the proposed offering next month of $60,000,000 Borden Co. 2¾'s to include new money as well as a $46,000,000 refunding operation. As for the Government bond market, Reserve System support purchases of long-term issues of only $4,000,000 last week, were the smallest since the Reserve System, after a 21-month lapse, resumed buying operations early last September. * * *

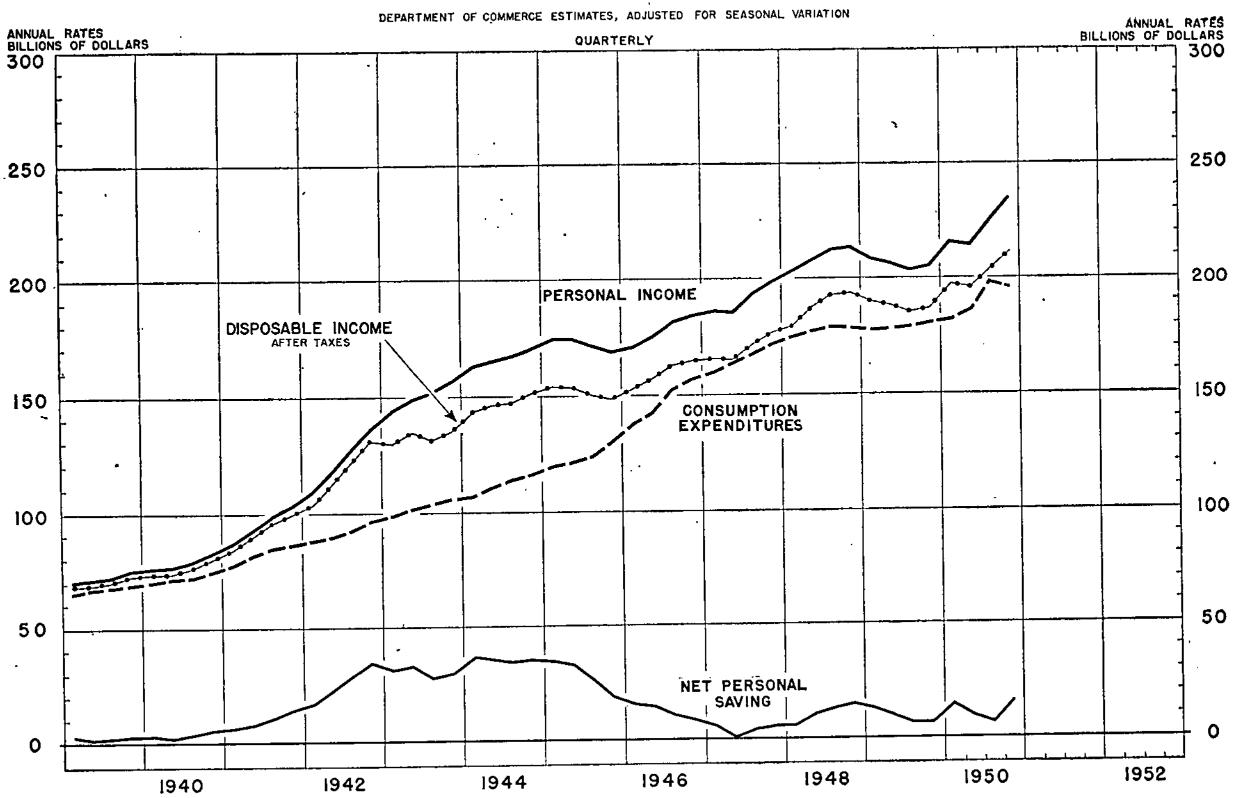
V. Reducing Consumption

The economic burden of the defense effort cannot be postponed. Whatever guns and planes and tanks are produced will have to come out of current output. Only that which remains will be available for consumption goods. Any substantial increase, therefore, in the output of munitions of war is bound to cut by that much the goods available for consumption. Were it not for increases in output obtained through greater productivity and through attraction of more people into the labor force, consumption would have to be cut exactly by the amount that munitions production is increased.

In actual fact, of course, a part of the increased munitions output will come from increased total production and part will be made possible by business and consumer sacrifice. The estimate in the Economic Report of the President is that consumption will be cut back to the 1949 level, one still much higher than that enjoyed in any previous year in American history. (See chart 10. While self-explanatory, it merits careful study.)

CHART 10

PERSONAL INCOME, CONSUMPTION, AND SAVING



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The really difficult problem is not that of fixing the general percentage by which consumption must be cut, but rather that of apportioning such a general cut among the income groups in the population. If consumption is cut of those who even now do not consume enough to permit them to produce efficiently, any further cut will also cut the defense effort. Millions of families come under this heading.

Economic literature abounds in controversies concerning the "efficiency level" of consumption or the level of "minimum need." Thus, for example, the minimum health and decency budget currently published by the Bureau of Labor Statistics is one so high that even at current high levels of national income, nearly three-fourths of the population fail to attain it.

Yet in quantitative terms such a budget can only, with great difficulty, be regarded as luxurious or excessive. It provides, for example, that a man can buy a topcoat only once in 10 years, that his wife can have only one new cotton street dress a year; that her wool dress has to last 5 years. The family can buy a low-priced car only once every 15 or 16 years. The budget permits only one book per year; the radio has to last 9 years. There is money enough for only one letter a week. Other durable goods such as cook stoves, refrigerators, washing machines, vacuum cleaners, sewing machines, have to last 17 years or longer. In quantitative terms, such a budget level seems somewhat far removed from constituting luxury consumption, yet at 1950 prices the income estimated by the Bureau of Labor Statistics as necessary to finance this standard of living is $1,630 for a single person, and $2,330 for a married couple without children.

In order to be highly conservative, the figures in table V have been computed on a basis more than one-third lower than the BLS figures. This table assumes that $1,000 a year is about the minimum for efficiency levels of living on the part of individuals. It assumes that $125 a month represents a similar minimum efficiency level for a married couple without children.

TABLE V.—*Income received and estimated minimum income required for family maintenance by income classes, 1948* [1]

[Billions of dollars]

Adjusted gross income classes	Adjusted gross income received [2]	Federal personal income tax liability	Income after Federal income tax	Estimated amount needed for maintenance [3]	Deficiency (—) or excess of income over estimated "minimum need"
Under $1,000	$4.3	$0.1	$4.2	$11.8	—$7.6
$1,000 to $1,499	6.5	.2	6.3	9.5	—3.2
$1,500 to $1,999	10.5	.4	10.1	11.5	—1.4
$2,000 to $2,499	14.1	.7	13.4	12.7	.7
$2,500 to $2,999	16.9	.9	16.0	13.1	2.9
$3,000 to $3,499	17.3	1.0	16.3	11.4	4.9
$3,500 to $3,999	15.2	1.0	14.2	8.9	5.3
$4,000 to $4,499	13.0	.9	12.1	6.8	5.3
$4,500 to $4,999	9.7	.8	8.9	4.6	4.3
$5,000 to $5,999	12.6	1.1	11.5	5.3	6.2
$6,000 to $9,999	17.2	1.8	15.4	5.6	9.8
$10,000 and over	26.8	6.6	20.2	3.0	17.2
Total	[4] 164.2	15.4	148.8	104.3	44.5

---

[1] Income available for maintenance is further reduced by excise and State income taxes. If data on these were available the deficiency in lower income groups would be increased and the excess in upper income groups decreased.

[2] Statistics of Income 1948, pt. I (preliminary).

[3] Estimated on the basis of number of families by size groups within each income class multiplied by an estimated minimum income figure needed to sustain a family of a specified size—i. e., $1,000 for each individual living alone; $1,500 for 2-person families; $2,000 for 3, $2,500 for 4, $3,000 for 5, $3,500 for 6, and $4,000 for families of 7 or more persons.

[4] Total personal income in 1948 was estimated at $209.5 billion. The difference, roughly $45 billion, represents such items included in national income but not reported on income tax blanks as imputed net rental value of owner-occupied nonfarm houses, nonmoney income of farm operators, including value of home-grown food, military pay below $1,500, including allowances and allotments, accrued interest on E bonds, tax-exempt interest, earnings, and incomes less than exemption allowance, including earnings of minors, nonreported dividends, etc. This table has been computed by staff of the Joint Committee on the Economic Report from data in Statistics of Income, 1948, pt. I (preliminary). For detailed breakdowns applied not to 1948 but earlier years see article by Selma F. Goldsmith, entitled "Appraisal of Basic Data Available for Constructing Income Size Distributions" in the forthcoming vol. XIII, Studies in Income and Wealth, published by the National Bureau of Economic Research. A portion of one table in that article is illustrative:

Personal Income, 1946

[Billions of dollars]

Source of income	As estimated by Department of Commerce in national income series	Adjusted so as to be comparable with totals reported on income tax returns	Actual amount reported on income tax returns	Ratio of reported income to actual
Civilian wages and salaries	101,549	102,546	97,409	0.95
Nonfarm entrepreneurial income	21,813	20,816	23,146	.71
Farm entrepreneurial income	10,840	11,929		
Military income	11,556	------------	------------	------------
Interest	------------	2,989	1,105	.37
Dividends	------------	4,933	3,730	.76
Fiduciary income (if in dividends)	9,317	1,120	1,108	.99
Rent	5,460	4,013	1,799	.45
Social security, etc	3,506	------------	------------	------------
Other income	868	------------	------------	------------
Total	164,909	148,346	128,287	.86

Even on this basis, as the table clearly indicates, the tens of millions of families and single individuals that receive less than $2,000 a year come short by many billions of dollars in obtaining the income necessary for efficient consumption and productivity. Yet, as a defense measure, incomes not higher than efficiency levels ought to be kept inviolate. They ought not to be further lowered, even by taxes.

Table V likewise indicates where the money in excess of such a minimum may be found. Of the total of roughly $45 billion in 1948 that may have been available in excess of minimum need, $17.2 billion, or 38 percent was in the hands of persons with incomes of $10,000 or over; another 22 percent in the hands of persons receiving over $6,000 but less than $10,000; another 23 percent in the hands of persons receiving over $4,500 but less than $6,000.

In short, the extra funds above those needed for minimum levels of productive efficiency would seem to exist in the income brackets from $3,000 and above. Clearly then it is the consumption in the middle and high-income brackets that needs to be reduced. To some it may be surprising that most of the consumption in dollar volume is in fact not accounted for by the masses, that is, those getting less than the average wage per week. As is well known, the average wage per week received in manufacturing is about $64. If wage workers enjoy as much as 50 weeks a year of employment on the average they would receive $3,200. That in 1949 was the income received by the highest persons in the lower three-fifths of the income scale; that is, 60 percent of the spending units received less than $3,200; only 40 percent received over that amount.

Yet this 40 percent did 64 percent of the total spending on durable goods. (See table VI.) They did 80 percent of all positive saving; they enjoyed 67 percent of all disposable income; they had 66 percent of all liquid assets held by individuals. Such findings are further corroborated by the estimates in table VII, which indicate that the groups that enjoy incomes in excess of $4,000 are likewise the groups in which, on the average, four out of five people have an automobile, and two out of three own their own homes.

The latter fact is highly important because those who own their homes are at a distinct income-tax advantage as compared with those who do not. Home owners not only do not report the constructive or putative income which they receive from their investment in their home, but they can actually deduct taxes and interest on the mortgage if there be one. Renters (of whom there are proportionately more than twice as many in the lower income brackets) simply pay out rent each month from an income total on which they pay taxes in full without such deductions.

Further light upon the consumption of this two-fifths of spending units in the middle and upper income brackets is provided by the figures shown in tables IX and X. The groups getting $3,000 or better account for 73 percent of all liquor consumed. An excise tax on liquor, therefore, tends to hit consumption where it occurs. They similarly account for about two-thirds of the total tobacco consumed. As has already been indicated, they account for about three-fourths of all sales of durable goods. Thus excise taxes on durable goods likewise tax consumption where it occurs.

TABLE VI.—*Proportion of total money income, Federal tax liability, savings and expenditures accounted for each fifth of the Nation's spending units when ranked by size of income, 1949*

[Percentages of total]

Spending units by size of income groups [1]	Total money income before taxes	Estimated Federal income tax liability	Total disposable income	Savers, with incomes in excess of expenditures	Zero savers and those with expenditures in excess of income	Proportion of all positive saving accounted for	Total selected durable goods expenditures [2]	Total consumer expenditures other than selected durable goods	Proportion of liquid assets held
Under $1,280	4	1	4	37	63	2	6	7	8
$1,280 to $2,290	11	5	12	50	50	6	12	13	12
$2,290 to $3,200	17	9	17	64	36	12	18	18	14
$3,200 to $4,500	23	17	24	70	30	18	23	24	18
$4,500 and up [3]	45	68	43	78	22	62	41	38	48
All units	100	100	100	60	40	100	100	100	100

[1] Each group represents 20 percent of all spending units.
[2] Includes automobiles, furniture, radios, televisions, refrigerators, ranges, washing machines, etc.
[3] Median income of this group equals $5,800.

Source: 1950 Survey of Consumer Finances, Board of Governors of the Federal Reserve System.

TABLE VII.—*Proportion of spending units, money income, savings, selected assets and liabilities of the Nation's spending units ranked by size of income*

Money income before taxes	Percentage of all spending units	Total money income before taxes	Savers, with incomes in excess of expenditures	Zero savers and those with expenditures in excess of income	Increase in consumer indebtedness during 1949	No debt early 1950	Proportion of liquid assets held	Home owning in early 1950 nonfarm	Automobile owning in early 1950
Under $1,000	14	2	31	69	20	66	6	43	19
$1,000 to $1,999	19	9	49	51	27	58	9	35	33
$2,000 to $2,999	21	16	59	41	34	46	15	47	50
$3,000 to $3,999	19	19	70	30	33	42	15	50	62
$4,000 to $4,999	11	15	71	29	38	34	11	55	73
$5,000 to $7,499	11	19	76	24	33	38	18	65	81
$7,500 and over	5	20	85	15	19	52	26	75	89
Total	100	100	60	40	29	48	100	51	53

Source: 1950 Survey of Consumer Finances, Board of Governors of the Federal Reserve System.

TABLE VIII.—*Distribution of money income, taxes, disposable income, expenditures for selected durable goods and for other consumer goods, rent and net saving by income groups, 1949*

Income group [1]	Spending units	Total money income before taxes	Total Federal personal income tax [2]	Total disposable income [3]	Total selected durable goods expenditures [4]	Total other consumer expenditures [5]	Total rent [6]	Total net saving
Under $1,000	14	2	(7)	2	3	5	6	−37
$1,000 to $1,999	19	9	3	9	10	11	14	−15
$2,000 to $2,999	21	16	9	17	18	17	19	3
$3,000 to $3,999	19	19	13	20	19	20	24	9
$4,000 to $4,999	11	15	13	15	14	15	15	20
$5,000 to $7,499	11	19	23	19	21	18	14	35
$7,500 and over	5	20	39	18	15	14	8	85
All income groups	100	100	100	100	100	100	100	100

[1] Annual money income before taxes in 1949.

[2] Estimated Federal personal income tax liability, apart from capital gains and losses.

[3] Disposable income is defined as money income less estimated Federal personal income tax liability.

[4] Includes automobiles, furniture, radios, television sets, and household appliances such as refrigerators, ranges, washing machines, and other miscellaneous appliances. Expenditures for automobiles are net of trade-in allowances.

[5] Covers expenditures for all goods and services not included in selected durable goods (see footnote 4). Includes food, housing, clothing, medical care, transportation, recreation, education, and State and local taxes, as well as expenditures for durable goods such as floor coverings, jewelry, fur coats, and other miscellaneous durable items. Since these estimates are residual items, they should not be regarded as being as reliable as the other, directly estimated items.

[6] Rent is included in other consumer expenditures. The distribution of rent applies to monthly rent reported at the time of the survey interview in early 1950.

[7] Less than ½ of 1 percent.

Source: 1950 Survey of Consumer Finances. Board of Governors of the Federal Reserve System (preliminary).

TABLE IX.—*Estimated distribution of consumer expenditure for 1948*

[In percent of total]

Spending unit income brackets (in $1,000)	Total (1)	Total retail sales (2)	Retail food sales (3)	Retail sales less food (4)	Liquor sales (5)	Tobacco sales (6)	Durable sales (7)	Personal income tax (8)
0 to 1	3.9	3.9	4.1	3.9	0.9	3.9	2.2	0.1
1 to 2	9.3	9.3	11.4	8.2	8.9	11.4	5.6	2.6
2 to 3	18.1	18.1	20.5	16.7	17.2	21.1	18.2	8.5
3 to 4	20.7	20.7	21.8	20.1	22.5	22.9	20.0	12.9
4 to 5	14.4	14.4	14.2	14.5	12.7	14.3	15.8	12.2
5 to 7.5	16.1	16.1	14.6	16.9	16.4	14.1	17.0	19.6
7.5 and up	17.5	17.5	13.3	19.8	21.4	12.2	21.2	44.1
Total	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0

Source: Hearings, Joint Committee on the Economic Report on the January 1951 Economic Report of the President, p. 347.

Even in the case of food the groups getting $3,000 or more account for 64 percent of the total sales volume of food. This means that taxes on certain luxury foods might not be amiss. From the sheer standpoint of production, meat, it has often been pointed out, is in reality a luxury food. Unless fed wholly on grass or other products from land that cannot be used for food production—if fed, for example, on corn—livestock consumes food several times the calorific value returned in the form of meat. As is observed in the March 1951 issue of Fortune, "A steak is a pleasant but extraordinarily inefficient way to get calories; a bushel of wheat converted into bread goes somewhere between five and seven times as far as when it is converted into meat." [2]

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[2] J. Kenneth Galbraith, The Strategy of Limited Control, Fortune, March 1951, p. 67.

Thus an excise tax on meat fits the requirements of a luxury tax, not only in reaching in the main consumption where it occurs, but also in promoting greater economy in utilization of scarce land and manpower resources.

TABLE X.—*Application of 1948 estimates to 1950 totals*

[In billions of dollars]

Spending unit income brackets (in $1,000)	Total (1)	Total retail sales (2)	Retail food sales (3)	Retail sales less food (4)	Liquor sales (5)	Tobacco sales (6)	Durable sales (7)	Personal income tax (8)
0 to 1	7.4	5.0	1.8	3.2	0.03	0.2	0.6	0.02
1 to 2	17.7	11.9	5.1	6.8	.3	.5	1.5	.5
2 to 3	34.5	23.1	9.2	13.9	.5	.8	4.7	1.6
3 to 4	39.5	26.5	9.8	16.7	.7	.9	5.2	2.5
4 to 5	27.5	18.4	6.4	12.0	.4	.6	4.1	2.4
5 to 7.5	30.7	20.6	6.6	14.0	.5	.6	4.4	3.8
7.5 and up	33.4	22.4	6.0	16.4	.6	.5	5.5	8.5
Total	190.8	127.9	45.0	82.9	3.0	4.0	26.0	19.3

NOTES: Items (1) and (2) are estimated 1948 distributions for total consumer expenditures. Items (3), (5), and (6) are estimated 1948 distributions for food, liquor, tobacco, and durables expenditures.

Table X is only a very rough approximation of the desired information, as it applies estimated distributions for 1948 to estimated totals for 1950.

Total consumer expenditure of $190.8 billion and retail sales of $127.9 billion are Department of Commerce estimates. Total retail sales of food, liquor, tobacco, and durables are estimated on basis of Department of Commerce data.

Source: Hearings, Joint Committee on the Economic Report, on the January 1951 Economic Report of the President, p. 348.

The orgy of consumer buying that occurred in the last half of 1950 clearly was not one indulged in by those who had no money. It was essentially a phenomenon in which only those could participate who had incomes above bare essentials. They were by and large the only ones who had any appreciable sum of extra money wherewith to go into the market and stock up.

Undoubtedly many consumers merely accelerated plans, already under way, to purchase various types of durable goods. As is clearly shown in table XI the groups receiving $3,000 and more were planning to buy more than two-thirds of all the durable goods that were going to be bought in 1950; 69 percent of all the automobiles, new or used, and 65 percent of all the nonfarm houses. When the war broke out in Korea, many simply bought more, sooner.

By and large, the lower income groups cannot liquidate savings; on balance they have no savings to liquidate. (See table XII.) Note that the bottom three-fifths of the spending units on balance had no net saving in 1949. Who was it then who cashed E bonds and increased their use of demand deposits to such an extent that the velocity of the circulation of money reached for a time a 20-year high? Who were the groups accounting for the economic facts shown on chart 11—the rapid decline in liquid savings, in cash, in purchase of Government bonds, and in purchase of life insurance? Clearly that group consisted of those who owned liquid savings, or had appreciable amounts of life insurance, or Government bonds, to wit, those in brackets over $3,000 a year.

TABLE XI.—*Income grouping of actual buyers in 1949 and prospective buyers in 1950 by income in 1949 and by number of spending units*

[Percentage distribution]

Income group	Number of spending units	Nonfarm houses		New and used autos		Other selected durable goods	
		Actual buyers 1949	Prospective buyers 1950	Actual buyers 1949	Prospective buyers 1950	Actual buyers 1949	Prospective buyers 1950
Under $1,000	14	4	8	3	4	6	5
$1,000 to $1,999	19	8	6	13	11	14	12
$2,000 to $2,999	21	15	21	22	16	22	19
$3,000 to $3,999	19	28	25	21	20	22	25
$4,000 to $4,999	11	16	18	14	16	14	15
$5,000 and over	16	29	22	27	33	22	24
All	100	100	100	100	100	100	100

Source: 1950 Survey of Consumer Finances, Board of Governors of the Federal Reserve System. See: Federal Reserve Bulletin, July 1950.

TABLE XII.—*Proportion of money income allocated to taxes, expenditures for selected durable goods and for other consumer goods, and saving, by spending units within income quintiles, 1949*

Spending units by size of income groups [1]	Estimated Federal income tax liability	Selected durable goods expenditures [2]	Other consumer expenditures	Net saving	Total all spending units in quintiles
Lowest fifth (under $1,280)	2	16	139	−57	100
Second fifth ($1,280 to $2,290)	4	11	91	−6	100
Third fifth ($2,290 to $3,200)	5	11	84	(3)	100
Fourth fifth ($3,200 to $4,500)	6	10	79	5	100
Highest fifth ($4,500 and up) [4]	12	9	63	16	100

[1] Each group represents 20 percent of all spending units.

[2] Includes automobiles, furniture, radios, televisions, refrigerators, ranges, washing machines, etc.

[3] Less than ½ of 1 percent.

[4] Median income of this group equals $5,800.

Source: 1950 Survey of Consumer Finances, Board of Governors of the Federal Reserve System.

TABLE XIII.—*Proportion of money income allocated to taxes, expenditures for selected durable goods and for other consumer goods, and saving by spending units within income groups, 1949*

[Expenditures as a percentage of aggregate income of each spending unit income class]

Type of expenditure or saving	All spending units	Income group						
		Under $1,000	$1,000 to $1,999	$2,000 to $2,999	$3,000 to $3,999	$4,000 to $4,999	$5,000 to $7,499	$7,500 and over
Federal income tax [1]	8	1	3	4	6	7	10	16
Automobiles and other selected durable goods [2]	11	18	12	12	11	10	11	8
Other consumer expenditures [3]	76	187	94	83	80	76	69	53
(Rent) [4]	(5)	(14)	(7)	(5)	(6)	(5)	(3)	(2)
Net saving	5	−106	−9	1	3	7	10	23
Total	100	100	100	100	100	100	100	100

[1] Estimated Federal personal income tax liability on income, apart from capital gains and losses.

[2] Includes automobiles, furniture, radios, television sets, and household applicances such as refrigerators, ranges, washing machines, vacuum cleaners, home freezers, and other miscellaneous appliances. Expenditures for automobiles and other durable goods are net of trade-in allowances.

[3] Covers expenditures for all goods and services not included in selected durable goods (see footnote 2). Includes food, housing, clothing, medical care, other living costs, State and local taxes, recreation, transportation and education, as well as expenditures for durable goods such as floor coverings, jewelry, fur coats, and other miscellaneous items.

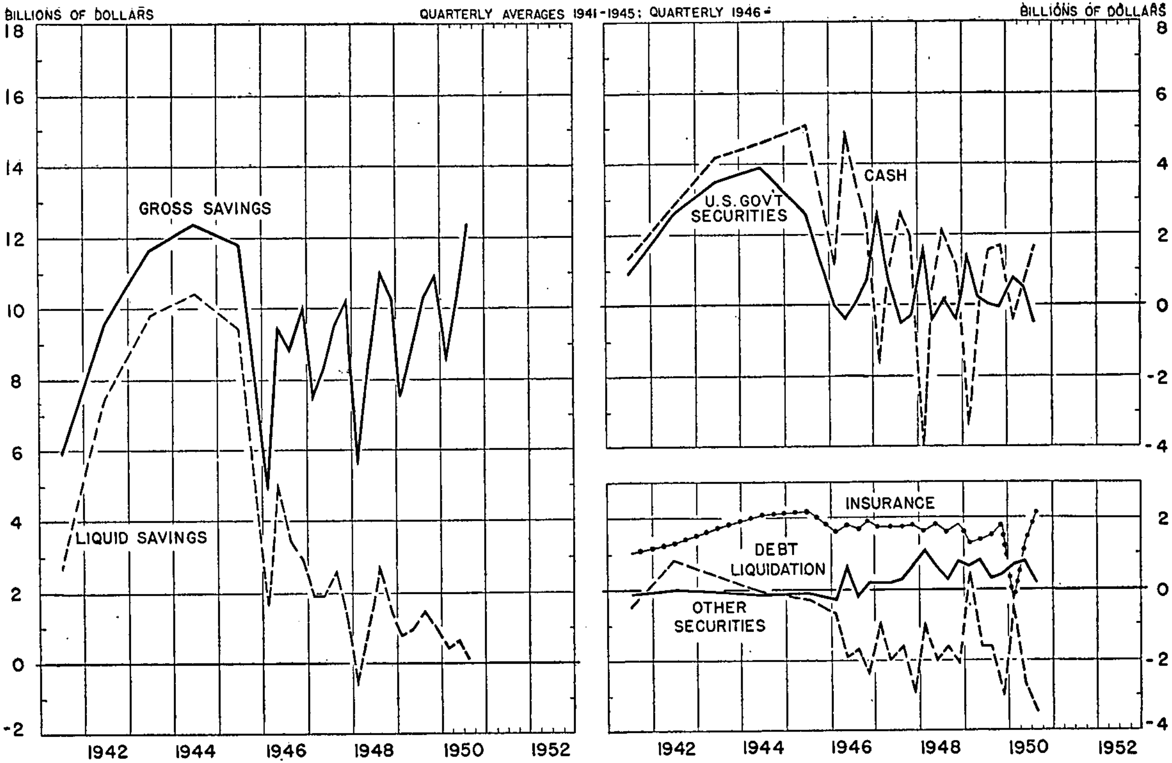
[4] Rental expenditures of renters falling in the various income groups as a percentage of the aggregate income of all spending units in the groups. Rental expenditures are included in the preceding category, other consumer expenditures. They are computed by multiplying the rent at the time of the interview in early 1950 by 12, and are subject to error to the extent that rents had changed during the preceding year.

Source: 1950 Survey of Consumer Finances, Board of Governors of the Federal Reserve System (preliminary).

CHART 11

INDIVIDUAL SAVINGS

SECURITIES AND EXCHANGE COMMISSION ESTIMATES



LATEST FIGURES PLOTTED: 3RD QUARTER.

BOARD OF GOVERNORS OF THE FEDERAL RESERVE SYSTEM

Finally, elementary considerations of equity would seem to require that those whose consumption has already been cruelly cut by inflation, and whose tax load as a proportion of income is already very high, ought not to be given the lion's share of any additional tax burden. Those in the low-income brackets, and notably those getting less than $1,000 already pay as high a proportion of their incomes in taxes as does any other group in the population except those getting $7,500 or over. To lower the exemption from $600 to $500 would add grave injury to that already inflicted by inflation.

Data on this point presented in our hearings by Prof. R. A. Musgrave of the University of Michigan are reproduced in table XIV. The methods are fully explained in an article which his research group is publishing in the Tax Journal of March 1951. The results obtained by this research study group show that upon the lower income brackets are ultimately shifted so large a proportion of the total tax burden as to make the proportion of income going for taxes much larger in their case than is popularly known. (See chart 12.)

TABLE XIV.—*1948 tax payments as percent of income by income brackets*

	Spending unit income bracket, before tax, in dollars							
	Under 1,000	1,000 to 1,999	2,000 to 2,999	3,000 to 3,999	4,000 to 4,999	5,000 to 7,499	7,500 and up	Total
FEDERAL GOVERNMENT								
1. Personal income taxes	0.2	2.8	4.4	5.5	7.0	9.3	12.3	7.8
2. Corporation income taxes	6.1	4.3	3.8	3.7	3.7	3.8	9.9	5.6
3. Excises	5.1	4.3	4.0	4.0	3.5	3.4	2.3	3.4
4. Payroll taxes	2.5	2.1	3.3	2.5	1.9	1.2	.5	1.7
5. Estate and gift taxes	--------	--------	--------	--------	--------	--------	1.4	.4
6. Total	13.9	13.5	15.5	15.8	16.1	17.7	26.3	18.8
STATE AND LOCAL GOVERNMENT								
7. Total	9.7	6.8	6.1	6.0	5.6	5.4	5.5	5.8
ALL LEVELS OF GOVERNMENT								
8. Total	23.6	20.3	21.6	21.8	21.7	23.1	31.7	24.7
ADDENDA								
9. Percent of spending units	12.2	17.7	22.9	20.1	11.6	10.2	5.3	100.0
10. Percent of income	1.9	7.0	14.8	17.9	13.4	16.3	28.8	100.0

NOTES

1. For details see the Distribution of Tax Payments by Income Groups in 1948, by R. A. Musgrave, J. J. Carroll, L. D. Cook, and L. Frane, to be published in the National Tax Journal in issue for March 1951.

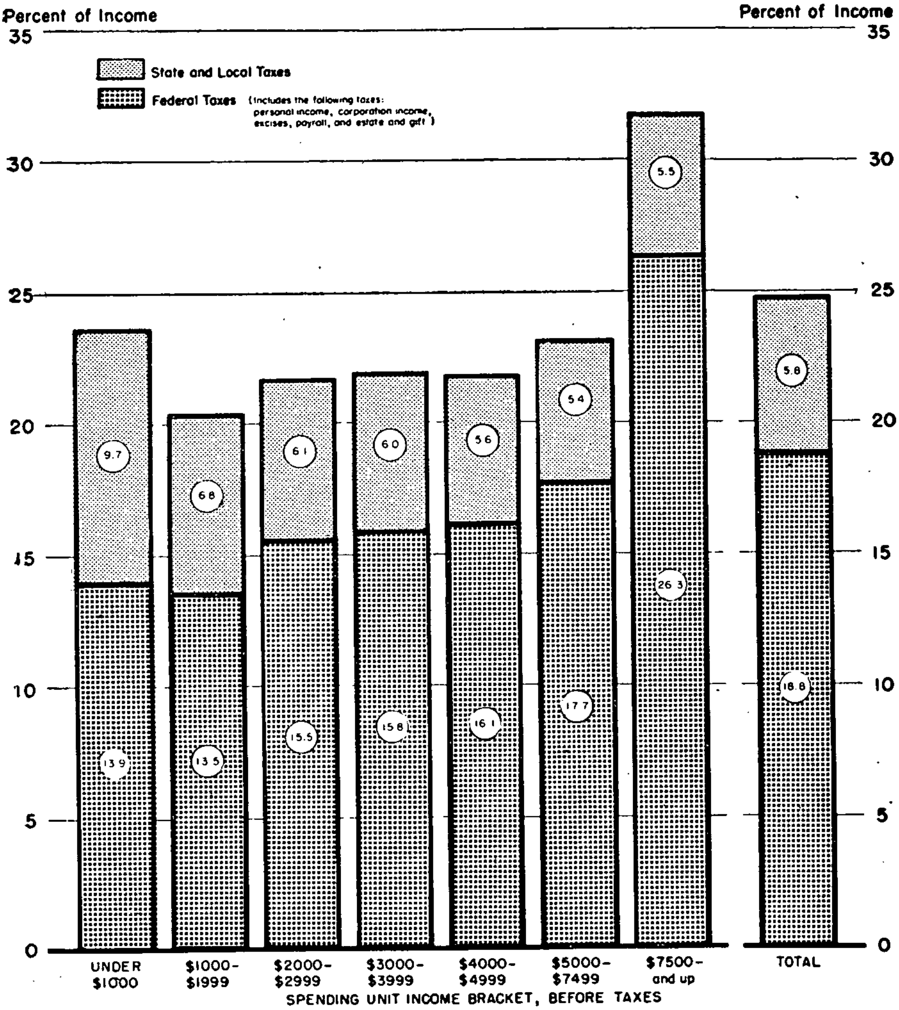
2. Effective tax rates in table XIV are computed on the basis of the Department of Commerce estimate of personal income of $211.9 billions plus imputed retained earnings of corporations and the unshifted portion of corporate income taxes of $20.6 billion. It is assumed that the total personal income thus determined is distributed in the same way as the estimated distribution of money income by the Survey Research Center of the University of Michigan in the 1949 Survey of Consumer Finances, prepared annually for the Board of Governors of the Federal Reserve System.

3. Line 2 of table XIV is based on the assumption that ⅓ of the corporate income tax is shifted forward to consumers in higher prices and ⅙ backward in lower wages. If it is assumed that the corporation tax is not shifted, the percentages in line (8) become as follows: 20.4, 17.8, 19.1, 19.5, 19.5, 21.7, 33.8, 24.0. For alternative assumptions see article cited in note 1.

Jan. 31, 1951, R. A. Musgrave, department of economics, University of Michigan, Ann Arbor, Mich.

CHART 12

1948 TAX PAYMENTS AS PERCENT OF INCOME BY INCOME BRACKETS



SOURCE From "Notes for Panel Discussion on Fiscal Policy", by R A Musgrave before the Joint Committee on the Economic Report, January 31, 1951

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February 7, 1951
No 673

General sales taxes and tariffs bear disproportionately heavily upon them, simply because so large a proportion of their income has to be spent on consumer goods. (See table XV.) The proportion of those in the lower income brackets who must spend 80 or 90 or 100 percent of their income for consumer goods is two, three, four or more times that in groups receiving over $5,000. Upon those in the lower income brackets are also shifted most of the property taxes paid both on the homes they live in (whether they own or rent makes no difference) and also those general property taxes and excises which are part of the costs of doing business necessarily charged into product prices by the merchants who sell them the consumer goods they buy. A certain proportion of the corporate income taxes is likewise shifted upon them, particularly in periods characterized by a sellers' market such as has existed during the last 5 years and such as seems likely to exist for the long period of armed alert ahead. The net effect of all such shifting of taxes is clearly shown in chart 12 and table XIV.

The problem of equitably reducing consumption is, therefore, not at all a mere matter of "socking the low and middle-income masses," but actually one of the most difficult and central problems for the major defense effort ahead. There is no question that consumption must be held down. But if a large part of our national output is to be shifted to military uses, the high-income consumers—i. e., the 20 percent who enjoy incomes in excess of $4,500—cannot be allowed to continue to buy 40 percent of all consumer goods sold as they ordinarily do.

TABLE XV.—*Proportion of each income group having consumer expenditures over 80, 90, and 100 percent of disposable income, 1949*

Disposable income group [1]	Consumer expenditures as a percentage of disposable income		
	Over 80 percent	Over 90 percent	Over 100 percent
Under $1,000	73	66	49
$1,000 to $1,999	75	61	31
$2,000 to $2,999	64	44	17
$3,000 to $3,999	64	39	12
$4,000 to $4,999	56	33	10
$5,000 to $7,499	39	21	9
$7,500 and over	24	16	7
All	63	46	22

[1] Money income less estimated Federal personal income tax.

Source: 1950 Survey of Consumer Finances, Board of Governors of the Federal Reserve System.

Holding down the consumption of the "average" consumer—the average wage earner, the small farmer—is not technically difficult. Their consumption is already held down in large part by present inordinately high retail prices. But the problem of holding down the consumption of the high-income consumer is difficult because the high-income consumer is well organized and represented by intelligent and sophisticated leaders. This means that the consumption of high-income consumers cannot be held down in any way that is not acceptable to them. The problem, then, is to find a way of holding down their consumption that is not only effective but acceptable without too many undesirable side effects and after effects.

There are three general ways by which total consumption, including the consumption of the great majority of families, can be held down or reduced if necessary:

1. Inflation.
2. General controls—price controls, wage controls, and rationing.
3. Taxes.

Inflation of the kind that has operated since June of 1950, which has been in this regard no different from those so well documented in the past, has operated to reduce consumption by squeezing down the physical amount which all relatively fixed-income consumers could buy, unless they borrowed, liquidated assets, or reduced their savings. For most low-income consumers that meant that they had to pull in their belts but had nothing to show for their abstinence. The essential feature of the mechanism was the lag of fixed incomes, notably wage rates and salaries, behind prices. Since most wage rates did not rise as fast as prices, real wages per worker who could or did not supplement his earnings by longer hours or other shifts (purchasing power of wages) declined a bit while real profit incomes increased enormously. As a result total "abortive savings" or forced abstinence was larger than the net reduction in consumption. The flexible income and profit recipients enjoyed an increase which not only enabled them to increase their savings in terms of money, but enabled them to channel a part of the bounteous windfall into luxury consumption. Inflation took from those that had little and added to those that had much.

However, the gain to the upper-income group was not all velvet. Inflation brings in more taxes, as a simple example will show. Take the case of a married man with two children, now earning $3,000 a year. His Federal income tax at 1951 rates is $120. Suppose the price level doubles and his income doubles, to $6,000. His tax now, at the same rates, is not twice as large as before but six times as large—$720. His money income after tax is $5,280, compared with $2,880 before the inflation. With tax exemptions and tax brackets stated in terms of dollars, inflation helps to raise more taxes.

Another solution to the problem of holding down mass consumption is a system of general price, wage, rationing controls. The process is this: Real consumption is reduced or held down by price controls and rationing. Consumers unable to spend all of their incomes, therefore, save. The savings finance the Government deficit, directly or indirectly. Consumers as a group hold large amounts of liquid assets. Presumably, consumers after the emergency will be able to convert their incomes and savings into higher standards of living, which they were unable to do during the emergency. Consumers assume the role of financing the military program and are paid back afterward.

Is this a real possibility? It is indeed for those who have incomes above the levels of "minimum need" already discussed. There is no question that consumers with incomes in excess of $2,500–$3,000 can accumulate liquid assets if such middle- and high-income consumers will accept a price control and rationing program that forces them to save. But such consumers are precisely the ones that by their extra funds support black-market operations. Even if they obey the price law and save, it seems doubtful whether they can translate these gains into higher real consumption after the emergency. The most likely result of an attempt to use the assets and the high incomes to buy consumers' goods will be a postemergency inflation that will reduce the value of both the assets and the incomes.

Consumers can take over the role of financing the military program, and get paid for it, only if they behave like financiers. That is, consumers can get paid back if they hold the debt for a long time, reinvest interest payments and only gradually reduce principal. But the idea that they can be repaid in 2 or 3 years for the consumption foregone during the emergency is illusory, especially if, as now seems likely, the emergency lasts 10 to 20 years.

There are two basic defects in the price-wage-rationing system as a means of forcing savings and holding down consumption. One is that it almost certainly results in a sudden attempt by middle- and upper-income brackets to translate their savings into consumption, notably of housing and consumer durable goods when the emergency is over, if not sooner. The control system forces people to save but leaves them free to save in any form they like. Most of the savings will take the form of money or assets that can be turned into money on demand. This means that as soon as the restraints on expenditures are relaxed there is a lot of hot money around ready to rush into the markets and bid up prices. The price inflation that followed the jettisoning of OPA is a good illustration of the flexible consuming power of middle- and upper-income groups.

The second defect is that a price-wage-rationing system requires an elaborate structure of detailed controls to achieve a rather simple over-all result. The basic need is to hold down total consumption. But under the direct control system, the Government must control the expenditures of particular individuals for particular purposes. If the objective is to put $41.6 billion a year into defense goods, it is a cumbersome and seriously inefficient way to do it by rationing meats or gasoline or tires.

These two defects can be avoided by taxes. Taxation has the great advantage of finality. It leaves no overhang of assets to create inflationary danger for the future. By the same token it holds out no promise that those who forego consumption now will be repaid in the future. If the military program is very big, and lasts for a long period of time, the main reliance for restraining consumption must fall on those whose incomes afford more than efficiency levels of consumption.

VI. The Status of Farmers

The outstanding price phenomenon in 1950 was the reflation of farm prices. (See chart 13.) As was noted in the Economic Report of the Joint Committee for 1950, the dip in prices then was in large part restricted to raw materials, and in particular to a decline in the price of farm products.[3] The fact was also noted there that throughout 1949 the relatively inflexible prices, notably the prices of finished industrial products such as steel, automobiles, and other items, far from declining, advanced 2.2 percent. That advance was greatly accelerated in 1950. Note that rapid as was the rise in the prices of food since April of 1950, they did not catch up with the prices of steel-mill products until January of 1951.

Farm prices, on the average, did not attain in 1950 the levels which existed in 1948. There are, to be sure, a few, and these are highly publicized, which have soared above 1948 levels. Among these are

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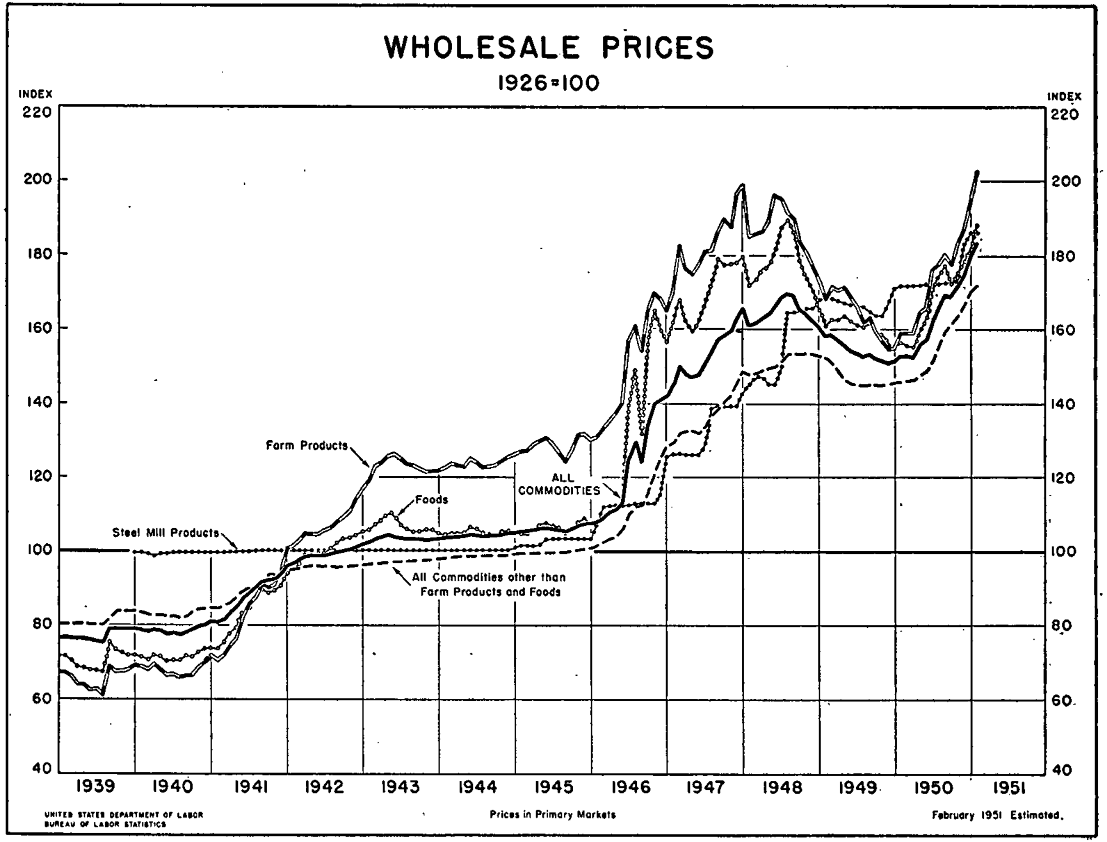
[3] Report of the Joint Committee on the Economic Report on the January 1950 Economic Report of the President, pp. 57-58.

CHART 13


WHOLESALE PRICES
1926=100
INDEX
220
200
180
160
140
120
100
80
60
40
1939
1940
1941
1942
1943
1944
1945
1946
1947
1948
1949
1950
1951
Farm Products
Foods
Steel Mill Products
ALL COMMODITIES
All Commodities other than Farm Products and Foods
UNITED STATES DEPARTMENT OF LABOR
BUREAU OF LABOR STATISTICS
Prices in Primary Markets
February 1951 Estimated.

cotton, beef cattle, veal calves, sheep, lambs, and notably wool. All the other major farm products are not only below 1948 levels, but below parity levels. Not until early 1951 did farm prices in general begin to reach levels in excess of 1948 peaks.

Nor is it true that farm incomes are inordinately high. In 1950 the farm population represented about 18 percent of total population, but net income of farm operators was only 6.0 percent of the national income, the lowest figure in the last 40 years except for 1940, 1930, 1931, and 1932. In 1947 the farmers (then comprising 19.3 percent of the total population) received in net incomes about 9.6 percent of total national income. Even when gross farm income is compared with national income, the percentage in 1950 is likewise lower than at any time since 1941, and lower than at any time during the last 40 years except for the years 1931, 1932, 1939, 1940, 1941, and 1944. These facts are clearly shown in table XVI.

TABLE XVI.—*Agriculture's share of the national income and its relative position as a producer of goods*

Year	Realized net income of farm operators	Percent realized net income of farm operators is of national income	National income	Gross income from agriculture [1]	Percent gross farm income is of national income	Index of volume of agricultural and nonagricultural production, 1935–39=100		Index of population, 1935–39=100
						Index of agricultural production [2]	Index of total industrial production [3]	
1910	3,753	11.4	33,064	7,352	22.2	----------	----------	----------
1911	3,435	10.6	32,490	7,081	21.8	----------	----------	----------
1912	3,671	10.7	34,456	7,561	21.9	----------	----------	----------
1913	3,786	10.0	37,762	7,821	20.7	81	63	----------
1914	3,518	9.7	36,367	7,638	21.0	86	58	----------
1915	3,745	9.8	38,254	7,968	20.8	86	64	----------
1916	4,687	10.4	44,913	9,532	21.2	83	75	79
1917	7,011	13.1	53,360	13,147	24.6	86	76	80
1918	8,674	14.9	58,121	16,232	27.9	90	75	81
1919	9,249	14.0	66,136	17,710	26.8	91	72	81
1920	6,778	9.2	73,393	15,908	21.7	92	75	83
1921	3,603	6.2	58,333	10,478	18.0	83	58	84
1922	4,057	6.7	60,517	10,883	18.0	91	73	85
1923	4,842	6.8	70,675	11,967	16.9	94	88	87
1924	5,128	7.3	70,634	12,623	17.9	98	83	88
1925	6,103	8.1	75,187	13,567	18.0	97	90	90
1926	5,699	7.1	80,396	13,204	16.4	100	96	91
1927	5,706	7.3	78,502	13,251	16.9	98	95	92
1928	5,695	7.0	81,044	13,550	16.7	102	99	93
1929	6,044	7.0	85,954	13,824	16.1	100	110	94
1930	4,329	5.7	75,364	11,388	15.1	98	91	95
1931	2,744	4.6	59,853	8,378	14.0	102	75	96
1932	1,832	4.2	43,605	6,406	14.7	96	58	97
1933	2,681	6.4	42,006	7,055	16.7	96	69	97
1934	3,759	7.6	49,448	8,486	17.2	93	75	98
1935	4,484	7.6	56,398	9,595	17.0	91	87	99
1936	5,062	7.7	65,707	10,643	16.2	94	103	99
1937	5,139	8.3	61,556	11,265	18.3	106	113	100
1938	4,327	6.5	66,412	10,071	15.2	102	89	101
1939	4,459	6.2	71,515	10,547	14.7	106	109	101
1940	4,525	5.8	78,111	11,009	14.2	110	125	102
1941	6,412	6.7	95,231	13,881	14.6	113	162	103
1942	9,086	7.4	123,168	18,551	15.0	124	199	104
1943	12,126	7.9	152,515	23,008	15.0	129	239	106
1944	12,519	7.6	164,397	24,159	13.5	137	235	107
1945	12,790	7.8	164,067	25,419	15.4	134	203	108
1946	15,017	8.9	168,293	29,355	17.6	137	170	109
1947	17,794	9.6	185,643	34,643	18.6	136	187	112
1948	16,526	8.0	207,478	35,071	17.0	138	192	114
1949	14,129	6.9	204,088	32,167	15.8	140	176	116
1950	12,974	6.0	214,494	32,054	14.9	137	200	117

[1] Figures not adjusted for inventory changes but include governmental payments.
[2] U. S. Department of Agriculture, BAE.
[3] Federal Reserve Board.

Source: U. S. Department of Agriculture, U. S. Department of Commerce, and Federal Reserve Board

Actually agricultural income has not yet caught up with nonagricultural income. (See chart 14.) In fact, the outstanding characteristic of farm price reflation in 1950 was that farm costs for the year as a whole rose more than farm prices for the year as a whole. This provides something of a contrast with the experience of the nonfarm enterpriser. To quote an eminent business magazine, the United States News:

> Businessmen as a group, evidently marked up their prices before January 2. Manufacturers' costs jumped 10.8 percent from the outbreak of the Korean War to the first of the year. Prices jumped 12.1 percent.[4]

Thus, in comparing the realized net income of businessmen on the farm, that is, farm operators, with corporations, that is, businessmen in the city, we find that the year 1950 represented a bonanza year of unheard-of proportions for the latter. For the farmer it represented a year of 8 percent lower net income than in 1949. (See chart 15.) In 1950 income from agriculture was running but 2½ times the 1935–39 average, while nonagricultural income was almost 3⅓ times higher, and corporate profits more than 6 times higher.

Moreover, although consumers as a whole have suffered from inflation, there exists no special reason why increases in farm prices should be solely or even predominantly stressed as the primary source of injury. In actual fact, for those whose incomes have kept up with the average increase in incomes (and here one must remember the plight of the low- and fixed-income groups mentioned in the preceding section), the real cost of food is lower than it was in the period 1935–39. Then the average consumer had to spend 23 percent of his income to get the same diet which he can now buy with only 19 percent.

Furthermore, whatever increases occurred in the price of food were not for a major proportion due to the increases of prices of farm products. Farm prices were higher in 1948 than they are now, yet food prices were lower. When farm prices collapsed in 1949, did food prices go down accordingly? When wheat prices fell by one-third from their level of $2.81 a bushel, did the price of bread go down one-third? It did not. The argument advanced by the baking concerns then was that the wheat in a loaf of bread is a very small part of the total cost of the loaf.

Since the outbreak of the war in Korea the retail price of bread has gone up 1.7 cents. If all that increase were due to increases in the cost of the wheat ingredient, wheat would have gone up about $1.12 a bushel above the June 1950 level; actually it has gone up only 16 cents. So small an increase would be compensated for by less than two-tenths of a cent increase in the price of a loaf of bread, or less than one-eighth of the amount that actually occurred. The rest is due to increases in other costs and in margins such that net profits, which represent the remainder after all costs have been met, are now at all-time high levels.

The example of wheat and bread could be multiplied in the case of cotton and cotton shirts and other consumer commodities. In short, the reflation of farm prices that occurred in 1950 was not the major cause of the increases in the price of food, textiles, and other commodities. These rose primarily because of abrupt increases in consumer money demand.

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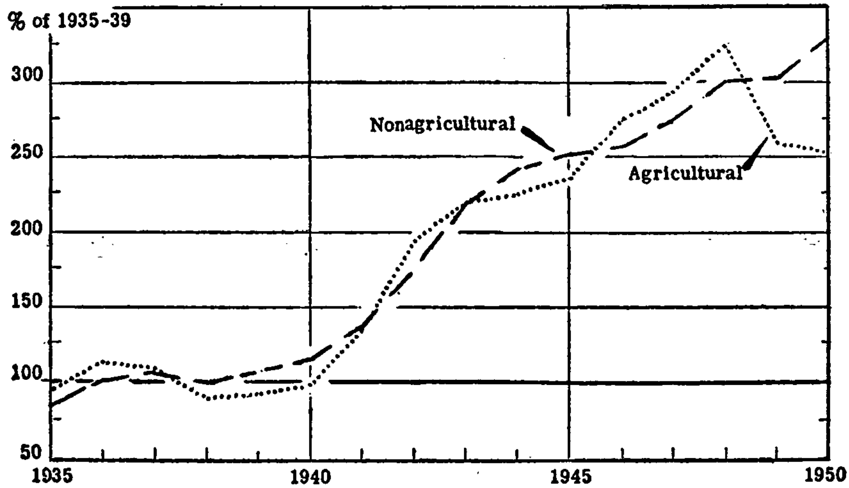
[4] United States News, vol. XXX, No. 5, February 2, 1951, p. 13.

CHART 14

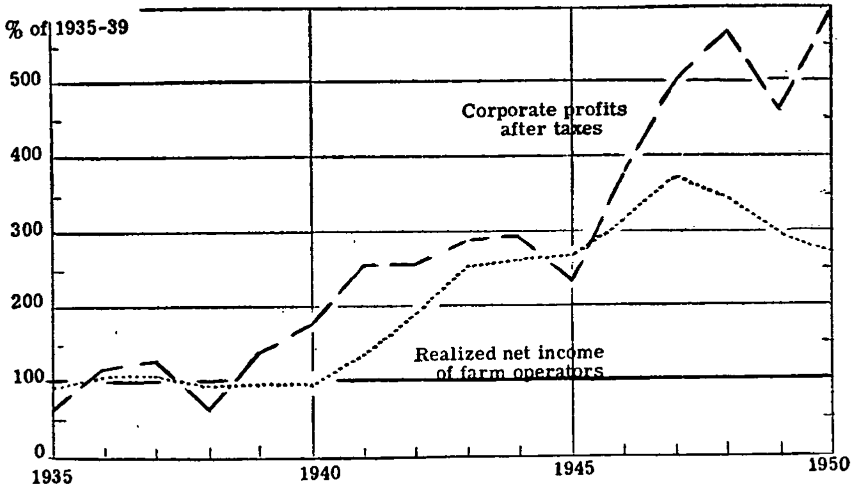
Farm and nonfarm income



Source: U. S. Department of Agriculture, Bureau of Agricultural Economics.

CHART 15

Farmers' income and corporate profits



Source: U. S. Department of Agriculture, Bureau of Agricultural Economics.

VII. Channeling Business Spending

About 45 percent of the change in total output from 1949 to 1950 was accounted for by the increase in business spending on plant and equipment and the shift from inventory liquidation to accumulation. The excess spending of business was equally at fault and had as much to do with the inflation of prices as did that of middle and high income consumers. On this point the Business Outlook section of Business Week, a McGraw-Hill publication, in its issue of February 17, 1951, pages 9–10, makes a forthright statement in language of admirable frankness:

> *Buying things now—either because they are scarce or may get scarce—has played a big part in sustaining the boom.*
>
> And if you think that applies only to consumer buying, you have another think coming. Business has been doing a lot of stocking up, too—all the way from manufacturer to retailer.
>
> Inventories of all business rose by $10 billion in 1950.
>
> But, even more important than the size of the gain, is the rate. It was at a brisk annual clip of $5 billion in the first half of 1950—but in the second half of the year, the pace jumped to $15 billion.
>
> *Retailers appear fully as interested in inventories as in sales.*
>
> They built stocks hand over fist in 1950. Even though they had the biggest sales ever in August (on a seasonally adjusted basis) and a record Christmas, they added $2 billion to inventory from June to December.
>
> For the full year, the gain was $3 billion, bringing the value of all stores' stocks to more than $16 billion at year end.
>
> Inventory building at the wholesale and retail levels creates business for manufacturers, of course. But inventory building by manufacturers is perhaps even more dynamic. For their buying spreads back all the way to the farm and the mine.
>
> *And manufacturers were buying a mile a minute in the last half of 1950—for all the talk about shortages.*
>
> They were adding to inventory at an annual rate of $2 billion a year in the first half of 1950, jumped it to $8 billion in the second half.

Between December of 1949 and December of 1950 business inventories jumped 19.3 percent. (See table XVII.)

Table XVII.—*Book value of business inventories, end of period, 1949–50*

[Seasonally adjusted; billions of dollars]

Item	1949				1950			
	March	June	September	December	March	June	September	December
Total	56.4	54.4	52.9	51.6	52.5	54.2	56.4	61.6
Manufacturing	32.4	31.2	29.3	28.9	29.1	30.0	30.7	34.0
Wholesale trade	9.3	9.0	9.2	9.0	9.1	9.5	9.9	10.8
Retail trade	14.7	14.2	14.4	13.7	14.3	14.7	15.8	16.8

Source: U. S. Department of Commerce, Office of Business Economics. Survey of Current Business, February 1951, p. 21.

This rise was, of course, far from uniform among various industries. For example, producers of iron and steel products added only 8 percent to inventories, while textile manufacturers increased inventories by 22 percent. By November, stocks of durable goods in the hands of retail stores had risen 16 percent above June 1950, and were the highest on record. Likewise, nondurable goods inventories are now at record levels, as are raw materials stocks. In short, the war scare buying of last July and August scarcely made a dent in retail stocks.

Every other use of business funds similarly showed an increase, though none exhibits the spectacular proportions that characterized the investment in inventories. The way in which the corporations used their funds for all purposes, as well as the variety of sources from which they derived such funds, is admirably shown in table XVIII.

Several facts in this table are worth marked attention. The item, receivables from business, shifted from a minus position of $1.3 billion to a plus position of $4.5 billion. Holdings of cash and Government securities were doubled. Most significant of all is, of course, the increase in the total amount of corporate funds let loose in the market—from $13.8 billion to $38.5 billion. Perhaps no single figure better illustrates the extent to which business flung its buying power around than this nearly threefold increase between 1949 and 1950.

TABLE XVIII.—*Sources and uses of corporate funds, 1949–50* [1]

[Billions of dollars]

Item	1949	1950 [2]
Uses:		
Plant and equipment	16.1	17.0
Inventories (book values)	−4.6	7.5
Receivables	.5	6.5
From business	−1.3	4.5
From consumers	.9	1.5
From Government	.3	.5
Cash and deposits	1.0	2.5
U. S. Government securities	2.0	4.0
Other current assets	−.2	.5
Total	13.8	38.5
Sources:		
Retained profits [3]	8.6	13.0
Depreciation	6.7	7.0
Sources—Continued		
Payables (trade)	−2.2	3.5
Federal income tax liability	−2.4	7.0
Other current liabilities	−.1	1.0
Bank loans (excluding mortgage loans)	−1.8	2.5
Short-term	−.8	3.0
Long-term	−1.1	−.5
Mortgage loans	.7	1.0
Net new issues	5.4	4.1
Stocks	1.6	1.6
Bonds	3.8	2.5
Total	14.9	38.5
Discrepancy	−1.1	.0

[1] Excluding banks and insurance companies.

[2] Preliminary. Estimates for 1950, based on incomplete data, are rounded to the nearest $0.5 billion for the major components. Total sources and uses derived from unrounded figures.

[3] Including depletion.

Source: U. S. Department of Commerce, based on Securities and Exchange Commission and other financial data.

The amount of the increase, nearly $25 billion, had an additional impact far in excess of that figure. Investment funds have a delayed or multiplier effect on national income, one that by no means spent its force in 1950 but will generate more inflation for months to come. Increased business investment in inventories and plant and equipment, while it hits the raw materials markets and machine tool industries first, spreads backward and forward throughout the economy—steadily taking goods out of the production flow and using labor to build plants, paying out as costs incomes to farmers, wage earners and others, without matching these incomes until sometime in the future with an increased output of consumer goods. There is no "hot money" quite as inflationary as additional business investment when made at the peak of full utilization of manpower and resources.

SOURCES OF BUSINESS FUNDS

The major sources of such business funds in 1950, as shown in table XVIII, were retained corporate profits and depreciation allowances. Both of these increased in 1950. Note in chart 16 that corporate profits before taxes reached an all-time high annual rate of $48 billion in the fourth quarter of 1950. Corporate tax liabilities under the laws now on the statute books, including the excess profits tax, are estimated at $24.3 billion, which amount will of course not actually come into the coffers of the Treasury for several months. An extra lush disbursement of dividends at Christmas time brought total dividend payments up to $9.8 billion. Yet the amount left in undistributed profits of $13 billion exceeded by far the highest level attained by corporate profits after taxes during World War II.

The course of corporate profits in recent years, as compared with other components of national income originating in the private sector of the economy, is shown in table XIX and chart 17. Note that corporate profits after taxes increased 28.8 percent in 1950 over 1949, and are more than three times as high as they were in 1939. Such an increase is larger by far than that in any other major segment of the private economy. The table likewise shows clearly the decline in farm income in 1949. The one segment that has notably lagged behind is the income received from net private interest, which is less than 20 percent above 1939 levels. Such interest payments do not, of course, include interest on the public debt, nor do the wage figures include the enormously increased outlays to persons in Government and in the military forces. Corporate profits being exclusively earned in the private sector of the economy are properly compared with other incomes earned there.

TABLE XIX.—*Components of national income originating in the private sector of the economy, 1939, 1946–50*

	Billions of dollars						Percent 1950 over—	
	1939	1946	1947	1948	1949	1950	1939	1949
Corporate profits before taxes	6.5	23.5	30.5	33.9	27.6	40.2	518.5	45.6
Inventory valuation adjustment	–.7	–5.2	–5.8	–2.0	2.2	–4.7		
Corporation profits after valuation adjustment	5.8	18.3	24.7	31.8	29.9	35.5	512.1	18.7
Corporation profits after taxes	5.0	13.9	18.5	20.9	17.0	21.9	338.0	28.8
Unincorporated business and professional income before taxes	6.8	20.6	19.8	22.1	21.0	23.2	241.2	10.5
Compensation of employees in private industry before taxes	39.6	96.4	110.7	121.5	120.1	[1] 130.0	228.3	8.2
Net interest before taxes	4.2	2.9	3.5	4.1	4.7	5.0	19.0	6.4
Farm income before personal-income taxes	4.5	14.8	15.6	17.7	13.4	13.0	188.8	–3.0
Rental income of persons	3.5	6.6	7.1	7.5	7.3	7.4	111.4	1.4
National income originating in private sector	64.4	159.6	181.4	204.7	196.4	214.1	232.5	9.0

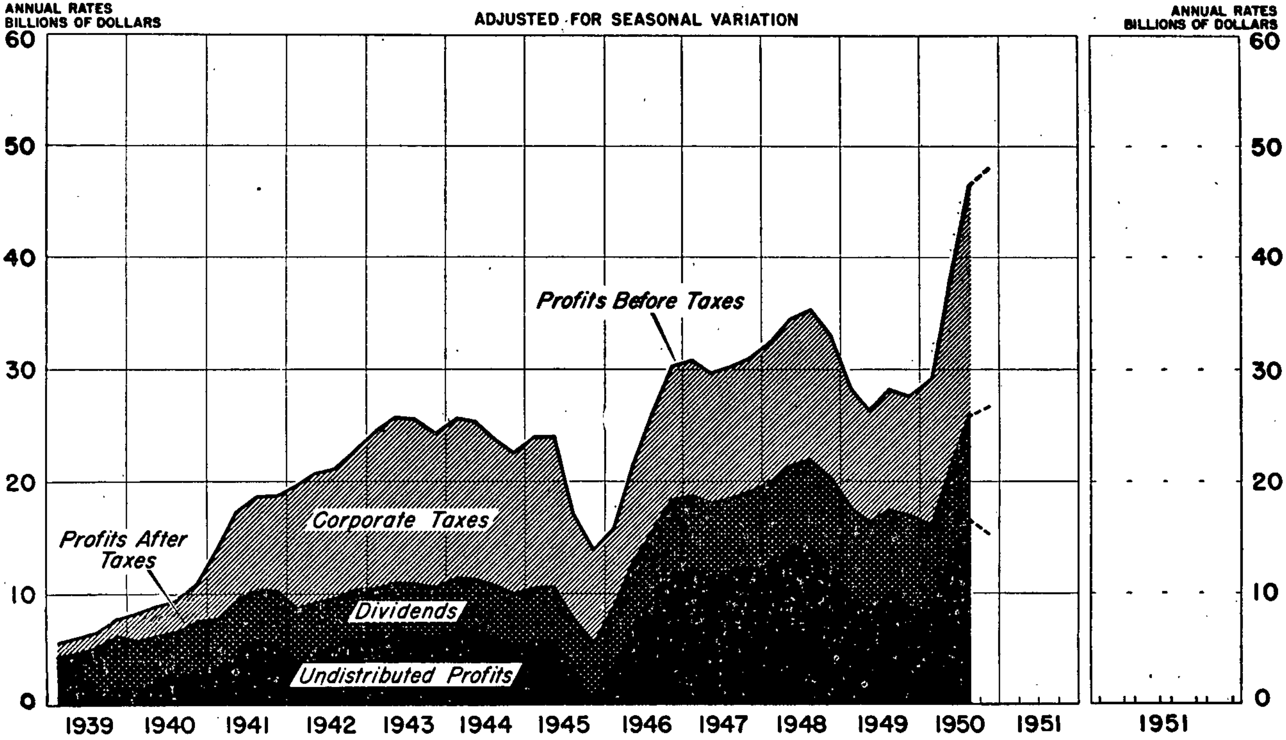
[1] Computed on basis of trends in the first 3 quarters of 1950.

Source: U. S. Department of Commerce, Office of Business Economics.

Chart 16

CORPORATE PROFITS, TAXES, AND DIVIDENDS

QUARTERLY SINCE 1939



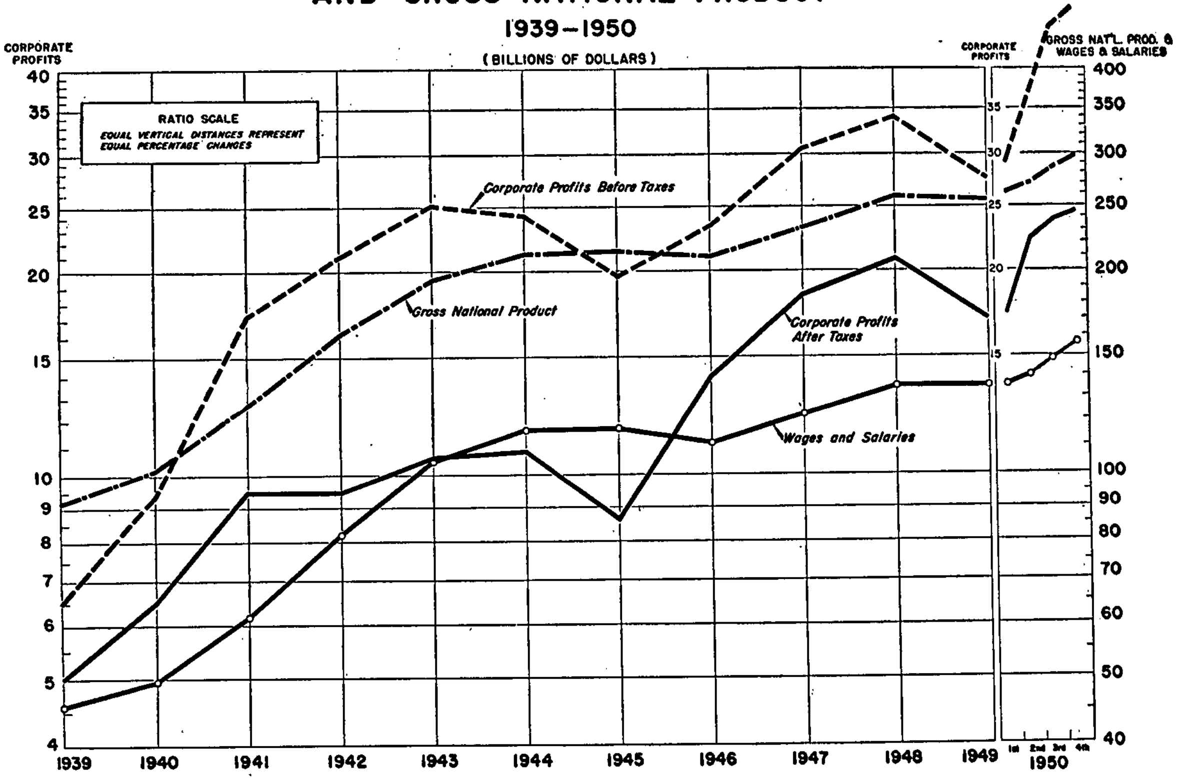
SOURCE: 1939 through third quarter, 1950 – U. S. Department of Commerce
Fourth quarter, 1950, estimate – Council of Economic Advisers

CHART 17

CORPORATE PROFITS, WAGES AND SALARIES, AND GROSS NATIONAL PRODUCT

1939–1950

(BILLIONS OF DOLLARS)



NOTE: Fourth quarter 1950 estimated by Council of Economic Advisers

SOURCE: Compiled from The Economic Report of the President, January 1951

It is to be noted that despite the very high levels of prices in the stock market, only $1.6 billion of the total of $38.5 billion of funds were derived from net new issues. The amount derived from bonds fell from $3.8 billion in 1949 to $2.5 billion in 1950. The ratio of prices of stocks to net earnings, while higher than in any previous year except 1949, declined from that record level mostly because of the enormous increase in net earnings. These and other facts are interestingly shown in chart 18.

Attending this banner year of profits in business was a large increase in the number of new enterprises. In 1950 for the first time, the number of firms in operation may have exceeded the 4 million mark. This is in contrast with the rapid decline in new businesses that occurred at the beginning of World War II. The upper limit of the draft age then being 44 years, a larger number of proprietors were brought into service. Moreover, the draft took larger numbers then. The dominant explanation, however, is probably the fact that profits in 1950 were so lucrative in every line of consumer enterprise that little attraction existed for border-line entrepreneurs to shift to defense plants.

For all these reasons, gross private domestic investment, corporate plus noncorporate, was by far the most expansionary component of national product in 1950, rising roughly 50 percent from $33 billion in 1949 to $49.4 billion in 1950. While the largest single contribution came from a reversal of business inventory movements (from minus $3.7 billion to plus $4.1 billion), new private construction increased by $4.4 billion (from $16.2 billion in 1949 to $20.6 billion in 1950), and business expenditures on new plant and equipment increased by $3.7 billion (from $18.1 billion to $21.9 billion) to a new all time record level.

Such high levels of capital expenditure, if not limited by inventory and materials controls, capital issues regulations, and the like, are likely to remain high. The types of taxes enacted thus far, including the excess profits tax now on the books, are in no sense capable of putting the damper on such inflationary business spending.

The Secretary of the Treasury has called attention on several occasions to certain loopholes in both corporate and individual income tax laws, which permit 27.5 percent oil depletion allowances; exacts only a 25 percent rate and a 6 months' holding period for capital gains; fails to provide for withholding of taxes on dividends at the source; permits businessmen to split the income from their business several ways by allowing them, though not solely for tax avoidance purposes, to make their wives and relatives "partners"; enables corporate executives and others in certain cases to receive stock options subject to capital gains tax rates rather than those on income; and permits newspaper and magazine publishers to deduct extravagant promotional expenses rather than to capitalize them.

Nor is it certain that the excess profits tax will take as substantial a bite into inflationary business spending as is sometimes alleged or hoped. The following excerpts taken from a recent issue of an eminent business advisory service indicate some of the possibilities here:[5]

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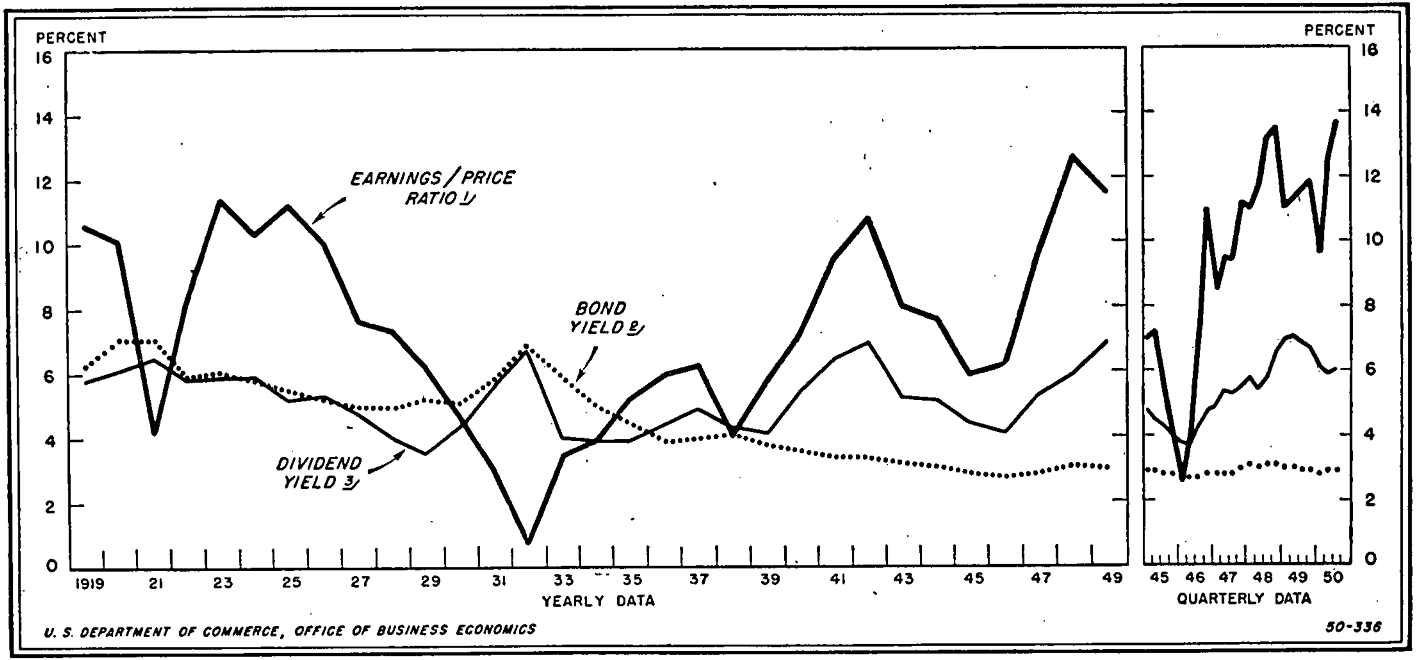
[5] Prentice-Hall, Report on the Business Significance of the News, January 27, 1951, pp. 5–6.

CHART 18

Corporate bond and common-stock yields, and earnings/price ratio



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[1] Based upon data for common stocks listed on the New York Stock Exchange; total reported earnings for the year expressed as a percentage of the total market value (number of shares times average prices) of these stocks.

[2] Data are averages of daily figures.

[3] Based upon data for common stocks listed on the New York Stock Exchange; total dividends for the year expressed as a percentage of the total market value (number of shares times average prices) of these stocks.

Sources of data: Bond yield, Moody's Investors Service; earnings/price ratio and dividend yield through 1938, Common Stock Indexes, Cowles Commission Monograph No. 3 and for the following years extrapolated on the basis of movements shown by Moody's earnings, stock prices, and dividend series.

Source: Survey of Current Business, January 1951, p. 17.

ARE YOU TAKING ADVANTAGE OF THE NEW EXCESS PROFITS TAX?

Most executives whose firms are subject to the excess profits tax have already put their tax advisers to work figuring out which of the many optional ways available for figuring a corporation's excess profits tax credit will give the highest possible exemption. However, less attention is generally being given to formulating plans for worth-while current and future spending which present high taxes (with still higher rates still to come this year)—plus some special features in the new excess profits tax law—make particularly attractive.

Some worth-while expenditures will actually reduce a firm's excess tax liability.—For example, purchasing mortgaged property instead of renting it will often result in a net tax saving because of the 9 percent excess profits credit permitted on borrowed capital. Similarly, borrowing funds at less than 6 percent interest will also usually result in a net gain for firms in the top excess profits brackets.

However, other outlays can also be made at so small a net cost after taxes that they are highly desirable as steps to improve your competitive position, to help you get and hold an efficient labor force, or to increase future corporate and personal income. Review the following suggestions for their applicability to your situation.

Recommended: Expended spending for research, particularly on long-term projects that will pay off at a much later date, is advantageous under high corporate taxation. For firms subject to excess profits taxes, the Government will be footing from 62 to 77 percent of the cost. Small quantities of materials that may be needed for such research projects should not be too hard to obtain, and will generally not be restricted by NPA limitation orders.

Recommended: Explore more intensively the possibility of acquiring small businesses that your firm could utilize to long-term advantage. Not only are such purchases usually entitled to an excess profits tax credit, but they also open up the possibility of capital gain. Neither short-term nor long-term capital gains are subject to the excess profits tax.

Recommended: Maximum spending for maintenance and repairs is generally indicated. New construction for unessential uses will become increasingly more difficult, price trends are firm and rising, so the prospect of having the Government foot the bill for most of your repair cost should certainly be inviting.

Recommended: Much the same case can be made for all needed plant expansion and improvement permitted under NPA construction limitations. Money invested for such purposes can get a 12 percent excess profits tax credit. Accelerated amortization of defense-connected plant and equipment expenditures now become doubly attractive.[6]

Recommended: Spending for bigger and better programs of worker on-the-job training will often be worth while. For example, many metal-working firms have the problem of what to do with salespeople no longer needed because of civilian business cut-backs. In many cases, retraining to convert salespersons into material expediters is feasible. Similarly, production shifts from civilian goods to military equipment calls for wide worker reeducation.

Recommended: Pension and profit-sharing plans can be initiated or expanded at comparatively low cost. Dollars deposited in approved pension or profit-sharing plans are entirely exempt from corporate income and excess profits taxes. Thus, the Government pays from 62 to 77 percent of the cost for firms liable to excess profits taxes. Also, earnings of an approved pension or profit-sharing trust are tax exempt, and thus pile up more rapidly. And the tax of employees (including stockholder-employees) on the extra compensation represented by the trust fund is deferred until their shares are distributed to them—at which time the tax is usually much smaller, or their returns from the trust may be treated as a long-term capital gain. Any additional tax increase will further enhance the value of pension and profit-sharing plans.

Recommended: While carefully considering all worth-while tax-saving or income-producing projects, try to avoid falling into a reckless "excess profits tax psychology" in which all kinds of expenditures are approved because "the Government is footing most of the bill anyhow." Such a psychology can create sloppy, wasteful business habits which can turn out disastrously in less lush times.

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[6] It is interesting to note that in the few months since the outbreak of the war in Korea up to February 23, 1951, 3,319 applications for accelerated amortization totaling $10.5 billion have been filed and 447 certificates totaling about $3 billion issued, which is more than half of the total amount allowed during the whole 5-year period of World War II. Not only is there a sizable tax saving but a supply of tax-free dollars is made available for various corporate capital purposes. With the 47 percent corporate tax rate, depreciation dollars are equivalent to $1.89 as compared with the dollar made available from retained earnings; with the 77 percent excess profits tax rate, depreciation dollars are equivalent to $4.34.

TAX ON ADVERTISING

From a general economic point of view, one of the most desirable excise taxes that could be levied would be a tax on advertising, especially on that urging consumers to buy consumer goods. This is obviously not the time to whip up inflation further by stimulating consumer buying, nor is it a time for making still worse the already grave shortage of so vital and critical a material as newsprint or woodpulp. Yet, notwithstanding this, an increased volume of advertising continues to spur consumers on to additional spending.

First, a word about the total volume of expenditures for advertising. In the year 1949, total advertising expenditures amounted to more than $5.2 billion.[7] Expenditures in 1950 probably exceeded those of 1949 by around 10 percent. The current rate of expenditure is considerably greater. For example, expenditures in October 1950 (latest data available) were 19 percent in excess of October 1949. The breakdown by dollars and percentages of the total for 1949 was as follows:

United States advertising in 1949

Medium	Amount (in millions)	Percent of total
Newspapers	$1,905.0	36.6
Radio	633.8	12.2
Magazines	492.5	9.5
Farm papers	20.5	.4
Direct mail	755.6	14.5
Business papers	247.1	4.8
Outdoor	131.0	2.5
Television	63.0	1.2
Miscellaneous	952.7	18.3
Total	5,202.2	100.0

A heavy tax currently imposed may have a variety of results. The advertisement of some types of products may be discontinued for the duration. Others may reduce the amount of their advertising. In some cases advertising media would reduce their rates of advertising and absorb part of the tax. In others, advertisers may shift to direct advertising by mail or by handbill in case the tax could not be made to apply to these types of advertising. If the heavy tax had no effect on the volume of advertising or the prices charged, the yield from a 20 to 25 percent tax would be well over $1 billion. (See chart 19.) If the heavy tax discouraged the volume of advertising, the result would be a lowering of the estimated tax revenue, a reduction in demand for goods and materials going into advertising, and also a reduction in the stimulus by advertising to cause people to buy. To the extent advertising media reduced their rates and absorbed part of the excise tax, their net income would also be reduced and hence the revenue from the income tax would be reduced.

On the other hand, to the extent reduced volume of advertising resulted in reduced sales, the profits of advertisers would be reduced and the revenue from the income tax would be reduced. Should people buy less because of a reduced volume of advertising, inflationary pressures might be reduced and consumer saving increased. It is even

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[7] The data in this paragraph and the table are taken from Printers' Ink, June 16, 1950, and December 8, 1950.

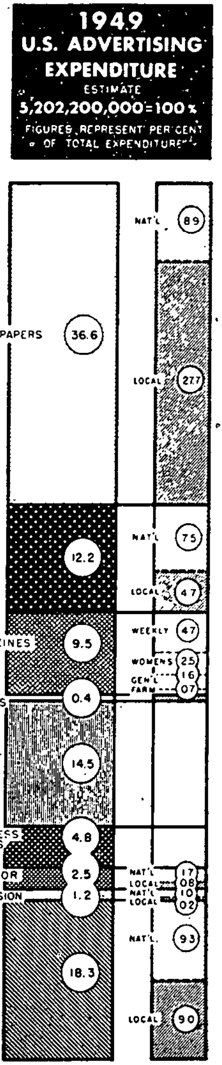
CHART 19

$5,202,200,000 INVESTED IN ADVERTISING

U.S. ADVERTISING IN 1948 & 1949

MEDIUM		1948*		1949		PER CENT INCREASE 1949 OVER 1948
		MILLION DOLLARS	PER CENT OF TOTAL	MILLION DOLLARS	PER CENT OF TOTAL	
newspapers	TOTAL	1,749.6	36.0	1,905.0	36.6	+ 8.9
	NAT'L.	393.7	8.1	465.0	8.9	+ 18.1
	LOCAL	1,355.9	27.9	1,440.0	27.7	+ 6.2
radio	TOTAL	617.1	12.7	633.8	12.2	+ 2.7
	NAT'L.	387.2	8.0	389.2	7.5	+ 0.5
	LOCAL	229.9	4.7	244.6	4.7	+ 6.4
magazines	TOTAL	512.7	10.5	492.5	9.5	- 3.9
	WEEKLIES	257.5	5.3	245.4	4.7	- 4.7
	WOMEN'S	133.4	2.7	128.6	2.5	- 3.6
	GENERAL	86.5	1.8	83.6	1.6	- 3.4
	FARM	35.3	0.7	34.9	0.7	- 1.1
farm papers	TOTAL	20.4	0.4	20.5	0.4	+ 0.5
direct mail	TOTAL	689.1	14.2	755.6	14.5	+ 9.6
business papers	TOTAL	250.9	5.2	248.1	4.8	- 1.1
outdoor	TOTAL	132.1	2.7	131.0	2.5	- 0.8
	NAT'L	89.2	1.8	88.4	1.7	- 0.9
	LOCAL	42.9	0.9	42.6	0.8	- 0.7
television	TOTAL	—	—	63.0	1.2	—
	NAT'L.	-	-	50.3	1.0	-
	LOCAL	-	-	12.7	0.2	-
miscellaneous	TOTAL	891.7	18.3	952.7	18.3	+ 6.8
	NAT'L.	453.3	9.3	484.7	9.3	+ 6.9
	LOCAL	438.4	9.0	468.0	9.0	+ 6.8
total	NAT'L.	2,776.1	57.1	2,973.8	57.2	+ 7.1
	LOCAL	2,087.5	42.9	2,228.4	42.8	+ 6.7
GRAND TOTAL		4,863.6	100.0	5,202.2	100.0	+7.0

(* FINAL ESTIMATE)



1949 U.S. ADVERTISING EXPENDITURE ESTIMATE 5,202,200,000=100% FIGURES REPRESENT PER CENT OF TOTAL EXPENDITURE

Source: Printers' Ink.

conceivable that the yield from other taxes might also be increased, especially if the tax on advertising resulted in reduced expenditures for "good will" advertising more or less deliberately engaged in to avoid excess profits and corporation income taxes.

It is interesting to note that during 5 years of the Civil War decade, when a great number of excises were imposed, there existed a 3-percent tax on the gross receipts from advertisements appearing in newspapers, magazines, reviews, etc., issued periodically. The first $1,000 (later $600) of receipts were exempt from the tax. Newspapers with circulations under 2,000 were also exempt. Exemption might likewise be given to advertisements urging people either to buy Government bonds, insurance of all kinds, or to put their funds into savings institutions.

VIII. REMOVING BARRIERS TO EFFICIENT PRODUCTION

Although in most instances an increase in taxes is required in order to curb inflation, there are a few imposts whose *lowering* would help to check inflation. For a brief list of such items see table XX. Notable among such are governmental barriers to trade, both foreign and domestic. From the standpoint of stimulating a deflationary inflow of vitally needed materials from abroad, an expansion of foreign trade, particularly in the import sector, would not only help to mop up excess buying power but would promote more competition in what is now a tight seller's market, and help shift our vital labor resources into vital defense activity out of industries so inefficient as to require Government protection. The effects would be equally beneficial in mobilizing efficiently the resources of the free nations who are our partners in this long struggle against communism. (See table XXI.) Tariffs and trade policies appropriate, for whatever reason, under normal conditions, may actually restrict supply, curtail competition, and needlessly elevate prices of some scarce materials and commodities during a period of long-term mobilization in which so much output is needed that the dangers against which protection was originally sought no longer exist.

TABLE XX

THE LIBRARY OF CONGRESS,
LEGISLATIVE REFERENCE SERVICE,
Washington D. C., January 23, 1951.

Selected list of dutiable "scarce materials" which are imported into the United States

	1930 rate	Modified rate	Agreement
Iron:			
Pig iron	$1.125 per ton	$0.75 per ton	Geneva Trade Agreement.
Gray-iron castings	20 percent ad valorem.	10 percent ad valorem.	Do.
Manganese ore (including ferruginous manganese ore) or concentrates containing in excess of 10 percent of metallic manganese.	1 cent per pound on manganese content.	¼ cent per pound on manganese content.	Do.
Tungsten ores, concentrates	50 cents per pound on metallic tungsten content.	38 cents per pound on metallic tungsten content.	Do.
Molybdenum ores, concentrates	35 cents per pound on metallic molybdenum content.	17½ cents per pound on metallic molybdenum content.	Mexico Trade Agreement.

Selected list of dutiable "scarce materials" which are imported into the United States—Continued

	1930 rate	Modified rate	Agreement
Fluorspar ores, containing calcium fluoride:			
More than 97 percent	$5.60 per ton	$4.20 per ton	Mexico Trade Agreement.
Not more than 97 percent	$8.40 per ton	$6.30 per ton	Do.
Tellurium compounds	25 percent ad valorem	12½ percent ad valorem.	Geneva Trade Agreement.
Aluminum:			
Crude:			
Scrap	4 cents per pound	1½ cents per pound	Do.
Other	do	2 cents per pound	Do.
Coils, sheets, plates, bars, rods, disks, strips.	7 cents per pound	3 cents per pound	Do.
Magnesium:			
Chloride, anhydrous	2 cents per pound	2 cents per pound	Do.
Salts and compounds	25 cents ad valorem	12½ percent ad valorem.	Do.
Metal, powder, sheets, alloys	40 cents per pound	20 cents per pound	Do.
Mercury ores	25 cents per pound	25 cents per pound	Do.
Titanium metal and alloys	25 percent ad valorem	12½ percent ad valorem.	Do.
Compounds and mixtures	30 percent ad valorem	15 percent ad valorem	Do.
Zirconium metal	25 percent ad valorem	25 percent ad valorem	Do.
Bismuth metal	7½ percent ad valorem	3¾ percent ad valorem	Peru.
Cadmium	15 cents per pound	3¾ cents per pound	Geneva Trade Agreement.
Lead ores, concentrates, matte, flue dust.	1½ cents per pound on lead content.	¾ cent per pound on lead content.	Do.
Zinc ores, concentrates	1½ cents per pound on zinc content.	¾ cent per pound on zinc content.	Do.
Bromine	10 cents per pound	10 cents per pound	Do.
Fuller's earth, crude	$1.50 per ton	50 cents per ton	Do.
Graphite:			
Crude (amorphous)	10 percent ad valorem	5 percent ad valorem	Do.
Crystalline lump, chip or flake.	30 percent ad valorem	7½ percent ad valorem	Do.
Strontium metal and alloys	25 percent ad valorem	25 percent ad valorem	Do.
Talc, crude	¼ cent per pound	⅛ cent per pound	Do.
Mica, crude (not above 15 cents per pound).	4 cents per pound	4 cents per pound	Do.
Above 15 cents per pound in value.	4 cents per pound and 25 percent ad valorem.	2 cents per pound and 15 percent ad valorem.	Do.
Alcohol, industrial:			
Fusel oil	6 cents per pound	3 cents per pound	Do.
Ethyl	15 cents per gallon	7½ cents per gallon	Do.
Carbon tetrachloride	1 cent per pound	1 cent per pound	Do.
Chlorine	25 percent ad valorem	12½ percent ad valorem.	Do.
Glycerin:			
Crude	1 cent per pound	0.4 cent per pound	Do.
Refined	2 cents per pound	1 cent per pound	Do.
Methanol	18 cents per gallon	18 cents per gallon	
Phthalic anhydride	7 cents per pound and 40 percent ad valorem.	3½ cents per pound and 20 percent ad valorem.	Do.
Titanium compounds and mixtures.	30 percent ad valorem	15 percent ad valorem	Do.
Trichlorethylene	30 percent ad valorem	10 percent ad valorem	Do.
Lumber, softwood: Fir, hemlock, larch, pine, and spruce.	$1 per 1,000 board feet	50 cents per 1,000 board feet.	Do.
Hog bristles: Sorted, bunched, or prepared.	3 cents per pound	3 cents per pound	
Rubber: Synthetic (not containing carbon).	20 percent ad valorem	10 percent ad valorem	Do.
Burlap:			
Nonbleached	1 cent per pound	½ cent per pound	Do.
Bleached, printed, etc	1 cent per pound and 10 percent ad valorem.	½ cent per pound and 5 percent ad valorem.	Do.
Cotton, raw: 1⅛-inch staple or longer.	7 cents per pound	3½ cents per pound	Argentina.

Source: Department of the Interior, Defense Minerals Administration, MO–1, Dec. 29, 1950; Department of Commerce, National Production Authority, Notice 1, as amended, Jan. 10, 1951, title 32A; U. S. Tariff Commission, United States Import Duties (1950) and Supplement 1 thereto, December 1950.

D. RILEY LLOYD,
Senior Specialists Section, Legislative Reference.

TABLE XXI.—*List of items on which it is considered that a reduction in the United States tariff would assist United Kingdom exports to United States of America*

[From the Congressional Record, Mar. 22, 1950]

Tariff paragraph	Commodity	Rate of duty
73	Synthetic pigments	15 percent.
211	Sanitary earthenware	45 percent plus 10 cents per dozen pieces.
212	Sanitary earthenware (if of vitreous china)	60 percent.
212	Bone china table and kitchen articles—plain white.	30 percent but not less than 5 cents per dozen and 25 percent ad valorem.
	Decorated	35 percent but not less than 5 cents per dozen and 30 percent ad valorem.
228	Ophthalmic instruments	Mainly 60 but also 30 and 45 percent.
228 and 360	Scientific instruments	Various—mainly 60, 45, or 40 percent.
337	Card clothing with plated wire and tempered round steel wire.	25 percent.
339	Silverplated candlesticks and candelabra	50 percent.
339	Electric flatirons (Morphy Richards) and electric toasters.	40 percent.
343	Crochet needles and hooks	$1.15 per thousand plus 40 percent.
343	Knitting needles (particularly aluminum)	30 percent.
353	Electric floor scrubbers for industrial purposes.	15 percent.
359	Dental and surgical needles	Dental, 30 percent. Surgical, 40 percent.
360	Drawing instruments	45 percent.
368	Clocks	Various—from 55 cents each plus 65 percent to $4.50 each plus 65 percent plus for each jewel 25 cents.
368 (a)	Mechanisms for measuring the flow of electricity.	Various according to value—from 27½cents each plus 33½ percent to $2.25 each plus 32½ percent.
	If containing jewels	12½ cents for each jewel.
372	Knitting machines for fully fashioned hosiery.	40 percent.
372	Other knitting machines	27½ percent.
372	Chocolate—confectionery machinery	Do.
396	Joiners' tools	45 percent.
397	Furniture of metal and wood	22½ percent.
718b	Herring, smoked, kippered, etc	10 percent.
751	Jams	Various—10 to 20 percent ad valorem.
763	Ryegrass seed	1½ cents per pound.
901	Cotton yarns—fine	Not bleached, 20 percent; bleached, etc., 25 percent.
904	Cotton piece goods—fine	Not bleached, etc., 27½ percent; bleached, 30 percent; printed, etc., 32 percent.
904a	Cotton cloth of counts exceeding 90—unbleached.	Mainly 27½ percent.
	Cotton cloth 86 and over—bleached	30 percent.
	Cotton cloth 86 and over—printed, dyed or colored.	Do.
	Woven with 2 or more colors—additional duty.	2½ percent.
920	Lace curtains	40 percent.
1007	Linen fire hose	19½ cents per pound plus 15 percent.
1009a	Woven fabrics of flax	40 percent.
1016	Plain linen handkerchiefs—hemmed	25 percent.
1105	Wool rags, waste, and shoddy	Rags 9 cents per pound; shoddy, 14 cents per pound; waste, probably 10½ cents per pound.
1008	Wool cloth weighing not more than 4 ounces per square yard.	37½ cents per pound plus 25 percent.
1109 (a)	Wool cloth weighing over 4 ounces per square yard.	Do.
1109 (b)	Industrial wool felts, belts, blankets, etc	37½ cents per pound plus 20 percent.
1301	Rayon tow	45 or 50 percent but not less than 40 cents per pound.
1302	Rayon staple	20 percent.
1409	Carbonizing tissues of 10 pound substance and over.	30 percent.
1410	Notebooks	25 percent.
1413	Paper serviettes	35 percent.
1513	Mechanical toys	70 percent.
1513	Rubber toys	50 percent.
1513	Parts of toys not specifically provided for (i. e., mechano parts).	70 percent.
1529	Embroidered linen articles	45 or 70 percent.
Various	Containers of cod-liver oil (the oil is duty free). Of marmalade jars	Various.

Moreover, from the standpoint of the economic interests of the United States and the tasks which confront it, tariff restrictions or trade policies either in the American economy or in the economies of friendly nations which limit the access of industry to the full resources available to the Western World are injurious to defense capacity. There should, therefore, be undertaken a serious appraisal and review of the trade restrictions which inhibit the capacity and expansion of American enterprise.

Even more important is the removal of cartel situations or restrictive private practices associated with such governmental restrictions. There are numerous raw materials which this country must import which are subject to cartel or trade restraints originating abroad. Others are subject to restrictive trade policies and tariffs originating here. Greater freedom of trade among the friendly nations defending free institutions would not only strengthen and broaden competition, but enable competition to do the basic job which it performs in advancing technology, production, and efficiency while contributing to economic stability and better distribution by holding or even lowering price levels.

Some aspects of the problem, which will be met in even larger proportions as the defense program progresses, are already visible. In a large number of the materials and products listed as scarce, or which are integral items of Government procurement, it is clear that monopolistic patterns, extreme concentration, noncompetitive price levels, and market domination by a few major producers constitute the prevailing circumstances which both defense and civilian policies must encounter. Not all scarcities stem from monopoly conditions, but the number is sufficiently large and in most cases of such basic nature and importance that improvement can come in such fields only by way of an expansion in the competitive behavior—and perhaps the competitive numbers, as well—of producers and markets.

If the defense program is contemplated as a long-term job, as it must be, then the conclusion follows that emergency considerations should not dominate policy, but should be a subsidiary part of a broader program which promotes rather than contracts the competitive capacities and behavior of the economy, firmly based on the understanding that the economic ability of the United States is largely dependent in the future upon the health of competition.

Experience in World War II revealed that many of the most acute and dangerous shortages which hindered our armament were the products of monopoly. In one field after another, cartels, combines, and monopoly groups were found responsible for scarcity. This was true in aluminum, natural and synthetic rubber, magnesium, many strategic chemicals and medicines, and even in certain types of necessary military equipment.[8]

Some of these situations have been corrected, but many more remain. A brief glance at the leading shortages in our economy today is sufficient to indicate that where monopoly still prevails, or has not been replaced by the vigor of competition, scarcity is chronic. This is true in copper, tin, cobalt, certain chemicals, and several other industries in which there are only one, or two, or a few producers.[9]

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[8] For complete documentation see Joseph Borkin and Charles A. Welsh, Germany's Master Plan, the Story of Industrial Offensive. Duell, Pearce and Sloan, 1942.

[9] For a brief list of some of the products which Government must procure from four or less producers, see Appendix 6.

Not all critical scarcities result from monopoly—but all such monopolies, especially in critical areas, do result in shortages of capacity, restricted output, and prices boosted to the limit that the traffic can bear. This has been spectacularly true of certain imports, notably rubber, tin, burlap, hides, copper, and newsprint. Our economic interests, like our strategic spheres of defense, lie in many cases far beyond our own borders. Monopoly conditions in tin, or in newsprint, or other industries which make the American people pay more than is necessary, or restrict output, or impose quotas are as weakening in their effects upon our economy as the loss of vital territories to the foes of democracy.

Friendly governments, as well as short-sighted groups in our own economy, must be made to realize that in the present circumstances, monopoly practices are positive injuries to the ability of the free world to attain that level of preparation which is necessary to survival.

Within our own country, the efforts of government to prevent and to remove, wherever found, restrictions upon our industrial capacity, upon technical advancement, and upon output must be continuous. Otherwise national security will be jeopardized.

Even in the narrow field of Government procurement, the impact of higher prices seems to have struck with unusual force. Why in general should the Government have to experience a considerably higher price rise from April of 1950 to October–November of 1950 than did the civilian economy? Such price increases cannot be justified on the ground that the goods purchased represented new items to which costly engineering and design outlays had to be charged. The large list of items on which price increases have twice been reported in the Congressional Record by Senator Lyndon Johnson [10] represent in all cases goods that were already being delivered in April of 1950.

Why then, to pick a few examples at random, should fuel oil f. o. b. tanker west coast rise 112.1 percent between April and October? Or three-conductor cables, 77.7 percent? Or radio sets, 45 percent (when they were a drug on the civilian market)? Or space heaters (50,000 B. t. u.), 39.5 percent? Or various types of cranes from 28.2 percent to 74.6 percent? Grease fitting kits, 240.6 percent? Rope wire, 100 percent? Dry batteries by amounts varying from 30.9 percent to 109.5 percent? Trailer mounts, 90 percent? Actuators, flash hider bearings, forearm screws, and rear assembly sights, 150 percent? Height finders, 38.9 percent? T–7A parachute assembly with reserve canopy, 51.7 percent? G–11 100-foot cargo chute, 39.8 percent? And scores of other items showing the same general type of abrupt price jumps?

What happened in so brief a space of time that items already in production in April of 1950 and being bought in larger amounts just a few months later should cost so much more? As is stated in a recent report from the Office of the Secretary of Defense—

> Normally, unit prices for many of the items now being procured by the Department of Defense would be expected to decline at this time because of large increases in the volume of procurement which should reduce manufacturing costs. The Air Force, for example, estimates that increases in the unit volume of the items it procures should have had the over-all effect of lowering manufacturing costs by roughly 20 to 25 percent between June 1950 and January 1951,yet average prices paid by the Air Force have not dropped at all during this period.

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[10] Congressional Record January 17, 1951, pp. 393–6, Military Procurement Prices Before and After the Attack on Korea.

> In some cases prices have risen markedly despite quantity orders. The Army, for example, is now paying $250,000 per unit for heavy antiaircraft guns, an increase of 56 percent over the pre-Korea price of $160,000 when smaller quantities were on order. In terms of the number of guns that can be procured with available funds, the effect of the inflationary price increases is almost the same as if half the guns on order had been destroyed by enemy action.[11]

Is there any significance in the fact that in many instances the number of suppliers was very small and in some cases only one or two? Such are the puzzling questions that clamor for objective documentation of fact and fearless action.

No service is rendered to this Nation if in mobilizing itself against an aggressive totalitarianism abroad it permits itself to be delivered to the mercies of monopolies and other forms of economic totalitarianism at home. The long period of sustained tension ahead but increases the necessity for alertness to preserve whatever competition can be preserved. The dangers of a garrison state increase, the longer the period of armed alert. Small business and free, private enterprise are usually the first major economic casualties of war mobilization programs because war inevitably involves the mass production of items used by the individual soldier and the highly specialized manufacture of gigantic ships, planes, tanks, and guns. Both sets of items are produced by large-scale business par excellence.

Moreover, inflation by its very operation brings communism. Evidence on this point was extensively presented in a document entitled, "The Economic and Political Hazards of an Inflationary Defense Economy," published by this Committee in February 1951.

In sum, all these facts but add emphasis to the importance of eternal vigilance lest vital economic freedoms be lost during the long period of watchful peace and sustained tension ahead. The necessity for alertness in detecting points at which the free, private competitive enterprise is being imperiled is greater than ever. To be sure, peril points to free enterprise are difficult to estimate, even in terms of the percent of output or of sales or of employment or of assets concentrated in the hands of one or a few firms. They are even more difficult to estimate in terms of other leverages equally strategic and vital such as political influence at State, local, and national capitals; direct and indirect controls over patents, raw materials, sources of credit, prices, and news channels; open and clandestine managerial, legal, and financial interrelationships; and many other mechanisms for the zoning and exercise of economic power now becoming apparent since the end of World War II in actions under the antitrust laws, in reports of numerous cartel and other economic investigations, and especially in the wealth of new information that is being yielded by the decennial census of population, manufactures, and commerce of 1949. But in the light of greatly increased responsibilities, continuous preparedness and continuous appraisal of the status of competition are urgently required for intelligent formulation of wise national policy.

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[11] For full statement and extensive table of price increases suffered by military procurement, see Appendix 4.

APPENDIXES

APPENDIX 1[1]

FUNDAMENTALS OF DEMOCRACY CONTRASTED WITH COMMUNISM

DEMOCRACY	COMMUNISM
Basic Creed	
Dignity and worth of each human being is supreme; society strives to afford each the greatest possible opportunity to reach his highest attainments.	Totalitarian state is supreme; each human being must serve the state as the state directs, regardless of his own welfare or judgment. Human beings are expendable.
Human Rights	
Because each individual is sacred, he has certain inalienable rights which democracy guarantees by law.	No one has guaranteed rights or freedoms. Everyone is subservient to 14 Politburo dictators and their agents.
Freedom of religion.	Church dominated by state.
Freedom of the Person	
No arrest without warrant; no arbitrary seizure of persons or property or search of homes; trial by an impartial jury guaranteed.	Arbitrary arrests; imprisonment without trial; secret police seize anyone, search any home; everyone watched by spies.
Other Freedoms	
Freedom to seek truth and secure accurate information in schools, universities, elsewhere.	State tells everyone what to believe; information available in schools and elsewhere is distorted to serve state purposes.
Free press and radio; free speech, freedom of assembly; freedom to form voluntary organizations.	State-controlled press and radio, persons criticizing government imprisoned; assembly only with government permission. No organizations free of state control.
Representative Government	
Free elections by secret ballot, several party candidates for each office, nominated in free party primary elections or conventions.	One-party "elections," single slate of candidates chosen by Communist Party officials.
Government by laws enacted by chosen representatives of people.	Government by decrees of dictators, without consent of people.

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[1] American Federation of Labor, Labor's Monthly Survey, January-February 1951, p. 3.

Economic Freedom

Anyone is free to start and run a business; any worker is free to choose and change jobs. Workers may organize free unions, employers may form trade associations.	State controls and operates all business; no free enterprise. State dictates worker's job and freezes him in job. Free unions and trade associations are prohibited.
Right to own property. Anyone may own a home, farm or business, and choose where he will live.	No one may own property. State owns all housing facilities, farms, businesses. State officials assign people to living quarters.
Right of contract. Employers fix terms of business by contract; workers determine wages and work conditions by collective bargaining and contract with employers.	State officials dictate all prices, terms of business, wages, work conditions. No person or group is free to contract with others on such matters.

Result

Democracy results in progress upward: High-living standards, opportunity, advancement through personal initiative and responsibility.	Communism levels people downward: Poverty, contempt for human beings, advancement depends on favors from state and party officials.
A vigorous, loyal, resourceful people who will defend freedom with all they have and help others to attain it.	A people seething with discontent, many ready to revolt, held in subjection by the secret police and Soviet army

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APPENDIX 2

JULY 18, 1950.

ECONOMIC PREPAREDNESS REQUIRES HIGHER TAXES

To: Members of the Joint Committee on the Economic Report.
From: Joseph C. O'Mahoney, chairman.
Subject: Has the Joint Economic Committee a function to perform in the present crisis?

In inviting the response of the members of the Joint Economic Committee to the query whether we should hold an executive session to discuss economic policy in the present world situation, I respectfully submit the following general observations. If the members of the committee feel that such a meeting would be helpful, I shall call it for Friday, July 21, at 10 a. m.

We know now that modern war is total war and that the nation that succeeds in modern warfare is the nation with the strongest economy, as well as the greatest military skill.

Success for the United States in the present international dilemma depends upon (1) the awareness of our people of the fact that Soviet Russia is the head and center of a world revolutionary movement which plans by force and deceit to destroy all rival governments; (2) the willingness of the American people to contribute their substance to pay the economic costs as well as the military costs of total warfare.

It has been the policy of the United States, and still is, to establish world peace. To this end it has contributed through the Marshall plan to the economic rehabilitation of Europe, and through the Truman policy to the containment of communism. By supporting Greece and Turkey and by promoting the Union of Democratic Nations through the North Atlantic Pact and the Western Hemisphere Pact, it has made the free nations of the world more able to resist aggression.

It is evident now that the Soviet Government, through the use of the veto in the United Nations, through the confusion it has sought to create by the activities of Communist party members everywhere, and through localized acts of aggression, such as those at Trieste and Berlin, now ripening into actual aggressive warfare in Korea with Soviet-trained soldiers and Soviet-built machinery, is determined not to permit the world to return to the ways of peace. The United

States must continue, through the United Nations, to mobilize the moral forces of the world against these aggressive tactics of Russia, but at the same time must launch an intensified program of military and economic preparedness.

The question which must be answered by all our people is how much we are willing to contribute of our personal economic resources to the winning of this struggle. We cannot hope to make the military effort successful without an all-out economic effort. We know now that the lessons of World War I were not used in preparation for World War II. We cannot afford to make the same mistake again of a soft approach to the hardest problem this Nation has ever faced.

When World War II began, the United States had a national debt of less than $49 billion; the national debt today is $257 billion. The debt has reached this proportion because we did not have a pay-as-you-go policy for the war. Only 45 percent of the money costs of that conflict was raised by taxes. The rest of it—55 percent—was postponed to the future through the issuance of bonds. Whatever new expenditures are undertaken now will have to be paid for either through taxes or through another increase in the national debt with consequent inflation. The Kremlin expects this country to take the easy way out, that is, to hold taxes down and to trust that somehow sometime in the future the debt will be paid. Russia is counting on us to bring about our own fiscal collapse by our failure to support necessary military outlays by increased taxes.

Congress is ready now to approve increased military expenditures. Such appropriations should be accompanied by a tax bill which will finance the expense without increasing the debt.

Fortunately, it will be much easier to do this than would at first appear. Military expenditure will increase production; production will increase the income of the people and a portion of this increased income turned into defense channels by a preparedness tax law would make it possible to avoid another increase of the national debt.

Higher taxes would have another beneficial effect. They would constitute an effective substitute for rigid economic controls. In World War II we kept the tax rates lower than they might have been. Rigid controls were therefore necessary though we were unwilling, in the use of controls, to freeze prices, wages, and profits across the board. Higher taxes now to meet the increased expenditures which everyone believes inevitable will reduce the money available for civilian purchases and will thus operate to divert industrial production from civilian commodities to military commodities. A preparedness tax bill would enable all the people to contribute the buying power necessary to finance the concentrated military production required for the preservation of the free world. For some time to come we as a people will have to be willing to buy fewer automobiles and more tanks.

At my request the staff has made a review of the present economic situation involving recommendations as follows:

(1) Balance the cash budget. Federal expenditures should be held to the minimum, particularly those not directly connected with military requirements and vital economic expansion. Once the expenditure program for the next fiscal year has been enacted, the Congress, after conservatively estimating the increased yield in taxes likely to result from increased levels of business activity, should increase governmental revenues by enough to balance the cash budget.

(2) Restore consumer credit control.

(3) Authorize allocation machinery for critically scarce materials.

(4) Implement through the United Nations the point 4 program and other measures providing not only for expanded technical, educational, and economic assistance, but for freer flow of goods, services, and capital, to every member of the family of nations seeking peace and freedom.

Furthermore, immediate administrative action should be taken (1) to contract credit for all activities that unduly compete with expanded armament effort; (2) to impound, insofar as possible, funds appropriated for nonvital postponable objectives; (3) to develop a program for private expansion of productive capacity of critical items such as steel; and (4) to encourage increased private savings, via sale of savings bonds.

I venture to suggest that this committee, with its background of economic information, can and should make its contribution to public understanding of the profound economic effects of the present acute situation.

I. REVIEW OF CURRENT ECONOMIC PRESSURES AND THE OUTLOOK

The current economic situation differs considerably from that which prevailed when war broke out in Europe in September 1939. Then the economy had a great deal of slack. Now employment, personal income, and consumption are at record levels.

In 1939, out of a total labor force of 55,600,000, about 9,000,000 were unemployed. Now the total labor force is about 66,000,000 and less than 3,500,000 are unemployed. Technological developments may be counted upon to increase production equivalent to adding a million persons to the labor force during the next 12 months. Another million, mostly young persons, will be available, many of whom are daily volunteering for the armed services. Hours of work can be increased. But the total amount of slack in the labor force is obviously less than half that of 10 years ago.

In 1939 the Federal Reserve Board Index of Industrial Production averaged 109 for the year and doubled within the next 5 years. In June of 1950 the index of industrial production stood at about 197. It reached 243 during the war. It could readily be increased from 5 percent to 7 percent, i. e., the index could reach a level of 210 without involving higher costs, uneconomic and submarginal plants, or additional costs necessary to overcome bottlenecks in production capacity. The one outstanding exception is steel, with copper, paper, and power possibly also bumping ceilings at an early date.

In 1939 disposable personal income amounted to about 70 billion dollars. Now it is more than 200 billion, and may approach the 210 billion level before the end of 1950. After adjustment is made for increases in population and prices, real per capita disposable personal income is up over 40 percent. Furthermore, consumers are buying more in relation to their incomes than they were in the prewar period. Additional employment and wages combined with military operations abroad might well cause consumers to bid up prices sharply.

In 1939 prices were comparatively low; agricultural prices in particular were substantially below a balanced relationship with other parts of the price structure. Price increases then raised both production and capacity. At boom levels such as now exist, price increases are simply inflationary and obstruct rather than increase balanced production.

In 1939 corporate profits after taxes were about $5 billion. They are now running at a rate of about $21 billion, after taxes. Profits are therefore well over four times the prewar level after allowing for the increase in tax burden.

Inventories of goods are in general about in balance. But widespread piling up of inventories by business, coupled with consumer hoarding, might well tighten up the situation to such an extent as to give manufacturers, wholesalers, and retailers strong incentive to aggravate inflationary pressures.

It is assumed in this statement that current police action in Korea represents not an emergency action, but rather the first in a continued series of localized encounters with Communist aggression. Relatively heavy military expenditures may for years to come be a steady proportion of governmental outlay and approximate 18 to 20 billion dollars, as compared with 13 at the present time. Can 5 to 7 billion dollars be added to current defense expenditures without inflation? As indicated above, the economy could quickly expand another 5 percent with existing labor force and capacity. Gross national product could rise from levels of $260 billion to $280 or $285 billion without serious inflation of costs, provided there be no panic buying by consumers, business, or the Government. A further general rise in prices is not only unwarranted but aids directly the strategy of the Kremlin. Lenin laid down as the first tactic in Communist overthrow of capitalism that of inciting inflation. Rumor mongers and speculators who boost prices are accomplices of Stalin. No more effective economic weapon can be found than the demonstration by this Nation of self-discipline and sacrifice in domestic commodity markets equal to that being shown on Korean battlefields.

II. FEDERAL FISCAL POLICY

Fiscal policy, under the circumstances, should be directed toward balancing the cash budget as nearly as practicable or feasible, thus contributing to economic stability and strength.

On the basis of present tax laws, on the basis of the expenditures implied in the pending appropriation bill as amended by the Senate Appropriations Committee, and on the basis of modestly expanding levels of national income, the cash budget of this Government may nearly be in balance. The "cash budget" as distinct from the "traditional budget" includes total receipts from all sources including trust accounts on the one hand, and all expenditures, including those from trust accounts, on the other hand. The Federal deficit on the traditional basis, excluding trust account operations, might be $2 billion. Existing programs approximate the conditions set forth by the Monetary, Credit, and Fiscal Policy Subcommittee in its report last January as requiring a cash surplus.

The Nation faces this question: Is the expected increase in defense expenditures of an emergency nature—one lasting only for a few months, or until the present Korean situation is terminated? Or, is an increased tempo of military activity more or less permanent—one likely to last for the foreseeable future as additional Communist aggressions develop in other parts of the world? If the former is the accepted assumption then the Government might well accept the resulting Government deficit as a temporary expedient. If, however, the latter is deemed more likely, then sound fiscal policy demands balancing the budget either through reducing expenditures in other areas or by increasing taxes, or a combination of the two.

One of the strongest instruments for stabilizing the economy at high production levels and preventing creeping inflation is the Government's fiscal program. Nothing can be gained through permitting price increases and inflation. Today there is little slack in our human and material resources. Further inflation will not produce extra output.

With fiscal policy one of the most expedient methods of preventing inflation, the Congress should make every use of it. This involves adhering to the criterion that the cash budget should, at the minimum, be balanced when economic activity is at its present tempo. Most careful scrutiny of Federal expenditure programs should again be made to find possible reductions that might offset to the largest possible extent the necessary increases in the military area. Once the expenditure program has been determined—after the pending appropriation bill becomes law and after the new requests for additional military authorizations are known—the Congress should increase taxes to the extent necessary to assure a balanced cash budget in the next fiscal year.

The tax structure should also be designed to make whatever contribution is possible toward the control of strategic materials and scarce manpower. There is now in effect a schedule of wartime excise taxes originally designed with this purpose in mind. To the extent that present necessities are similar to those prevailing at the time these taxes were designed, they are well and good. No need for change in them exists. It may be, on the other hand, that changed circumstances would dictate some change today in the list of particular articles subjected to "punitive" excises at an earlier date. The list of items included might, therefore, be subject to review but the principle of curtailing all uses of limited resources where they do not contribute to defense needs should be continued. This would suggest that the pending tax bill not be pressed until the expenditure program becomes known and that an automatic criterion of a balanced cash budget be the guiding principle in any tax legislation this session.

III. MONETARY POLICY

Tax measures designed to improve the balance of the budget must be accompanied by monetary action wherever possible.

Under the present circumstances of threatened inflation, the direction of the required monetary action is clear. The problem is (1) the willingness to use and (2) the effectiveness, if used, of the credit restrictive devices which might be brought into play. Ordinarily restrictive credit devices operate through interest rate channels and thereby influence business decisions. However, if the psychological pressures making for inflation are strong enough they may well outweigh the importance which businessmen and consumers attach to increased interest costs. To the extent that they do discourage borrowing, increased interest costs offer a useful device. To the extent that costs are disregarded in the rush of individuals and businessmen to make their own preparations for war, the restrictive effects of higher interest rates are nonexistent; only the cost effects to Government and defense construction are real.

The Federal Reserve System has several devices available to it for restricting credit. One of these is through its open-market operations.

Another restrictive device now available to the Federal Reserve System is the possibility of increasing requirements for member bank reserves. These requirements are now four percentage points or some 15 percent to 20 percent lower than their recent maxima.

The most effective control for the specific needs of diverting purchasing power from so-called "hard goods" is no longer available without congressional action.

The reenactment of authority for regulation W is a first and necessary step if consumer purchases of automobiles and household durables are to be curtailed.

In recent months it has been an accepted Government policy to encourage housing expansion. If defense needs require, the Government should reverse this policy, discouraging housing loans. This may be done by forcing larger down payments for approved mortgages, by increasing maximum rates on insured mortgages and by qualitative action through tighter appraisals standards.

IV. MANDATORY ALLOCATION OF MATERIALS

The economy is operating so near capacity in certain areas such as steel, electric power, and paper that any increase in demand in the Military Establishments must, of necessity, create a demand for vital materials in excess of the immediate supply. In addition to efforts to expand our capacity in these key items, efforts should be directed toward developing allocation programs for fair apportionment of these scarce materials among civilian uses. So far as military needs are concerned, the Draft Act provides the President with power to direct production priorities for the defense establishments. However, Congress will need to enact authority for the administration to cooperate with industry in establishing equitable allocations to prevent disruption of the civilian economy and rising prices.

APPENDIX 3

Selected cases where changes in legislation would result in economies [1]

SUMMARY OF ESTIMATED SAVING

[In millions]

	Fiscal year	
	1952	1953 and subsequent years
Military services	$360.5	$385.0
Finance, commerce, industry	24.0	24.0
Labor	.5	.5
Transportation and communication	396.0	600.0
Natural resources	----------	----------
Agriculture	61.0	186.0
Education	2.0	2.0
Social security, welfare, and health	159.0	159.0
Veterans	516.0	517.0
Interest	105.0	105.0
General	57.0	57.0
Total	1,681.0	2,035.5

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[1] The accompanying list is intended only as an illustration of what might be considered, not as a specific recommendation. Neither the committee nor any of its individual members or staff necessarily recommend, or favor, any of the specific proposals. In preparing the list the staff has, of course, not been in a position to hold hearings nor explore the individual items thoroughly with interested parties. In all cases "savings" are estimated and if any proposal were adopted, actual realization might be larger or smaller savings than those indicated.

Selected cases where changes in legislation would result in economies—Continued

Item	Proposal	Comments	Reference: budget pages	Estimated savings (in millions)	
				1952	1953 and subsequent years
MILITARY SERVICES					
1. Pensions: Members of the Armed Forces can in some instances retire after a specified amount of service, sometimes as little as 20 years. A man who gets out in his forties can often earn a good income in addition to his pension, toward which he contributed nothing.	For those below a specified age, say 60, who are not retired for physical disability, pensions might be reduced. Some pension may be necessary because of need for keeping Armed Forces young. If pensions of persons now retired are to be reduced, a requirement for reapplication for pensions woud be necessary.	Information not available on proportion of present total of $350,000,000 which goes to personnel below 60. Savings would be greater in later years. The Government is now incurring obligations for future payments at more than 2½ times current retired pay expenditures. Estimated that 10 percent of total could be saved.	612–13 (1951)	$35.0	$40.0
2. Reserves: Many members of reserves of armed forces who draw pay for reserve "training" and (if they attend enough meetings) become eligible for pensions are not really available for active duty because of age, essential occupations, or hardship.	Require discharge from the Reserves of all who become unavailable for duty.	Last year, pay for Reserve components was budgeted at $740,000,000. Pensions for Army and National Guard reservists were $85,000,000—Fleet Reserve was $42,000,000 (part of $350,000,000 of item 1). With larger Reserve components as a result of universal training and service, this total could probably not be reduced but would be kept from increasing so much as otherwise. 1952 saving estimated as amount of increase from 1950 to 1951. 1953 estimated larger because of growth of Reserves.	656, 697, 701, 751 (1951).	35.0	50.0
3. Hazard and incentive pay: Career Compensation Act of 1949 requires extra pay of $30 to $210 a month for flight pay and submarine duty, and of $50 a month for enlisted men and $100 a month for officers in observer duty in aircraft, glider duty, parachute jumping, demolition, and explosives duty, submarine escape tank training, and diving duty training. Enlisted men receive 10 percent extra for sea and foreign duty. Doctors receive $100 extra a month for volunteering. Act allows President to suspend in time of war but not in time of combat.	Abolish such extra payments. Recruiting situation is different now—the man who doesn't volunteer is drafted. No pay can adequately compensate for combat hazards and inequities are less without allowances.	In 1951, hazard pay about $145,000,000. Estimated savings include increased allowance for sea and foreign duty.		200.0	200.0

Selected cases where changes in legislation would result in economies—Continued

Item	Proposal	Comments	Reference: budget pages	Estimated savings (in millions)	
				1952	1953 and subsequent years
MILITARY SERVICES—continued					
4. Leave: Members of the Armed Forces are allowed 30 days' annual leave. They cannot be required to take leave involuntarily and so receive additional "leave" through time excused from duty and "proceed" time. Accumulation of 60 days' leave is allowed. Lump-sum payments are made for accumulated leave upon completion of an enlistment period.	Reduce the amount of leave allowed. Reduce the amount which can be accumulated. (Similar changes should be made for civilian employees.) Allow involuntary leave to be required. Charge to leave any period in excess of 48 hours when individual not on duty or hospitalized. (These last 2 proposals would not result in much in additional savings if the first 2 were adopted.)	Assuming 500,000 men complete enlistments annually with 30 days of accumulated leave and a base pay of $110, the annual cost is $55,000,000. This might be reduced as much as ½, that is ½ of 30 days' leave for 500,000 who complete enlistments at $110 base pay.	---------------	$27.0	$27.0
5. Medical care: (*a*) Retired military personnel and their dependents now receive medical care. (*b*) Dependents of members of Armed Forces receive free medical care when available. Since it is hard to discriminate, care is usually available.	(*a*) Discontinue care for all personnel retired for reasons other than physical disability and discontinue care for dependents of retired personnel. (*b*) Discontinue care for dependents except when they live on a military reservation.	6,175 patients per day (dependents plus 1,000 retired personnel) at $10 a day, $22,000,000. Save more than three-fourths of it.	641–42 (1951)-----	16.0	20.0
6. Deposits of enlisted personnel: The Armed Forces are required to accept deposits of personal funds of enlisted personnel and pay interest of 4 percent.	Eliminate these banking services, which are no longer necessary with the allotment system which makes savings possible.	Interest costs----------------------------	622, 697, 750 (1951).	2.0	2.0
7. Commissaries: "Operational losses" and operating expenses of sales to individuals are charged to regular appropriations.	Require prices which prevent losses and cover expenses. (See proposed sec. 628 on p. 760 eliminated on a point of order.)	--	760 (1951)--------	----------	----------
8. Date of rank: Effective date of increased pay for higher ranks can be date of eligibility rather than date of order.	Limit date of pay to date of order. (See proposed sec. 630.)	--	760 (1951)--------	----------	----------
9. Post exchanges, etc.: Expenses of military personnel in exchanges and some other expenses are charged to appropriations.	Require post exchanges, theaters, and other revenue-producing activities to pay all direct expenses. (See proposed sec. 620.)	Estimated------------------------------	759 (1951)--------	5.0	5.0
10. Uniforms: Uniforms are considered personal property and are retained by the discharged individual.	Require that, except for items needed for wear on return home, outer uniform clothing be turned in prior to separation. Declare that clothing purchased by personnel under a monetary clothing allowance system be considered Government property.	Recapture and re-issue of uniforms for Armed Forces of 3.5 million.	---------------	40.0	40.0

11. Selective service records: Records concerning registrants under 1940 Selective Service Act must be retained.	Require that bulk of records be destroyed, retaining only those with archival value.		108 (1951)	0.5	1.0
Total, military services				360.5	385.0
FINANCE, COMMERCE, AND INDUSTRY					
12. Federal Reserve administrative expenses: The Federal Government has almost all incidents of ownership of the Federal Reserve System except budgetary control—getting all assets except the original private investment in event of liquidations. System charges Government for services as fiscal agent, with costs varying substantially among different banks.	A budgetary limitation similar to that on FDIC could be placed on system without affecting its policy independence.	Saving of charges as fiscal agent to Treasury, RFC, etc.	801 (1952)	3.0	3.0
13. Federal Reserve earnings: Until 1933 System paid franchise tax of 90 percent of net earnings after payment of 6 percent dividend to banks. Since 1947 System has voluntarily paid the equivalent of this to avoid its reimposition by statute. Full earnings would belong to Government upon liquidation.	Enactment of an unspecified franchise tax. Since surplus and reserves are now 3 times as high as capital stock and are ample to cover risks in holding portfolio of Government securities, Government should get full earnings currently.	1951 payment of 90 percent of earnings about $150,000,000 increase in receipts.	A14 (1951)	16.0	16.0
14. Patent fees: Fees are set by statute. Except during past decade, policy of Congress has been to have fees approximate costs of Patent Office. Fees are small percentage of total costs of filing for patents.	Direct Secretary of Commerce to fix schedule of patent and trade-mark fees to permit office to operate on self-sustaining basis, giving due consideration to incentives for invention, examination expenses, and ability to pay in setting individual rates.	Expenditures less receipts equals present deficit (amount is increase in receipts).	485, 517 (1952)	5.0	5.0
Total, Finance, Commerce, and Industry.				24.0	24.0
LABOR					
15. NLRB elections: Law requires Government to hold elections before unions can bargain for a union shop. Requirement has proved to be red tape since unions win 95 percent of the time.	Repeal requirement	Between ¼ and 1 million dollars annually.	105 (1951)	0.5	0.5
Total, labor				.5	.5

Selected cases where changes in legislation would result in economies—Continued

Item	Proposal	Comments	Reference: budget pages	Estimated savings (in millions)	
				1952	1953 and subsequent years
TRANSPORTATION AND COMMUNICATION					
16. Merchant marine: Subsidies are now paid for construction and operation. Foreign-aid recipients are required to use United States bottoms for half of shipments (increasing cost to United States). In addition, special tax concessions are granted.	Remove tax privileges and study whole system of subsidies.	Savings could not be immediate unless contracts canceled. Ship construction now being started for Government account rather than for sale. Operating subsidies—$59,000,000, $35,000,000 from 1952 funds. Construction subsidies in 1951 budgeted at $35,000,000. Sold 25 percent down, balance at 3½ percent for 20 years. Profits of 10 percent on capital guaranteed. 45 percent of costs subsidized. Savings estimated as part of operating subsidies, probably increased in 1953 because of better business—more contracts canceled.	M33, 512 (1952), 122-3 (1951).	----------	$35.0
17. Aviation subsidies: Airmail payments are now set by CAB to cover airline losses, regardless of cost of carrying mail. Consequently, exact cost of subsidies not known.	Separate subsidy payments from postal payments, allowing better analysis of subsidies.	Subsidies probably total about $100,000,000 annually. Estimated savings probably 10 percent of present total.	M34 (1952)------	----------	10.0
18. Federal-aid highways: Basic authorizing legislation is in form of contract authorization and apportionment to States are required. About ¼ of total Federal expenditures are for secondary roads.	Eliminate contract authorization and compulsory apportionments, putting program under control of appropriations process.	Total program now costs about $500,000,000 annually. Saving estimated at approximate amount for secondary roads. Would require canceling of contracts for any saving in 1952.	486, 519 (1952)----	----------	140.0
19. Truck weights: No Federal regulation of allowable truck weights now exists. As a result, highways do not last as long as they are supposed to.	Make State eligibility for grants for highways dependent on strict enforcement of maximum weights prescribed by Federal Government.	Highways will not need replacing as often. No estimate for 1952-53.	----------------	----------	----------
20. Postal deficit: Postal rates have not kept even with changes in costs of salaries and transportation. Substantial subsidies are involved to periodicals and mail-order houses.	Raise rates, preferably by giving President authority to set rates to reduce deficit to amount representing services to Government (airline subsidies would be separated).	Probably would be more in 1953 but no basis for estimate.	M36 (1952)------	$361.0	380.0

21. River and harbor works—user charges: There is now no basis for charging users of river and harbors improvements to recover at least part of costs. Consequently, yachtsmen and shippers enjoy a subsidy.	Institute user charges	Operation and maintenance will be about $67,000,000 in 1952, construction about $135,000,000. Recovery estimated at about ½ of operating cost.	552 (1952)	35.0	35.0
Total, transportation and communication.				396.0	600.0
NATURAL RESOURCES					
22. Water resources: With few exceptions, there is now no legal basis for sharing costs of projects of primarily local value with State and local governments.	Adopt proposals of Water Resources Policy Commission for State and local participation in projects.	This would not only reduce the Federal share but would also reduce local pressures for many projects. Savings would come on projects not now begun. No estimate for 1952–53.			
23. Project authorizations: Water resources and other public works projects are now authorized far in advance of construction. Money is spent for planning, although planning must be re-done if enough time elapses to allow cost changes.	Do not authorize any projects which are not to be built during this emergency period.	No estimate for 1952–53			
AGRICULTURE					
24. *Price supports:* Mandatory price supports at fixed percentages of parity are now required on cotton, wheat, corn, tobacco, rice, and peanuts. This makes costly acreage restrictions with compliance payments necessary to prevent overproduction at artificially high prices. It also leads to necessity of constructing storage facilities for overproduced crops. In order to prevent complete imbalances in production, it may force price supports for other commodities. Because high-priced commodities cannot compete in foreign trade, it leads to subsidies for export of wheat under the International Wheat Agreement or increases the cost of foreign aid.	Abandon mandatory supports at high levels. This would allow reduction of some other supports and would permit encouragement of types of production needed.	Savings depend on general economic conditions. Construction of storage facilities costs $25,000,000. International Wheat Agreement costs $115,000,000. Acreage allotments and marketing quotas cost $24,000,000.	349, 351 (wheat), 402 (acreage), 435 (storage).	24.0	24.0
25. Conservation and use of agricultural land: Soil Conservation and Domestic Allotment Act of 1936 authorizes Nation-wide program of payment to farmers for conservation practices such as contour plowing and use of lime. Appropriation acts authorize use of funds to formulate program for current crop year with payments for conservation practices to be made from appropriations of following year.	Repeal authority for program. Provide instead authority for selective payments by Soil Conservation Service in connection with expanded program of technical advice and assistance to soil conservation districts.	Conservation and use costs $304,000,000 (including administrative expenses accounts). Soil Conservation Service costs $56,000,000. Saving estimated at somewhat less than half of present program cost.	347 (1952)		125.0

Selected cases where changes in legislation would result in economies—Continued

Item	Proposal	Comments	Reference: budget pages	Estimated savings (in millions)	
				1952	1953 and subsequent years
AGRICULTURE—continued					
26. Removal of surplus agricultural commodities: Permanent indefinite appropriation of 30 percent of customs duties (act of Aug. 24, 1935). Amount is unrelated to needs and increases during prosperity with greater imports.	Repeal permanent appropriation. General authority for price support and surplus disposal would remain in CCC.	Savings depend on general economic conditions. Estimated at half present program.	349, 405 (1952)	$37.0	$37.0
Total, agriculture				61.0	186.0
EDUCATION					
27. Vocational education: A permanent appropriation of 7.5 million requires use of money for training salesmen, etc. rather than for needed defense workers.	Repeal permanent appropriation, putting under annual review. Repeal allotments by categories of training.	About ⅓ of present permanent appropriation is for distributive trades.	199 (1952)	2.0	2.0
Total, education				2.0	2.0
SOCIAL SECURITY, WELFARE, AND HEALTH					
28. Public assistance: The Social Security Act of 1950 requires that the Federal Government pay 75 percent of first $20, 50 percent of next $10, 33⅓ percent of next $5 for old-age assistance. Maximum Federal payments per individual are $50.	Two basic types of revision are possible: (1) Revision of financial participation: (*a*) Drop the matching maximum per individual. (*b*) Change the formula to that of 1946–48 (⅔ of first $15 and ½ of balance to maximum of $45) or, gradually, to the 50–50 matching that prevailed before 1946. (2) Stricter definition of eligibility: (*a*) Deduct other income from Federal matching maximum. Now if recipient has $50 income and gets $50 assistance, Federal payment is $30. (*b*) Provide no Federal matching for recipients of OASI, veterans' or other Government pension. Revisions such as these need not change the payments to individuals if the States assume a larger share of the payments.		227 (1952)	100.0	100.0

29. Railroad retirement transfer: Unlike the OASI, where amounts equal to pay-roll tax receipts are put in the trust fund, a specific appropriation of the estimated receipts from railroad payroll taxes is paid in advance of tax collection. The fund thus collects interest on this advance payment. The estimate is often high. This excess is made up by reducing the appropriation the following year but the interest paid on the excess is never recovered.	Change the annual specific appropriation to a permanent indefinite appropriation.	Interest on advance and excess payments amounts to about $1,000,000 annually.	120 (1952)	1.0	1.0
30. Railroad-retirement military service credits: Public Law 141, 81st Cong. requires transfers of $33,000,000 annually until 1954 for military services credits of railroad workers. The total amount is probably unnecessary because many workers will never become eligible and others will not need the military service credits.	Stop further payments or recapture past payments. Transfer funds as needed when claims mature.	Cost of further payments plus cost of interest for all years until claims mature.	120 (1952)	33.0	33.0
31. FSA grants: Grants for hospitals, vocational education, venereal disease, health assistance, etc., now are on a formula basis. Thus emergency needs require additional appropriations.	Amend grant laws to allow flexibility in allotments to give proper emphasis to critical defense areas and for special defense purpose. (See H. R. 9914 on local health, 81st Cong.)	Estimated amount for hospitals, schools, etc. that might be diverted.		25.0	25.0
Total, social security, welfare, and health.				159.0	159.0
VETERANS					
32. Hospitalization: A veteran of any war unable to pay for hospitalization shall be furnished care within the limits of facilities, regardless of the service connection of the ailment (38 U. S. C. 706). ⅔ of patients have non-service-connected ailments. Test of ability to pay is a statement by the veteran which the administrator cannot question.	Establish an objective means test	Medical program (excluding construction) costs $650,000,000.	83, 129 (1952)	100.0	100.0
33. Hospital construction: Over $500,000,000 of authorizations to construct veterans' hospitals are unobligated. There are already enough hospitals for service-connected ailments and will be more when present construction is completed. Doctors are not available to staff hospitals.	Rescind the authorization	Would reduce expenditures in later years	133–4 (1952)		
34. Dental care: Veterans who had cavities filled during military service are considered to have a service-connected ailment entitling them to lifetime dental care.	Eliminate dental care after specified period after discharge.	Total budget provides for 325,000 examinations in VA facilities and 208,000 by private dentists; for 83,000 treatments in VA facilities and 355,000 by private dentists. Saving estimated.	129 (1952)	5.0	5.0

Selected cases where changes in legislation would result in economies—Continued

Item	Proposal	Comments	Reference: budget pages	Estimated savings (in millions)	
				1952	1953 and subsequent years
VETERANS—continued					
35. Pensions: No limitations on income are required for veterans of the Spanish-American War. For World War I veterans, full pensions are allowed with incomes of up to $1,000 a year for single men and $2,500 for those with dependents. Government insurance payments, veterans' bonus payments, and Federal and municipal overtime pay are not included in the definition of income. (With increased social security, these exclusions are important.) Veterans over 65 with a 10 percent disability are considered totally and permanently disabled for pension purposes.	Establish income limitations for all veterans. Redefine income concept. Reduce pensions as income approaches limits. Do not allow presumption of total disability with less than 40 percent disability.	Total cost of pensions is $600,000,000. Estimated saving 10 percent of total.	132 (1952)	$60.0	$60.0
36. On the farm training: Under the Servicemen's Readjustment Act of 1944, veterans can receive subsistence payments for on-the-job training on farms. The amount of their monthly payments is determined on the basis of that portion of their yearly income attributed to their labor, excluding the portion attributed to their capital investment	The value of this training is doubtful. Short of eliminating it, determine amount of subsistence payments on basis of total income.	265,000 veterans will get payments of about $1,000 each, or $265,000,000.	132 (1952)	265.0	265.0
37. Interest gratuities on mortgages: VA now pays first year interest cost on all mortgages it insures. This gratuity is usually deducted from the principal, so that the veterans' cash outlay is not reduced in the year he purchases a house. However, he can make an income tax deduction for the amount.	Abolish gratuity	Total program	132 (1952)	76.0	76.0

38. Burials: In addition to offering to bury any veteran, his wife, minor children, or unmarried, widowed or divorced daughter, the Government will contribute $150 to burial expenses of any veteran in a non-Federal cemetery, regardless of financial need, cause of death or number of years that have elapsed since service.	Abolish payments for burial of veterans who do not die of service-connected causes or in VA facilities.	About $10,000,000 a year (from Veterans' Miscellaneous Benefits). Savings will be higher in later years.	136 (1952)	10.0	10.0
Total, veterans				516.0	517.0
INTEREST					
39. Interest on special issues: While rates on OASI and unemployment trust funds are set by law at public debt average, those for railroad retirement are set by law at 3 percent. Other funds receive interest at administratively determined rates, up to 4 percent.	Set all rates at average for public debt, except for postal-savings deposits.		827 (1952)	40.0	40.0
40. Postal savings deposits: Interest is paid at 2 percent, unchanged since 1908.	Set at prevailing rates on short-term borrowing. (See H. R. 6456, 81st Cong.)		827 (1952)	15.0	15.0
41. Interest on refunds: Law specifies rate of 6 percent. This may tempt some to overpay. This is same as rate paid on taxes paid late.	Reduce to average for public debt. Taxes paid late should pay a penalty rate.	Total at 6 percent rate is now about $92,000,000.	789, 791 (1952)	50.0	50.0
Total, interest				105	105
GENERAL					
42. Government corporations and business enterprises: All Government corporations are not now required to keep on a self-sustaining basis over the long run, including full interest on the Government's investment and share of civil service retirement and employees compensation. RFC recently raised interest rates to meet congressional requirement.	Require charges for services and interest rates to be sufficient to cover costs. Would affect chiefly RFA and TVA. Recommended by GAO.	Rates on outstanding loans cannot be changed. Some corporations now charge enough.	413 (1952)	7.0	7.0
43. Procurement: (*a*) Laws now require that most Government purchases be in United States. (*b*) Minor purchases cost more in paper work than the cost of the article.	(*a*) Remove "Buy American" restrictions. (*b*) Authorize petty cash accounts for minor purchases.				
44. Annual leave: 26 days' annual leave or 5 weeks is now allowed. This can be accumulated up to 60 days, except for Whitten rider.	Reduce annual leave, perhaps relating it to length of service. Reduce amount which can be accumulated.	Savings result from smaller lump-sum payments upon discharge or resignation, smaller staff or less overtime.		50.0	50.0
Total, general				57.0	57.0

APPENDIX 4

THE DEFENSE PROCUREMENT DOLLAR

As measured by the Bureau of Labor Statistics' Wholesale Price Index, wholesale prices today are 20 percent higher than in April 1950 and more than 14 percent higher than prices at the time of the Korean invasion. Despite the existence of price control, prices have risen by more than 1 percent during the past month and it has been predicted by the Director of the Office of Price Stabilization that prices will rise by an additional "5 or 6 percent, or even more" by midsummer of 1951.

Commodities and services of a strictly military nature purchased by the Department of Defense are not covered by price regulations, but civilian-type commodities such as food, shoes, textiles, etc., are subject to such regulations. During the past few months, the costs of virtually all items purchased by the Department of Defense have increased, and further general increases appear to be in the offing. This applies to both items covered by price control and those items exempt from such control, since in both groups of commodities there are many cases in which increases in basic costs have not yet been reflected in the prices of finished commodities. The upward pressure on prices will be accentuated by the additional wage increases that are taking place.

Normally, unit prices for many of the items now being procured by the Department of Defense would be expected to decline at this time because of large increases in the volume of procurement which should reduce manufacturing costs. In an increasing number of instances, however, part or all of the economies of larger scale production are being lost as a result of increases in direct manufacturing costs, principally labor and raw material costs. The Air Force, for example, estimates that increases in the unit volume of the items it procures should have had the over-all effect of lowering manufacturing costs by roughly 20 to 25 percent between June 1950 and January 1951, yet average prices paid by the Air Force have not dropped at all during this period. The Air Force estimates, therefore, that its true procurement costs have risen by close to 25 percent. In some cases, prices have risen markedly despite quantity orders. The Army, for example, is now paying $250,000 per unit for heavy antiaircraft guns, an increase of 56 percent over the pre-Korea price of $160,000 per gun when smaller quantities were on order. In terms of the number of guns that can be procured with available funds, the effect of inflationary price increases is almost the same as if half the guns on order had been destroyed by enemy action.

Every effort is being made by the Department of Defense to reduce costs and cut down on the need for critical raw materials by revision and simplification of specifications. For example, specifications for military blankets have been changed from 100 percent virgin wool to only 65 percent virgin wool, with the balance reprocessed and reused wool. Despite this reduction in quality, blanket prices, like all wool product prices, have risen alarmingly. The most recent procurement of blankets under the new specifications was made about a month ago, when 780,000 blankets were purchased at $16.54 each. This represents a 125 percent increase over the price of the last sizable procurement of 100 percent virgin wool blankets.

It must be recognized that it is difficult to compare prices at different times for much of the materiel procured by the armed services because of changes in quantities involved, changes in specifications, changes in manufacturing methods and processing techniques, resort to marginal producers or methods, tooling costs, existence of price redetermination clauses in contracts, etc. Direct price comparisons can best be made on relatively standard-type items that are subject to little change in specifications. Such a list of items, indicating procurement prices applicable to each of the services and to the Armed Services Petroleum Purchasing Agency, is contained in the attached table. While these items account for only a relatively small part of the total amount of defense procurement and their price changes do not represent an exact index to over-all procurement prices, the almost uniformly upward price trends shown by these items serve to illustrate the serious decline in the purchasing power of the defense dollar that has taken place during the past year.—Progress Reports and Statistics, Office of Secretary of Defense, March 5, 1951.

Military procurement prices before and after the attack on Korea (April 1950, August to September 1950, October to November 1950, and January to February 1951)

Commodity	Unit	Price				Percent increase or decrease (−)				
						From April 1950 to—			From August to September 1950 to—	
		April 1950	August to September 1950	October to November 1950	January to February 1951	August to September	October to November	January to February	October to November	January to February
A. S. P. P. A.:										
Fuel oil, f. o. b. tanker:										
West coast	Barrel	$0.99	$1.53	[1] $2.10	$2.18	54.5	112.1	120.2	37.3	42.5
Caribbean	do	1.70	1.83	[1] 1.92	1.92	7.6	12.9	12.9	4.9	4.9
Motor gasoline, f. o. b. tanker:										
West coast	do	3.90	4.38	[1] 4.59	4.55	12.3	17.7	16.7	4.8	3.9
United States Gulf	do	3.59	3.82	[1] 4.30	4.30	6.4	19.8	19.8	12.6	12.6
Diesel fuel, f. o. b. tanker:										
West coast	do	3.33	3.28	[1] 3.65	3.70	−1.5	9.6	11.1	11.3	12.8
United States Gulf	do	2.92	3.36	[1] 3.36	3.45	15.1	15.1	18.2	----------	2.7
Army:										
Ambulance, metropolitan, ¾-ton, 4 x 2	Each	3,774.20	(2)	4,224.20	4,391.27	----------	11.9	16.3	----------	----------
Automobile, sedan, light	do	1,132.00	1,284.00	(2)	1,330.42	13.4	----------	17.5	----------	3.6
Truck:										
Pick-up ½-ton, 4 x 2	do	952.62	(2)	1,131.29	1,154.41	----------	18.8	21.2	----------	----------
Stake and platform, 1½-ton, 4 x 2	do	1,471.77	(2)	1,777.00	1,977.37	----------	20.7	34.4	----------	----------
Water tank trailer, 1-ton	do	793.17	914.76	(2)	[3] 1,167.00	15.3	----------	47.1	----------	27.6
Battery:										
2–E	do	9.15	11.53	(2)	12.11	26.0	----------	32.3	----------	5.0
2–H	do	12.55	14.58	(2)	17.06	16.2	----------	35.9	----------	17.0
3–H	do	11.21	15.84	(2)	14.09	14.3	----------	25.7	----------	−11.0
Tire:										
6.50 x 20, 8-ply	do	16.14	20.46	(2)	22.51	26.8	----------	39.5	----------	10.0
7.50 x 20	do	23.99	28.93	33.18	36.74	20.6	38.3	53.1	14.7	27.0
Bearing bushing	do	.79	1.38	(2)	[3] 1.56	74.7	----------	97.5	----------	13.0
Gasket set	do	.0849	.12757	(2)	.151	50.3	----------	77.9	----------	18.4
Wiring harness	do	3.12	4.14	(2)	[3] 4.68	32.7	----------	50.0	----------	13.0
Fuel tank	do	9.15	12.75	(2)	[3] 14.41	39.3	----------	57.5	----------	13.0
Sprocket	do	15.00	18.45	(2)	13.26	23.0	----------	21.7	----------	−1.0
Nut	do	.01265	.0146	(2)	[3] .016	15.4	----------	26.5	----------	9.6
Battery assembly hanger	do	2.95	3.43	(2)	3.38	16.3	----------	14.6	----------	−1.5
Flange transfer brace drum	do	1.72	1.99	(2)	[3] 2.25	15.7	----------	30.8	----------	13.1
Filter oil breather	do	1.80	1.95	(2)	1.50	8.3	----------	−16.7	----------	−23.1

See footnotes at end of table, p. 101.

Military procurement prices before and after the attack on Korea (April 1950, August to September 1950, October to November 1950, and January to February 1951)—Continued

Commodity	Unit	Price				Percent increase or decrease (−)				
						From April 1950 to—			From August to September 1950 to—	
		April 1950	August to September 1950	October to November 1950	January to February 1951	August to September	October to November	January to February	October to November	January to February
Army—Continued										
Carriage bolts	Barrel	$0.0135	$0.01533	(2)	[3] $0.017	13.6	----------	25.9	----------	10.9
Steering knuckle assembly	do	15.84	19.9368	(2)	21.00	25.9	----------	32.6	----------	5.3
Shaft (automotive)	do	22.77	24.74	(2)	31.17	8.7	----------	36.9	----------	26.0
Hood support	do	.77	.83	(2)	[3] .94	7.8	----------	22.1	----------	13.3
Roller bearing	do	11.80	12.39	(2)	[3] 14.00	5.0	----------	18.6	----------	13.0
Carburetor assembly	do	22.709	23.7115	(2)	26.08	4.4	----------	14.8	----------	10.0
Steering arm	do	7.8178	8.316	(2)	8.73	6.4	----------	11.7	----------	5.0
Generator	do	52.63	55.75	(2)	[3] 63.00	5.9	----------	19.7	----------	13.0
Lumber:										
Southern pine, No. 2 common	M board feet	66.00	97.00	$72.00	76.00	47.0	9.1	15.2	−25.8	−21.6
Douglas fir	do	67.50	82.50	[3] 82.50	87.20	22.2	22.2	29.2	----------	5.7
Bailey bridges	Each	37,796.00	51,792.00	[3] 51,792.00	55;874.00	37.0	37.0	47.8	----------	7.9
Fire hose, cotton, rubber-lined	50 feet	20.64	23.10	[3] 23.10	25.53	11.9	11.9	23.7	----------	10.5
Astrolabe	Each	1,200.00	1,311.00	[3] 1,311.00	1,200.00	9.2	9.2	----------	----------	−8.5
Beach tractor	do	10,188.00	10,840.00	[3] 10,840.00	11,190.00	6.4	6.4	9.8	----------	3.2
Storage battery	do	9.07	10.74	[3] 10.74	11.99	18.4	18.4	32.2	----------	11.6
Wire rope	Foot	.1329	.164	[3] .164	.164	23.4	23.4	23.4	----------	----------
20-ton trailer	Each	3,287.00	3,540.00	[3] 3,540.00	[3] 3,540.00	8.0	8.0	8.0	----------	----------
Shop bench	do	215.00	270.00	[3] 270.00	132.54	25.6	25.6	−38.4	----------	−50.9
Road roller	do	5,345.00	5,735.00	[3] 5,735.00	6,580.00	7.3	7.3	23.2	----------	14.7
Motor lead cable	Foot	.044	.057	[3] .057	.07	29.5	29.5	59.1	----------	22.8
Barbed wire	Spool	6.39	7.25	[3] 7.25	6.50	13.4	13.4	1.7	----------	−10.3
Sisal rope	Foot	.03841	.0456	[3] .0456	[3] .05	18.7	18.7	30.2	----------	9.6
Cable, 3-conductor	do	.0355	(2)	[3] .063	.27	----------	77.7	660.6	----------	----------
Chest drafting set No. 8	Each	68.50	(2)	95.00	96.00	----------	38.7	40.1	----------	----------
Wire, magnet:										
No. 28 AWG	Pound	.47	(2)	.625	.722	----------	33.0	53.6	----------	----------
No. 27 AWG	do	.45	(2)	.63	.63	----------	40.0	40.0	----------	----------
No. 25 AWG	do	.42	(2)	.57	.62	----------	35.8	47.6	----------	----------
Fire extinguisher	Each	36.86	37.98	[3] 37.98	37.98	3.0	3.0	3.0	----------	----------
Antenna equipment, RC-292	do	134.88	144.88	(2)	[3] 181.00	7.4	----------	34.2	----------	24.9
Switchbox, BC-658	do	10.05	12.04	(2)	11.50	19.8	----------	14.4	----------	−4.5
Field wire, WD-1/TT	Mile	58.02	68.17	74.03	79.40	17.5	27.6	36.8	8.6	16.5
Communications equipment, AN/GRC-26	Each	11,353.91	(2)	12,364.03	[3] 15,000.00	----------	8.9	32.1	----------	----------

Radio set:										
AN/PRC-10	do	263.88	(2)	382.50	[3] 425.00	----------	45.0	61.1	----------	----------
SCR-399	do	5,080.92	(2)	5,901.66	(2)	----------	16.2	----------	----------	----------
Battery, BA-70	do	5.01	(2)	5.66	5.40	----------	13.0	7.8	----------	----------
Broom, corn	Dozen	11.25	12.53	12.53	14.44	11.4	11.4	28.4	----------	15.2
Steel wool	Pound	.218	.265	.3407	[3] .3509	21.6	56.3	61.0	28.6	32.4
Soap powder, hand scouring	do	.09	.1201	.1235	[3] .1269	33.4	37.2	41.0	2.8	5.7
Mop, cotton	Each	.4675	.5875	[3] .75	.75	25.7	60.4	60.4	27.7	27.7
Burlap, jute, 40-inch	Yard	.1711	.2325	[3] .31	.345	35.9	81.2	101.6	33.3	48.4
Sack, burlap, 57 by 50 inches	Each	.417	.5823	[3] .756	[3] .864	39.6	81.3	107.2	29.8	48.4
Dishwashing, machine model 180DA	do	1,454.52	1,554.00	[3] 1,629.06	1,783.00	6.8	12.0	22.6	4.8	14.7
Paper, typewriter, bond	Ream	6.435	8.36	[3] 9.65	[3] 10.073	29.9	50.0	56.5	15.4	20.5
Barrier, waterproof:										
Type C-1	Roll	4.16	4.90	[3] 5.22	6.55	17.8	25.5	57.5	6.5	33.7
Type L-2	do	11.06	11.80	[3] 13.88	[3] 16.79	6.7	25.5	51.8	17.6	42.3
Type M	do	7.45	8.53	[3] 9.35	[3] 11.31	14.5	25.5	51.8	9.6	32.6
Box, fiber, shipping	Each	.82771	1.241	[3] 1.283	[3] 1.3243	49.9	55.0	60.0	3.4	6.7
Drawers, cotton, shorts, white	Pair	.4233	.5246	[3] .555	[3] .59	23.9	31.1	39.4	5.8	12.5
Cut, make and trim:										
Trousers, cotton, khaki	do	.74	.86	[3] .968	.882	16.2	30.8	19.1	12.6	2.6
Shirt, stand-up collar	Each	.588	(2)	.769	.832	----------	30.8	41.5	----------	----------
Socks, wool, cushion sole	Pair	[3] .575	.635	.681	[3] .84	10.4	18.6	46.1	7.2	32.3
Cloth:										
Cotton:										
Twill, 5-ounce	Yard	1.27	1.555	1.64222	2.035	22.4	29.3	60.2	5.6	30.9
Chambray, 3-ounce	do	.39	.44	.4697	[3] .5819	12.8	20.4	49.2	6.8	32.2
Wool:										
Lining, 12-ounce	do	1.65	2.05	[3] 2.307	[3] 2.78	24.2	39.8	68.5	12.5	35.6
Serge, 15-ounce	do	3.595	4.555	[3] 5.026	[3] 6.62	26.7	39.8	84.1	10.3	45.3
Serge, 12-ounce	do	3.63	4.463	[3] 5.075	6.69	22.9	39.8	84.3	13.7	49.9
Lining, 15-ounce	do	1.78	2.247	2.488	3.00	26.2	39.8	68.5	10.7	33.5
Serge, 18-ounce	do	3.8176	4.890	[3] 5.337	8.556	28.1	39.8	124.1	10.0	75.0
Pile	do	4.90	6.274	[3] 6.850	8.71	28.0	39.8	77.8	9.2	38.8
Webbing, cotton, 1-inch	do	.0413	.059	.0598	.074	42.9	44.8	79.2	1.4	25.4
Shoes, low quarter	Pair	3.7364	(2)	4.910	[3] 5.98	----------	31.4	60.0	----------	----------
Boots, service, combat	do	5.720	(2)	8.148	10.906	----------	42.4	90.7	----------	----------
Drawers, winter, M-40	do	3.020	(2)	3.577	[3] 4.50	----------	18.4	49.0	----------	----------
Undershirts, winter, M-50	Each	2.740	(2)	3.291	[3] 4.135	----------	20.1	50.9	----------	----------
Box and sleeve, shipping, fiber	Set	1.5996	1.6794	[3] 1.90	[3] 2.559	13.3	18.8	60.0	13.1	52.4
Gasoline drum, 5-gallon	Each	1.7891	1.9791	[4] 1.79	1.964	10.6	.1	9.8	−9.6	−.8
Bacon, smoked	Pound	.38	.4875	[5] .4352	.4284	28.3	14.5	12.7	−10.7	−12.1
Beef, boneless	do	.6438	.6718	[5] .6209	.7902	4.3	−3.6	22.7	−7.6	17.6
Beef, carcass	do	.4602	.4741	[5] .4651	.5209	3.0	1.1	13.2	−1.9	9.9
Ham, smoked	do	.5367	.5323	[5] .4734	.5475	−.8	−11.8	2.0	−11.1	2.9
Lard	do	.1329	.1802	[5] .1581	.2219	35.6	19.0	67.0	−12.3	23.1
Sausage	do	.3650	.4738	[5] .4152	.4410	29.8	13.8	20.8	−12.4	−6.9
Pork	do	.4245	.5523	[5] .4350	.4501	30.1	2.5	6.0	−21.2	−18.5
Chicken, dressed	do	.3835	.4150	[5] .3942	.3847	8.2	2.8	.3	−5.0	−7.3
Eggs, shell	Dozen	.3746	.5163	[5] .5715	.4882	37.8	52.6	30.3	10.7	−5.4
Milk, frozen	Quart	.1357	.1765	[5] .1909	.2048	30.1	40.7	50.9	8.2	16.0

See footnotes at end of table, p. 101.

Military procurement prices before and after the attack on Korea (April 1950, August to September 1950, October to November 1950, and January to February 1951)—Continued

Commodity	Unit	Price				Percent increase or decrease (−)				
		April 1950	August to September 1950	October to November 1950	January to February 1951	From April 1950 to—			From August to September 1950 to—	
						August to September	October to November	January to February	October to November	January to February
Navy:										
Space heater, 50,000 B. t. u.'s	Each	$38.00	$45.00	$53.00	$61.00	18.4	39.5	60.5	17.8	35.6
Steam tables, MC standard	do	2,800.00	3,200.00	3,547.00	4,618.00	14.3	26.7	64.9	10.8	44.3
Briggs & Stratton carburetor	do	2.64	(2)	4.40	(2)	--------	66.7	--------	--------	--------
Dorman kit exp. plug	do	6.25	(2)	9.94	(2)	--------	59.0	--------	--------	--------
Grease fitting kits	do	6.40	(2)	21.80	(2)	--------	240.6	--------	--------	--------
Crane, T/A-8121	do	244.00	(2)	426.00	410.00	--------	74.6	68.0	--------	--------
Connector, cable 17-C-29865-500	do	.195	.2539	--------	.26	30.2	--------	33.3	--------	2.4
Tester, voltage 17-T-5555	do	.275	.35	--------	.35	27.3	--------	27.3	--------	--------
Rope, wire, 9/16-inch 22-R-2268-135	Foot	.119	(2)	.238	(2)	--------	100.0	--------	--------	--------
Crane, truck ½-yard 78-C-33600	Each	18,380.00	(2)	21,000.00	(2)	--------	14.3	--------	--------	--------
Differential shaft 4-B2007	do	36.41	(2)	58.02	(2)	--------	59.4	--------	--------	--------
Dry battery:										
BA-44	do	1.7572	(2)	2.30	2.30	--------	30.9	30.9	--------	--------
BA-202/U	do	.0704	(2)	.125	.125	--------	77.6	77.6	--------	--------
BA-205/U	do	.3360	(2)	.50	.50	--------	48.8	48.8	--------	--------
BA-37	do	.1575	(2)	.33	.33	--------	109.5	109.5	--------	--------
BA-152	do	.2730	(2)	.48	.48	--------	75.8	75.8	--------	--------
Lights, timing 41-L-1440	do	2.42	[3] 2.42	3.87	(2)	--------	59.9	--------	59.9	--------
Mattresses	do	(2)	8.00	13.23	15.99	--------	--------	--------	65.4	99.9
Sheets	do	(2)	1.50	2.26	(2)	--------	--------	--------	50.7	--------
Enamel, semigloss	Gallon	1.68	2.75	[3] 2.75	(2)	63.7	63.7	--------	--------	--------
Mount, trailer, mult. MG, M55	Each	5,000.00	9,500.00	9,500.00	9,500.00	90.0	90.0	90.0	--------	--------
Shell, smoke, M313, W/f PD, M57	do	23.89	37.22	37.22	30.55	55.8	55.8	27.9	--------	−17.9
Actuator	do	.28	.70	.70	.70	150.0	150.0	150.0	--------	--------
Bearing, flash hider	do	.92	2.30	2.30	(2)	150.0	150.0	--------	--------	--------
Screw, forearm	do	.15	.38	.38	(2)	153.3	153.3	--------	--------	--------
Sight, rear assembly	do	6.00	15.00	15.00	14.21	150.0	150.0	136.8	--------	−5.3
Adhesive tape, 3 inches x 5 yards	Roll	.26	.30	.314	.31	15.4	20.8	19.2	4.7	3.3
Surgical gloves, rubber	Pair	.178	.22	.256	.27	23.6	43.8	51.7	16.4	22.7
Glycerin	Pound	.35	.75	.85	.73	114.3	142.9	108.6	13.3	−2.7
Instrument and medicine cabinet	Each	195.00	220.00	210.00	269.00	12.8	7.7	37.9	−4.5	22.3
Vitamin A in oil	50 cubic centimeters.	.364	.436	.470	.60	19.8	29.1	64.8	7.8	37.6
Sedan, 5-passenger	Each	1,128.00	(2)	1,284.00	1,265.00	--------	13.8	12.1	--------	--------

Crane:										
10-ton, truck-mounted	do	15,390.00	16,884.00	21,392.00	21,500.00	9.7	39.0	39.7	26.7	27.3
15-ton truck-mounted	do	16,000.00	17,529.00	24,500.00	24,500.00	9.6	53.1	53.1	39.8	39.8
20-ton truck-mounted	do	19,700.00	22,500.00	28,250.00	31,500.00	14.2	43.4	59.9	25.6	40.0
¾ cubic yard, crawler	do	17,940.00	18,559.00	23,000.00	23,000.00	3.4	28.2	28.2	23.9	23.9
1½ cubic yards, crawler	do	32,855.00	42,945.00	46,345.00	46,500.00	30.7	41.1	41.5	9.2	8.3
Tractors, 130 to 160, DBHP	do	15,363.00	15,579.00	16,500.00	16,500.00	1.4	7.4	7.4	7.9	5.9
Oscilloscope OS-8/U	do	139.00	219.00	219.00	230.00	57.6	57.6	65.5	----------	5.0
Indicator, tachometer	do	75.90	(2)	(2)	94.25	----------	----------	24.2	----------	----------
Inverter (Jack & Heintz)	do	498.00	(2)	(2)	507.00	----------	----------	1.8	----------	----------
Air Force:										
Height finder:										
AN/TPS-10D	do	35,880.00	43,587.00	[3]49,822.00	61,844.52	21.5	38.9	72.4	14.3	41.9
AN/MPS-4	do	67,000.00	77,050.00	(2)	(2)	15.0	----------	----------	----------	----------
Compound carbon removal	Gallon	1.07	(2)	1.50	1.54	----------	40.2	43.9	----------	----------
Paint remover	do	1.29	(2)	1.55	1.52	----------	20.2	17.8	----------	----------
Aluminum alloy sheet	Pound	.369	(2)	.384	.42	----------	4.1	13.8	----------	----------
A-5 inspection light	Each	3.20	(2)	4.75	3.85	----------	48.4	20.3	----------	----------
Electric cable	Foot	.072	(2)	.080	(2)	----------	11.1	----------	----------	----------
Jacket, flying type B-15B	Each	16.50	(2)	(2)	19.94	----------	----------	20.8	----------	----------
Suit, flying nylon K-2	do	9.47	(2)	(2)	10.30	----------	----------	8.8	----------	----------
Shirt, flying wool type A-1	do	7.84	(2)	(2)	14.85	----------	----------	89.4	----------	----------
Protective helmet	do	20.20	(2)	20.84	19.20	----------	3.2	−5.0	----------	----------
Sun glasses	Pair	2.29	(2)	3.00	2.07	----------	31.0	−9.6	----------	----------
Parachutes:										
T-7A parachute assembly with reserve canopy.	Each	198.30	(2)	300.77	300.12	----------	51.7	51.3	----------	----------
G-11 100-foot cargo chute	do	1,287.00	(2)	1,798.66	1,960.01	----------	39.8	52.3	----------	----------

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[1] Represents estimated average of offers received in November for deliveries to start January 1951.

[2] No procurement during this period.

[3] Estimated.

[4] Gasoline, drum 5-gallon procurement during November 1950 was for large quantity (1,000,000 units), awarded to a single company.

[5] October 1950 prices.

Source: Progress Reports and Statistics, Office of Secretary of Defense, Mar. 5, 1951.

APPENDIX 5

EXCERPTS FROM TESTIMONY BEFORE THE JOINT COMMITTEE ON THE ECONOMIC REPORT AND FROM REPORT OF SUBCOMMITTEE ON MONETARY, CREDIT, AND FISCAL POLICIES

I. THE CASE FOR MAKING CREDIT CONTROL A PRIMARY CONSIDERATION

* * * Timely flexibility toward easy credit at some times and credit restriction at other times is an essential characteristic of a monetary policy that will promote economic stability rather than instability. The vigorous use of a restrictive monetary policy as an anti-inflation measure has been inhibited since the war by considerations relating to holding down the yields and supporting the prices of United States Government securities. As a long-run matter, we favor interest rates as low as they can be without inducing inflation, for low interest rates stimulate capital investment. But we believe that the advantages of avoiding inflation are so great and that a restrictive monetary policy can contribute so much to this end that the freedom of the Federal Reserve to restrict credit and raise interest rates for general stabilization purposes should be restored even if the cost should prove to be a significant increase in service charges on the Federal debt and a greater inconvenience to the Treasury in its sale of securities for new financing and refunding purposes.[1]

* * * * * * *

Another reason for preferring reliance on monetary, credit, and fiscal policies as the major method of general economic stabilization is that they are more consistent with the maintenance of our democratic system and with the fostering and promotion of free competitive enterprise. These instruments do not involve the Government in detailed control of the particulars of the economy; they do not require the Government to intervene in individual transactions between buyer and seller, in dealings between employer and employee, and in the determination of the prices and production of particular commodities. These millions of intricate decisions are left to the operation of the market mechanism while general monetary, credit, and fiscal policies work toward stabilization by influencing the total supply and cost of money and the total amount of money income at the disposal of the private sectors of the economy. There is every difference between the effects of general over-all monetary, credit, and fiscal policies which indirectly influence the economy toward stabilization and the effects of an elaborate system of direct controls. * * *[2]

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We do not know precisely how much effectiveness as a stabilizing device we can expect from appropriate, vigorous, and coordinated monetary, credit, and fiscal policies. Our past experience is of little help in making such an estimate, for a timely, vigorous, and coordinated use of all these policies for stabilization purposes has never been seriously attempted in this country. Fortunately, however, the validity of our recommendations does not need such a precise estimate; it is enough to know that these methods can be very powerful and that they are preferable to other methods for promoting general economic stability. We do, however, wish to make two points with respect to the effectiveness of these instruments: (1) They are not a panacea for all economic ills, nor do they make it unnecessary for us to employ wise economic policies of other types. There are many kinds of economic problems—for example, those relating to the maintenance of competition—that they cannot solve, and they are even likely to lose a large part of their effectiveness as stabilization measures if other policies are unfriendly. And (2), if not used in a coordinated and supplementary manner, the various components of monetary, credit, and fiscal policies are likely to prove insufficient to cope with strong cumulative forces which at times create depressions and at other times inflation. In fact, these policies may completely defeat each other. They can be much more effective if they are employed as integrated parts of an appropriate over-all monetary, credit, and fiscal program. We cannot afford, therefore, to rely solely on a few of these measures and to neglect the others.[3]

That the Federal Reserve is powerless to restrict credit in general while maintaining low yields on Governments is brought out by two facts: (1) All holders

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[1] Monetary, Credit, and Fiscal Policies (report of the Subcommittee on Monetary, Credit, and Fiscal Policies), S. Doc. 129, 81st Cong., 2d sess., p. 2.

[2] Ibid., p. 9.

[3] Ibid., p. 11.

of Governments, both individual and institutional, retain complete freedom to buy or to sell at will any or all of these securities, of which their holdings are tremendous. At their own option they may sell these securities to acquire money to spend for consumption, to finance capital purchases, or to lend to others. Any tendency for interest rates on private obligations to rise relative to those on Governments tends to induce investors to sell Governments in order to make funds available to private users. And (2) in order to prevent yields on Governments from rising above any given level the Federal Reserve must stand ready to buy at those yields all the Government securities that others do not wish to hold. In this way all holders of Governments, not merely member banks, are given access to new money from the Federal Reserve. They get this money by selling Governments, and the cost of the money to them is the yield that they sacrifice on the securities sold. Thus for the Federal Reserve to maintain low yields on Governments by passively purchasing them in unlimited quantities is to assure that money for other uses will continue to be cheaply available in large amounts.

Such a policy of maintaining low yields on Governments negates or seriously reduces the effectiveness of every Federal Reserve instrument for general credit restriction. (1) Open market operations are likely to be useless; the Federal Reserve is not free to refuse to buy or actually to sell Governments in order to restrict credit in general but must purchase these securities in such amounts as are required to prevent undesired rises in their yields. Even if the Federal Reserve should sell Governments in an attempt to restrict credit it would be compelled, under this policy, to buy them back again to prevent a rise of yields. (2) Increases in Federal Reserve discount rates are likely to be largely ineffective as positive restrictive measures, for banks will not need to borrow so long as they can secure funds at will by selling Governments to the Federal Reserve. Even the psychological effects of increases in discount rates are much reduced by the fact that banks are largely out of debt to the Federal Reserve and know that they can remain so. (3) The restrictive effects of increases in member-bank reserve requirements are greatly reduced by the fact that the banks can easily repair their reserve positions and restore and even expand their lending power through the sale, at their own option, of Governments to the Federal Reserve.[4]

II. THE CASE FOR MAKING DEBT MANAGEMENT A PRIMARY CONSIDERATION

Treasury and Federal Reserve officials have advanced a number of reasons for the policy of holding down the yields and supporting the prices of Governments in the face of inflation. (1) Such a policy holds down service charges on the Federal debt. The Secretary of the Treasury stated to the subcommittee:

"The interest cost of the debt to taxpayers is another of the many considerations which must be taken into account in debt-management policies. It is estimated that the interest charge on the public debt during the fiscal year 1950 will be $5,450,000,000. This item represents over 13 percent of the Federal budget for the year. The interest cost is likely to grow over a period of time—in the absence of substantial debt reduction—because the rate of interest on savings bonds increases as the bonds are held to maturity, and because an increasingly large proportion of the debt represents the accumulation of trust funds invested at rates set forth in the law which are higher than the present average interest rate on the debt.

"A general rise in interest rates would bring about a further rise in the budget charge for interest payments. An increase of as little as one-half of 1 percent in the average interest paid on the debt would add about $1,250,000,000 to this charge. The Treasury was able to finance the last war at an average borrowing cost of less than one-half the borrowing cost of World War I. If this had not been done, the interest charge at the present time would be more than $10,000-000,000 a year instead of $5,000,000,000 a year. It is clearly evident that this $5,000,000,000 annual saving in the taxpayer's money is a highly important factor in the budget picture of the Federal Government."

(2) The maintenance of relatively stable prices on Governments helps to maintain confidence in the public credit and facilitates Treasury sales of securities for both new financing and refunding purposes. This looms important to the Treasury, with about $50,000,000,000 of its marketable debt maturing within a year and with large volumes of outstanding nonmarketable issues, especially savings bonds, payable on demand. (3) The maintenance of stable security prices protects investors against capital depreciation and prevents any loss of public

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[4] Ibid., p. 27.

confidence in financial institutions, including banks, that might result from a serious decline of these prices. (4) Any marked decline in the price of Governments would be communicated to other parts of the credit market and might bring about unemployment and deflation by interfering with the flotation of new private securities. And (5) any feasible rise of the yields on Governments would be so ineffective as an anti-inflationary measure as not to be worth its cost. Though Federal Reserve and Treasury officials, and especially the latter, seem to have been greatly influenced by the objectives of holding down the service charges on the Federal debt and of facilitating Treasury security flotations it is well to remember that there were also other considerations behind the postwar policy, such as those relating to protecting individual and institutional investors against capital depreciation, prevention of a financial panic, and avoidance of restrictive policies that would be so vigorous as to reduce employment and production.[5]

To these arguments the Council of Economic Advisers in a memorandum addressed to the Joint Committee on the Economic Report added the following considerations.[6]

"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.

"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. * * *

"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 power 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 power

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[5] Ibid., p. 26.

[6] Hearings before the Joint Committee on the Economic Report on the January 1950 Economic Report of the President, 81st Cong., 2d sess., pp. 66–67.

vigorously. If that record shows that even more violent effort would be necessarily 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." [7]

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Mr. SELTZER.[8] * * *

"The real controversy is over the effectiveness and the appropriateness, under present conditions, of combating inflation by an indiscriminate, over-all tightening of the money markets and an accompanying raising of interest rates. More particularly, the question is whether we should seek to limit the current expansion of bank loans to business by an over-all restrictive credit policy without regard to the dominant position now occupied by Government securities in the assets of commercial banks and without regard to the Treasury's refunding and possible new money requirements.

"The prescription of over-all tight money in periods of excessive loan expansion has behind it the force of long tradition. It arose in England, and to a lesser degree in European countries generally, at a time when the assets of commercial banks consisted mainly of business loans, and when their lending power was highly responsive to movements of gold out of and into a country. An export of gold, induced by a greater rise in domestic than in foreign commodity prices, reduced the reserves of the central and commercial banks. This forced a contraction of bank loans and led to a rise in interest rates. The higher interest rates by themselves did little if anything to restrict the demand for bank credit for domestic use. The absolute reduction in the lending power of the commercial banks, caused by their loss of reserves, was the effective agent in reducing loans to business. In England, and in some other countries, however, the higher interest rates often helped to contract the domestic volume of bank credit by diverting the foreign demand for credit to countries with lower interest rates.

"In the United States today, changes in the amount of Federal Reserve credit made available to the commercial banks largely take the place of gold movements in altering the reserves and lending power of commercial banks. It is natural to conclude, therefore, that the Federal Reserve System should now use its power to absorb member bank reserves and so bring a halt to the current expansion of bank loans to business. Here, however, we encounter the greatly changed institutional situation, which cannot be ignored. In this new situation, a moderate application of the unmodified traditional weapon of reducing member bank reserves is unlikely to be adequately effective in curbing undesired loan expansion, while a violent application would be exceedingly dangerous.

"In 1914 the marketable securities of all kinds held by all the commercial banks in this country amounted to less than 22 percent of their earning assets. The great bulk of their holdings consisted of loans to business enterprises. Some of these fell due every business day. The total volume could be reduced merely by not making new loans or renewals in as large amounts as the daily maturities.

"The banks did not need to sell large quantities of securities on the open market to reduce the total amount of bank credit. The borrowers whose notes were maturing daily provided an automatic market for their own notes. This kind of contraction of bank credit could not proceed far before the money supply of the business community was critically reduced, bringing about a liquidation of inventories and, often, a general business recession. The power of the banking system to effect a significant reduction in the money supply of the business community was the more pronounced before World War I because it was then the fashion of business enterprises to finance a far greater proportion of their working capital by bank credit than it is today.

"But see how different the banking situation is today. At the end of June 1950, the securities holdings of all the insured commercial banks in the United States, mainly Federal Government obligations, constituted 63 percent of all their earning assets and only 37 percent consisted of loans of all kinds. More than a quarter of their total loans, moreover, consisted of real-estate loans, which are akin in some respects to securities, though less liquid. The total of their commercial and agricultural loans was only 16 percent of their aggregate earning assets.

"This change in the institutional situation means this: That whereas formerly a general tight money policy by a central bank was largely a selective control, in

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[7] S. Doc. 129, op. cit., p. 20.

[8] See pp. 431–435 of the committee hearings on the January 1951 Economic Report of the President.

effect, operating directly and immediately to restrict loans to business enterprises, today a general tight money policy means a specific attack upon the Government bond market, and only an indirect and weak attack on business loan expansion.

"In order to reach 5 or 6 or 7 billion dollars of business loans, the weapon of an over-all restrictive credit policy would first have to wade through billions of dollars of Government securities owned by the commercial banks. They held about $65 billions of Federal obligations on June 30, 1950. You cannot rely upon price declines of these Government securities to keep the banks from selling substantial amounts of them in order to continue their expansion of loans to business.

"You cannot rely upon that because their capital losses would not be important, and because on some of them they would not suffer any loss. I have some figures here that probably are familar to you. At this time the commercial banks hold nearly $4,000,000,000 of Treasury bills, some of which mature every week and all of which mature within 3 months. The banks can continue to obtain funds to make business loans merely by not buying new Treasury bills to replace the maturing ones each week. And they hold about $18,000,000,000 of Treasury notes, most of which mature within a year.

"A moderate rise in interest rates would cause only small changes in the prices of these near-term maturities. For example, a 1¼ percent 1-year Treasury note would still sell above 99 if the short-term rate of interest went from 1¼ to 2¼ percent. If a bank has a good commercial borrower at 3½ or 4 percent, I do not think that bank is going to be deterred from selling a Treasury note at 99 to make this new loan.

"So that a general tight credit policy under current conditions is apt to prove ineffective as a curb on business loan expansion unless it is extremely tight. A moderate rise in interest rates, a moderate tightening of the reserve position, would not do the work. And a very drastic tightening, I think, would be much too violent, much too dangerous under present circumstances."

* * * * * * *

III. RECENT STEPS TO RECONCILE THE TWO OBJECTIVES

Excerpts from memorandum of the President, February 26, 1951:

"It would be relatively simple to restrain private credit if that were our only objective, or to maintain stability in the Government security market if that were our only objective. But in the current situation, both objectives must be achieved within the framework of a complete and consistent economic program.

"We must maintain a stable market for the very large financing operations of the Government. At the same time, we must maintain flexible methods of dealing with private credit in order to fight inflation. We must impose restraints upon nonessential private lending and investment. At the same time, we must maintain the lending and credit facilities which are necessary to expand the industrial base for a constant build-up of our total economic strength. *Instead of fighting inflation by the traditional method of directing controls toward reducing the over-all level of employment and productive activity, a defense emergency imposes the harder task of fighting inflation while striving to expand both employment and production above what would be regarded as maximum levels in normal peacetime.*" [Italics ours.]

"* * * The essence of this problem is to reconcile two important objectives, neither of which can be sacrificed.

"On the one hand, we must maintain stability in the Government security market and confidence in the public credit of the United States. This is important at all times. It is imperative now. We shall have to refinance the billions of dollars of Government securities which will come due later this year. We shall have to borrow billions of dollars to finance the defense effort during the second half of this calendar year, even assuming the early enactment of large additional taxes, because of the seasonal nature of tax receipts which concentrate collections in the first half of the year and because of the inevitable lag between the imposition of new taxes and their collection by the Treasury. Such huge financial operations can be carried out successfully only if there is full confidence in the public credit of the United States based upon a stable securities market.

"On the other hand, we must curb the expansion of private loans, not only by the banking system but also by financial institutions of all types, which would add to inflationary pressures. This type of inflationary pressure must be stopped, to the greatest extent consistent with the defense effort and the achievement of its production goals.

"The maintenance of stability in the Government securities market necessarily limits substantially the extent to which changes in the interest rate can be used in an attempt to curb private credit expansion. Because of this fact, much of the discussion of this problem has centered around the question of which is to be sacrificed—stability in the Government securities market or control of private credit expansion. I am firmly convinced that this is an erroneous statement of the problem. We need not sacrifice either.

"Changing the interest rate is only one of several methods to be considered for curbing credit expansion.

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"Among other things, I ask that you consider specifically the desirability of measures: (1) To limit private lending through voluntary actions by private groups, through Government-sponsored voluntary actions such as was done in a narrow field by the Capital Issues Committee of World War I, and through direct Government controls; and (2) to provide the Federal Reserve System with powers to impose additional reserve requirements on banks."

* * * * * * *

Joint statement of the Secretary of the Treasury and Chairman of the Federal Reserve Board, March 4, 1951:

"The Treasury and the Federal Reserve System have reached full accord with respect to debt-management and monetary policies to be pursued in furthering their common purpose to assure the successful financing of the Government's requirements and, at the same time, to minimize monetization of the public debt."

APPENDIX 6

CONCENTRATION IN PRODUCTION OF CERTAIN MATERIALS IN SHORT SUPPLY AND SUBJECT TO CONTROL OR PURCHASED BY THE ARMED SERVICES

The materials cited on the lists of strategic, critical, and scarce commodities derived both from domestic and foreign sources include some which have been produced under conditions of monopoly at one time or another, or which are supplied principally by a few major firms in the industry. The following list sets forth a few of the materials, the major producers, and the percentage of production controlled by each (where information is available).

Two lists of materials designated as "scarce and not to be hoarded" have been issued by the Government. The first list was issued by the National Production Authority on December 28, 1950; the second list was issued on January 2, 1951, by the Defense Minerals Administration. Other lists of materials and products bought by the armed services have also been published. The summary which is given below sets forth instances in which a major part of production of a large number of the items on these lists is accounted for by one or a few firms, according to immediately available data. Data for this summary has been compiled from various public sources, including the Minerals Yearbook, the Bluebook of antitrust cases, hearings before the Temporary National Economic Committee, studies by the Department of Commerce, and other sources.

A brief survey of the major metal products bought by the Armed Forces indicated that there are a number of groups or types of products on the list which are subject to high levels of concentration among small groups of manufacturers. The most recent data cannot in all cases be compared directly with the items on the list, because of differences in classification. In general, however, it is possible to indicate the concentration of output in the class of items or in the field of industry from which the specified product must be obtained. As far as possible, the summary given follows the order of the published list of products bought by the Armed Forces. Differences in grouping are noted as they occur.

In addition to the concentration or dispersion of production noted with respect to certain key raw materials used in manufacture of items required by the armed services, an examination of the list of commodities procured by the military services indicates that in certain classes of commodities there is some concentration of production.

It should be remarked that it is not possible on the basis of available data, to determine concentration of output for each item in the list published in the study by the joint committee.[1] Moreover, in some classes of items, it is not possible to determine the individual companies or producers that account for published production figures, because available information does not specify either identities or percentages of output by companies.

I. Basic Materials

1. *Antimony.*—More than half of total consumed in the United States is imported from China, Mexico, Bolivia, and Peru. Major domestic producers: Bradley Mining Co. (Idaho), produced 97 percent in 1947, 93 percent of domestic output in 1948 (MYB).

2. *Aluminum.*—Total domestic production (1948) of primary aluminum is divided among three major producers as follows:

	Percent
1. Aluminum Co. of America	51
2. Reynolds Metals Co	29
3. Permanente Metals Co	20

3. *Beryllium.*—Major producers (relative percentages not available) are:

1. Beryllium Corp. (Pennsylvania).
2. Brush Beryllium Co. (Ohio).
3. Clifton Products Co. (Ohio).

4. *Copper.*—Major producers accounting for more than 80 percent of refining capacity as of 1944 include:

	Percent of output
1. American Smelting & Refining Co	37
2. Anaconda Copper Co	29
3. Phelps-Dodge Corp	22

In copper mining as distinct from refining, the largest producer is the Kennecott Copper Corp., accounting for 44 percent of total output in 1944, followed by Phelps-Dodge, 24 percent; and Anaconda, 16 percent.

5. *Cobalt.*—Imports from Belgian Congo supply over 90 percent of cobalt consumed in the United States.

Sole importer: African Metals Corp. (New York).
Domestic producer: Bethlehem Steel Co. (Pennsylvania).
(MYB, 1948). Bethlehem Steel produces some cobalt for its own use.

6. *Iron ore.*—Domestic production supplies bulk of present consumption.

Major producers:	Percent (1947)
1. Oliver Mining Co. (subsidiary of U. S. Steel)	47
2. Pickands, Mather & Co	22
3. Cleveland-Cliffs Iron Co	9. 1
4. M. A. Hanna Co	3. 5
5. Oglebay, Norton & Co	2. 6

As of 1950, these producers accounted for approximately four-fifths of domestic output of iron ore. The position of these producers with respect to iron ore reserves corresponds to their relative output, with minor differences.

7. *Magnesium.*—The Dow Chemical Co. has been the only primary magnesium metal producer in the United States since July 1946 (MYB, 1948).

During World War II, United States Government constructed 13 plants for magnesium production, which have been disposed of or are now held on a stand-by basis.

8. *Manganese.*—More than four-fifths of requirements are imported. Major domestic producers include: Anaconda Copper Mining Co., which shipped 91 percent of total manganese ore from United States mines in 1948 (MYB). Smaller shipments were made by a number of producers scattered in various States.

9. *Nickel.*—Nearly all requirements are imported, primarily from International Nickel Co. of Canada.

10. *Molybdenum.*—The United States is a leading producer of molybdenum, importing relatively small amounts for consumption. Major domestic producers include:

1. Climax Molybdenum Co., the largest producer.
2. Kennecott Copper Co.
3. Molybdenum Corp. of America.
4. U. S. Vanadium Corp.

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[1] General Credit Control, Debt Management, and Economic Mobilization, U. S. G. P. O., Washington, D. C., 1951, pp. 27-33.

Relative percentages of output among these firms are not currently available. Climax Molybdenum Co., the major supplier, is the sole producer in Colorado, the chief source in 1948.

Kennecott Copper Co. is sole producer in Utah, the second leading State in molybdenum output.

11. *Titanium.*—Major domestic producers include:

1. National Lead Co.
2. E. I. du Pont de Nemours & Co.
3. Yadkin Mica & Ilmenite Co. (Glidden Co.)
4. Metal and Thermit Corp.
5. Ferro-Titan Metals Corp.
6. Calco Chemical Division (American Cyanamid Co.).

National Lead Co. is the leading producer, but other relative figures are not available.

12. *Tin.*—Only negligible amounts of tin are produced from mines in the United States and Alaska. Nearly all tin requirements are imported from abroad. The output and allocation of tin has in the past been controlled by the International Tin Cartel. The Combined Tin Committee and the International Tin Study Group are the agencies which have been chiefly concerned with the stabilization of the industry since World War II. The chief sources are Malaya, Indonesia, Thailand, Bolivia, and other scattered areas.

13. *Tungsten.*—The bulk of tungsten consumed in the United States is imported, but there is substantial domestic production (4,210 tons in 1948). The major domestic producers include:

1. Climax Molybdenum Co.
2. Nevada-Massachusetts Co.
3. Nevada Scheelite, Inc.
4. Surcease Mining Co.
5. Tungsten Mining Corp.
6. U. S. Vanadium Corp.

Relative percentages are not available.

14. *Vanadium.*—Although publication of figures for output and consumption of vanadium ore in the United States has been suspended, the leading producers have included:

1. Union Carbide and Carbon Corp., through subsidiary
2. U. S. Vanadium Corp.
3. Vanadium Corp. of America

15. *Lead.*—The United States is a major producer of lead. Major mining companies include, as of 1944:

	Percent
1. St. Joseph Lead Co	40
2. American Smelting & Refining Co	5
3. Bunker Hill & Sullivan Mining Co	5
4. Eagle-Picher Lead Co	

Major refining companies include:	*Percent capacity*
1. American Smelting & Refining Co	54
2. Bunker Hill & Sullivan Co	6
3. U. S. Smelting, Refining and Mining Co	5
4. St. Joseph Lead Co	---
5. Anaconda Copper Corp	---
6. American Metals, Ltd	---
7. Eagle-Picher Lead Co	---

16. *Zinc.*—More than three-fourths of zinc consumed in the United States is produced domestically. Major mining companies include:

	Percent
1. Eagle-Picher Mining & Smelting Co	13
2. St. Joseph Lead Co	5
3. U. S. Smelting & Refining Co	-----
4. Federal Mining & Smelting Co	-----
5. New Jersey Zinc Co	-----
6. Anaconda Copper Co	-----

Lead and zinc operations are closely related, both in mining and smelting, so that this list could be extended depending upon which aspect of the field is selected for emphasis.

Zinc refining capacity is more highly concentrated than mining of the metal. Major zinc refiners, as of 1914, included:

	Percent of capacity
1. Anaconda Copper Corp	70
2. Sullivan Mining Co	10
3. American Zinc Co	-----
4. American Smelting & Refining Co	-----
5. New Jersey Zinc Co	-----

This estimate of distribution of refining capacity is taken from Economic Concentration and World War II, the most recent available figures for the industry as a whole.[2]

In addition to the major minerals cited above, many of the materials included in the published lists of scarce commodities are produced in industries characterized by concentration of output in a few leading producers, or industries which have been subject to antitrust action.

The list of materials falling into these classifications include—

1. *Chemicals.*—Although it is not possible from available data to determine the relative percentages of output of each of the items on the list, it may be noted that most are organic chemicals, and that the major producers in this field, including E. I. du Pont de Nemours & Co., Union Carbide & Carbon Corp., Dow Chemical Co., Allied Chemical & Dye Corp., et al., have been subject to antitrust prosecution. According to the data assembled by the TNEC, the chemical industry was described as an industry in which "Three companies * * * produced two-thirds of the national output of chemicals."[3] It is also noted that as of 1937, four producers accounted for 95.6 percent of the total output of coal-tar products.

2. *Paper products.*—The bulk of all newsprint consumed in the United States is imported from Canada. Six firms account for more than four-fifths of Canadian pulp and paper production. These include the following companies:

International Paper Co., Ltd.
Abitibi Paper Co., Ltd.
Consolidated Paper Corp., Ltd.
Powell River Co., Ltd.
Price Bros. Paper Co.
Bowaters Newfoundland Pulp & Paper Mills.

Major domestic producers include—

1. Crown-Zellerbach Corp.
2. Great Northern Paper Co.

3. *Steel.*—The major domestic producers of steel and steel products include—

	Percent of output
1. United States Steel Corp	35. 2
2. Bethlehem Steel Corp	13. 5
3. Republic Steel Corp	10. 2
4. Jones & Laughlin Steel Corp	5. 3
5. National Steel Corp	4. 1
6. Youngstown Sheet & Tube Co	4
7. Armco Steel Corp	3. 4

In all, the 10 major producers account for more than four-fifths of steel production.

II. MAJOR METAL PRODUCTS BOUGHT BY ARMED SERVICES

1. *Agricultural machinery and implements (including tractors produced for general industrial use, construction, and lumbering, as well as agriculture)*

The largest companies in this field produce both agricultural machinery and equipment with wider uses, including tractors, used by the military services for freight handling, construction of bases, and similar purposes.

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[2] Report of the Smaller War Plants Corporation to the Special Committee To Study Problems of American Small Business, 79th Cong., 2d sess., 1946, p. 105.

[3] Monograph No. 21, Competition and Monopoly in American Industry, p. 114.

In 1940 the major producers of agricultural machinery and equipment and the percentage of total sales accounted for by each were as follows:

	Percentage of total sales
1. International Harvester	37. 3
2. Deere & Co	18. 8
3. Allis-Chalmers Manufacturing Co	11. 1
4. J. T. Case Co	5. 4
5. Oliver Farm Equipment Co	4. 3
6. Minneapolis-Moline Power Implement Co	3. 5
7. Massey-Harris Co	----
8. B. F. Avery & Sons Co	----

(*a*) The six leading companies produced more than 80 percent of the industry's sales in 1940.

(*b*) In 1945 the four largest companies shipped 84 percent of all tractors, while the eight largest shipped 97 percent.

(*c*) In agricultural machinery other than tractors the four largest companies shipped 40 percent of all output, and the eight largest shipped 50 percent of total in 1945.

(*d*) In specific items, concentration is higher than for general groups.

2. Construction machinery and equipment

A large number of the items on the procurement list falls within the class of construction machinery, e. g., cement handling and placing equipment, conveying and materials handling equipment, power excavators (for track-laying as well as wheel-mounted types), and similar products. For the general class of construction machinery and equipment, which is closely allied to agricultural machinery, concentration is somewhat greater in "heavy" than in "light" types. The entire industry in 1945 consisted of between 350 and 400 plants, with output divided principally between heavy engineering and earth-moving machinery, and track-laying tractors. In that year, the four largest companies shipped 19 percent of total output, and the eight largest companies shipped 29 percent. One source states that the producers of general construction equipment were among the few industries to show a relative change toward less rather than higher concentration, with the exception of tractors.

There are four major producers of track-laying tractors (relative percentages not available):

1. Allis-Chalmers Manufacturing Co.
2. Caterpillar Tractor Co.
3. International Harvester Co.
4. Cleveland Tractor Co.

3. Electrical machinery

This classification would include such items on the procurement list as electrical distribution and control equipment, electric generators and motors, and similar items. In the general field, the 10 largest producers held more than 50 percent of the capital assets of the industry in 1939, and more than 66 percent of total facilities in 1945.

The 10 largest producers in the field, as of 1945, include—

1. General Electric Co.
2. Westinghouse Electric & Manufacturing Co.
3. American Telephone & Telegraph Co.
4. Radio Corp. of America.
5. General Cable Corp.
6. Electric Auto-Lite Co.
7. Electric Storage & Battery Co.
8. Sylvania Electric Products, Inc.
9. Emerson Electric Manufacturing Co.
10. Minneapolis-Honeywell Regulator Co.

The available data do not break down the relative percentages of output of all types of electrical machinery products but offer some indications with respect to a few of the total number, such as refrigerating equipment, generators, and motors. Thus, in 1945, the four leading producers accounted for the following percentages of output:

Shipments of 4 largest producers

Item:	*Percent*
Wiring devices	25
Electrical measuring instruments	45. 9
Insulated wire and cable	34. 8
Auto machine electrical equipment	68. 2
Batteries, storage and primary	36. 8
Fractional horsepower motors	50. 3

4. Bearings

This item on the procurement list can be measured somewhat more precisely than many others, because of the relative fewness of producers and the data available. As of 1945 the major producers of ball bearings and their relative output were as follows:

	Percent of output
1. General Motors Corp	50
2. S. K. F. Co	11
3. Fafnir Bearing Co	10
4. Marlan-Rockwell Co	10
5. Hyatt Division, General Motors Corp	10
6. Federal Bearing Corp	1
7. Norma Hoffman Co	1

Twenty smaller producers contributed the remaining 7 percent. For tapered bearings, the figures for 1945 were—

	Percent of output
1. Timken Bearing Corp	80
2. Bower Bearing Corp	18
3. Tyson Roller Bearing	1
4. Torrington Co	1

5. Locomotives, wheels and parts

The four largest producers accounted for 85.5 percent of shipments in 1945; the eight largest for 91.8 percent.

Major producers, steam locomotives:
1. American Locomotive Co.
2. Baldwin Locomotive Works.
3. Lima Locomotive Works.

Major producers, Diesel locomotives:
1. Electromotive Division, General Motors Corp.
2. General Electric Co.

6. Mining machinery and equipment

Although individual figures for producers are not available, one source indicates that the four largest producers accounted for 42.6 percent of output in 1945, while the eight largest producers shipped 53.6 percent of the total.

7. Motor vehicles

This industry is, of course, a broad field in itself. As of 1945 it was the second most highly concentrated major manufacturing industry. The Big Three producers of motor vehicles, bodies, and parts are General Motors Corp., Chrysler, and Ford. As of 1940 their respective shares of output were 50 percent for General Motors and 20 percent each for Ford and Chrysler. The remaining eight companies accounted for 10 percent. Postwar changes in the composition of the industry have altered only to a small extent the relative position of the Big Three and their relation to smaller manufacturers.

In the production of trucks, the major producers in 1944 included, for both military and commercial trucks, the following manufacturers:

	Percent of registrations
1. General Motors Corp	49. 8
2. Ford Motor Co	15. 9
3. International Harvester Co	7. 7
4. Mack Co	. 7
5. White Co	1. 3
6. Diamond T Co	. 7
7. Studebaker	15. 5
8. All others	8. 4

In the production of "heavy heavy" trucks, in 1944, the leading manufacturers were—

	Percent of total
1. International Harvester	20
2. Mack	17
3. Diamond T	11. 9
4. White	5. 5

Production of light trucks ("jeeps") in 1944 was divided among—

1. Willys	44
2. Ford	29. 6
3. Fargo	25. 5
4. International Harvester	. 7

III. CONCENTRATION IN CLASSIFIED COMMODITY GROUPS

Certain major classes of commodities cover the main groups of commodities required by the armed services cited on the list. These major classes include (in addition to those given in prior sections) the following groups:

1. Petroleum products, fuel oil, motor gasoline, Diesel fuel.
2. Autos and parts, ambulances, sedans, light trucks, miscellaneous parts.
3. Batteries.
4. Lumber.
5. Electrical equipment (other than communications).
6. Electronic equipment, communications, radios.
7. Meats and meat products.
8. Paper products.
9. Textile products, cotton, wool, nylon.
10. Paints.
11. Pharmaceuticals and medicinal products.
12. Surgical instruments.
13. Optical instruments and devices.
14. Bearings.

1. *Petroleum refining.*—According to data compiled from census materials, there were 277 companies engaged in petroleum refining as of 1947. The four largest concerns accounted for 37.3 percent of total shipments, or somewhat over 2.2 billion dollars of the total of 6.6 billions. In 1935, the first four companies accounted for 38.2 percent of total shipments. The percentage of total shipments attributed to the first eight companies was 58.9 percent in 1935, and 58.8 percent in 1947.

Some observers estimate that concentration in petroleum production is lodged in 20 very large producers; it is also pointed out that petroleum includes the fourth largest sector of American industry, exceeded in capitalization only by agriculture, rails, and utilities. All of these major producers are integrated vertically.

In the order of their size, the eight largest producers of petroleum products include—

1. Standard Oil Co. (New Jersey).
2. Cities Service Co.
3. Socony-Vacuum Oil Co.
4. Standard Oil Co. (Indiana).
5. Texas Corp.
6. Standard Oil Co. of California.
7. Gulf Oil Corp.
8. Shell Union Oil Corp.

In total, these concerns accounted for about 30 percent of crude oil output in the United States in 1938 and about 58 percent of the cracking capacity of the industry in that year.

2. *Autos and parts.*—The figures for the leading producers have been supplied above.

For a large number of specific items, or the class including items on the published list, the information may be summarized in the following table:

Concentration of output in largest manufacturing companies

Industry—title	Number of companies	Value of shipments	1947 concentration ratios	
			First 4 companies	First 8 companies
		Thousands		
Meat packing, wholesale	1,999	N. A.	41.3	53.6
Paper and board mills	453	$2,812,048	15.6	23.7
Radios and related products	799	N. A.	25.6	35.3
Woolen and worsted fabrics	427	1,355.209	28.1	40.4
Paints and varnishes	1,154	1,248,841	27.3	35.7
Soap and glycerin	223	1,085,789	79.0	85.9
Leather tanning and finishing	500	1,070,085	26.5	38.6
Rubber industries, n. e. c	733	953,453	30.0	38.4
Pharmaceutical preparations	1,123	941,713	28.0	44.0
Tractors	86	890,841	67.3	87.6
Yarn mills, cotton system	317	769,403	13.2	22.1
Synthetic fibers	22	705,271	78.4	94.4
Telephone and telegraph equipment	50	689,182	95.7	98.3
Electrical control apparatus	284	628,283	49.0	62.3
Electrical appliances	310	466,009	35.8	46.9
Ball and roller bearings	78	365,584	61.9	79.1
Textile bags	198	356,245	52.7	63.4
Storage batteries	205	297,654	61.8	78.0
Medicinal chemicals	88	201,761	68.5	83.1
Industrial trucks and tractors	191	162,603	56.6	69.0
Typewriters	23	153,924	79.4	96.3
Electrical measuring instruments	150	153,380	60.9	74.3
Scientific instruments	212	126,703	49.1	61.6
Electronic tubes	32	124,518	73.2	91.9
Gaskets and asbestos insulations	174	118,244	42.2	59.1
Primary batteries (dry and wet)	23	85,045	76.4	94.7
Communication equipment, n. e. c	101	69,592	54.9	68.1
X-ray and therapeutic apparatus	114	59,518	57.8	74.5
Jute (except felt) and linen goods	30	48,853	69.0	87.2
Transportation equipment, n. e. c	167	46,790	37.2	50.8
Leather and sheep-lined clothing	125	40,904	23.6	38.8
Optical instruments and lenses	114	36,081	55.3	67.6
Hat and cap materials	70	12.329	32.5	49.9

NOTE.—N. A.—Not available; n. e. c.—Not elsewhere classified.

APPENDIX 7

JOINT STAFFS' STATEMENT ON REGULAR AND EMERGENCY STATISTICAL PROGRAMS

In 1948 the Joint Committee on the Economic Report issued a report on "Statistical Gaps" which called attention to areas where more complete statistical measures were needed as a basis for the determination of economic policy. Progress in filling these gaps was described in the committee's report on the President's Economic Report in 1949, and again in 1950. The need for continuing improvement of the Government's basic economic statistics has not lessened, although first consideration during the present critical period must be given to how these basic statistical programs can meet the requirements of a mobilization situation.

The following statement on statistics for the emergency period has been prepared by the staffs of the joint committee, the Division of Statistical Standards in the Bureau of the Budget, and the Council of Economic Advisers. Since many of the emergency programs are still in a formative stage the statement does not attempt to summarize all the new requirements for statistical data but merely to show how the new and specialized requirements relate to the basic continuing statistical programs. At a later date it may be desirable to present a more detailed analysis of the economic statistics needed in planning and conducting mobilization programs, with an evaluation of the adequacy of regular peacetime statistical programs on which many of the emergency programs are based.

BASIC STATISTICS FOR EMERGENCY PROGRAMS

In developing the Nation's defense program and in carrying out emergency responsibilities, prompt and accurate facts are needed on what is happening to production, consumption, imports and exports of critical materials; food supplies; wage and price levels; deployment of manpower resources; the distribution of savings and expenditures; capital expansion; credit controls; business inventories; the volume of goods moving to the civilian population through retail outlets; and other critical areas of the economy. Fortunately in most of these areas we already have a program capable of adaption to meet emergency needs. Since the end of World War II, emphasis in reorganizing the Government's statistical services has been placed on building a basic system which could meet current needs for prompt and accurate economic measures. These basic measures of employment, production, and other economic factors are relied on in the defense period, just as in other periods, to keep track of the progress of the economy. In addition they are capable of ready adaptation to meet special emergency needs for statistical data. To the extent that we have succeeded in building this basic framework, emergency needs are now being met by use of existing programs, with adaptation or expansion where necessary.

Maximum utilization of the facilities, resources and special skills in the regular agencies to meet emergency needs is desirable for many reasons. Use of regular reporting channels makes it possible to collect the information needed at least cost to the Government and least burden to the public. It avoids the necessity for creating costly and duplicative statistical facilities in the emergency agencies. Furthermore, continuity in the collection and analysis of statistical data is essential if inconsistencies and gaps in the periods covered are to be avoided. From a long-term point of view, maintenance of basic statistical series on a regular basis is essential so that the series may continue to serve their permanent functions after the emergency period is over.

How the existing series and other resources of the Government are being utilized to meet the needs for data in the present emergency may best be shown by a few examples. The National Production Authority must have data on the production and consumption of critical materials to establish and administer priorities and allocations programs. These data are now being obtained promptly and economically, primarily through utilization, with adaptation where necessary, of the industrial statistics program of the Bureau of the Census. Special tabulations have been made for NPA of data received in the Census Bureau's 1947 Census of Manufactures; more current needs are being met through the 1949 and 1950 annual surveys of manufactures and the current industrial statistics reports. The new NPA quarterly report of plant operations is being collected with the greatest possible speed and economy by utilizing the Census Bureau's facilities for large-scale collection and processing of statistical data. By obtaining the statistical data necessary to its operations through maximum use of the Census Bureau, and of other agencies in specialized areas, the NPA finds itself with respect to essential statistical intelligence many months and millions of dollars ahead of the WPB at a comparable point in the World War II mobilization.

In much the same way, statistical needs of the Defense Minerals Administration, the Solid Fuels Administration for Defense, and the Petroleum Administration for Defense are being met primarily through existing facilities in the Bureau of Mines. Regular Bureau of Mines reports on production and consumption of minerals and fuels are adapted where necessary to obtain additional detail or to be collected and tabulated at more frequent intervals.

Data on business financial operations, essential to the Economic Stabilization Agency, can most efficiently be supplied through expansion of the joint financial statistics programs of the Federal Trade Commission and the Securities and Exchange Commission. In this case the immediate change needed will be extension of the quarterly reports to include a sample of nonmanufacturing concerns in addition to the present reports from manufacturing corporations.

In the field of wage statistics, the Bureau of Labor Statistics during the past 2 years has developed a pattern for community wage surveys to meet important continuing needs of many agencies for local wage data. Regular surveys of this type are included in the Bureau's proposed programs for 1952, and will be immediately usable to meet the needs for statistical data in determining wage policies and in administering wage controls. Here the adaptation required will be primarily expansion of the programs to include additional cities where local information may be needed in administering the wage stabilization program.

In the field of manpower statistics, information on changes in the size and composition of the labor force is kept up to date as the mobilization proceeds by means of the Census Bureau's current population statistics program. Needs for current employment data in particular industries and areas are being met by supplementing the coordinated employment statistics program conducted by the Bureau of Labor Statistics in cooperation with the Bureau of Employment Security and the State employment security agencies. Expansion and redirection of the reports to the Bureau of Employment Security in local employment service office operations will provide additional detail needed for manpower mobilization activities.

Many other examples could be cited: The statistical reports of the Bureau of Agricultural Economics are providing much of the factual information necessary to the Department of Agriculture in executing its responsibilities for war food programs. The statistical series and analytic work on prices now conducted by the Bureau of Labor Statistics and the Department of Agriculture will be fully utilized by the Office of Price Stabilization; as price-control actions are taken, important adaptations will need to be made in these existing price series. The Seventeenth Decennial Census is providing a vast inventory of the resources of the Nation in terms of the population and its labor force, housing, and farms. The current information collected by the Bureau of Labor Statistics on dwelling units started in the United States and on the number, characteristics, and selling price or rent of new units in selected metropolitan areas, will be used to compare actual volume with the announced Government goal (850,000 units for 1951), to measure effects of housing credit restrictions and materials allocations and controls, and to evaluate the adequacy of housing for defense workers.

In considering the relation of emergency programs to continuing needs for statistical information on the national economy, one other factor should be borne in mind. The emergency programs also obtain directly, as a byproduct of administrative operations, a considerable quantity of detailed information which is a potentially valuable source for statistical compilations. Thus the application forms received directly by the emergency agencies in administering allocation or credit-control programs, for instance, may contain information valuable for purposes of economic analysis. Administrative records such as these should be preserved for later analysis, and are likely to prove very useful in studies of the utilization of productive capacity, capital expansion, economic concentration, and other topics on which available data are inadequate.

In brief, we may summarize by stating that the requirements for statistical data will be greatly increased by the administration of the economic controls necessary during the defense emergency. This information can be obtained most rapidly, economically, and efficiently by utilizing the specialized skills and facilities already available within the Government. In order for these arrangements to be most effective, it is important that the Government's basic statistical services be maintained and strengthened.

APPENDIX 8

COMMITTEE STUDIES UNDER WAY

Flexibility of tax and expenditures programs

One of the recommendations of the Subcommittee on Monetary, Credit, and Fiscal Policies last year called for an intensive study of the various possible methods of increasing the flexibility of governmental tax and expenditure programs, in order to discover whether and to what extent it is feasible to make these instruments more effective for stabilization purposes. A staff study has been outlined and individual assignments made looking toward a final draft for the committee's consideration this spring.

Section 102 tax

The Subcommittee on Investment recommended in its final report last year an intensive study of the application and effect of section 102 of the Internal Revenue Code dealing with accumulations of corporate undivided earnings. A staff study of section 102 has been under way nearly a year and should be completed by early spring. Questionnaire returns have been analyzed and supplemented by original materials from the Bureau of Internal Revenue.

Case studies of low-income families

The report of the Subcommittee on Low-Income Families of last year recommended the gathering of case studies of low-income families. A conference group of private welfare agencies was established at the suggestion of the subcommittee and has submitted 100 cases prepared by workers in their agencies. The committee staff is assisting in the editing of these cases in form for presentation to the committee. The case studies will provide detailed information on how individual families adjust to their low-income situation, and will throw light on causes of their low income as well as avenues for increasing their productivity.

Pension study

In accordance with the recommendations of the Subcommittee on Low-Income Families that a study be made of the effects on the national economy of public and private pension plans, the National Planning Association has been invited to make such a study for submission to the committee. The NPA has accepted the committee's invitation and is now engaged in an exploratory examination of the subject. This project is designed: (1) to outline the pension question in detail; (2) to discover what data are available; (3) to survey whatever research is being done by American business and labor, educational centers and the Government; and (4) to recommend what needs to be done and how to do it. The short project will involve the bringing together of well-informed persons in the field on a formal and informal basis, and the supplementing of their discussions with research. At the conclusion of this 3-month period, the NPA will be in a position to judge the extent of its commitment for the longer range work, and to estimate the time and financial support which will be needed from their contributors to carry out the complete study. Although the NPA reports to the committee will not, of course, necessarily represent the views of the committee or its individual members, it is believed that such an investigation will make a substantial contribution to the better understanding of the pension problem. Senator George, chairman of the Senate Finance Committee, and Representative Doughton, chairman of the House Ways and Means Committee, have concurred in this opinion.

Regional studies

In response to the request of the committee, the National Planning Association is sponsoring a Committee of New England for the purpose of preparing a report on the economy of that region. A committee has been appointed and Leonard Carmichael, president of Tufts College, is serving as chairman.

Interest in the possibility of establishing similar committees in the West and far West has continued. Some materials have been assembled on the special transportation problem of the far West and Secretary Chapman has been asked to make available materials assembled by the Bonneville Power Administration which might be helpful to persons organizing a study of the far West.

Monopoly and competition

In accordance with the interests of several members of the committee, studies have been undertaken and materials are being prepared in executive agencies bearing on the status of competition and small business, especially as affected by defense mobilization measures. Such studies are part of a continuous program of watching concentration of economic power as exercised through control over raw materials, technology, channels of distribution, and credit and price relationships, especially in defense industries, and their impact on small business, on the growth of large firms, and on the maintenance of competitive opportunity. It includes keeping track of trends and changes in the factors that bring about bigness and an examination of measures necessary to the preservation of free private enterprise. To keep up to date with the ever-changing operations of monopolistic enterprise obviously involves close and continuous cooperation with the work of the Department of Justice, the Federal Trade Commission, the SEC, and the Department of Commerce.

Defense procurement prices

In a sellers' market such as exists when a necessitous government makes generous appropriations in order to secure speedy delivery of vital defense items, the procurement problems of government are likely to be singularly acute, particularly when items have to be obtained from three or less suppliers. Concentration of production in defense items and price changes therein may drastically affect small business, free private enterprise, and employment opportunities for years to come. The committee will continue to watch such concentration and price trends in procurement items carefully.

Monetary, credit, and debt management

There continues an active debate on the role of general credit controls in controlling inflation. The committee has recently published a report prepared by the staff, General Credit Control, Debt Management, and Economic Mobilization. This report presents the facts with respect to recent changes in short-term interest rates and their effect upon the money market, servicing the Federal debt, and upon inflation generally. Additional information was obtained by the committee in its recent hearings. Since monetary and credit controls are requisite to successful stabilization of the level of prices, and vital to the preservation of the free enterprise system, this committee will continue to try to be of service to the Congress and to all congressional committees concerned in securing and making available in usable form whatever new information and insights may become available either in the economic journals, in business literature, or in the executive agencies of the Government.

COMMITTEE STUDIES COMPLETED SINCE JUNE 1950

In connection with its "continuing study of matters relating to the economic report," the joint committee has from time to time released for public information pertinent materials prepared for the committee by its staff. Three such studies were issued as joint committee prints during the period from June 1950 to date. The first of these was a study entitled, General Credit Control, Debt Management, and Economic Mobilization, released on January 29, 1951. This study supplements and expands in the light of current developments information made available early in 1950 by the Subcommittee on Monetary, Credit, and Fiscal Policies. The document undertakes to present additional information concerning recent changes in short-term interest rates and their effects on business borrowing, commercial credit, costs of government borrowing, debt management, and inflation.

Materials prepared by the staff on the Underemployment of Rural Families were transmitted to the committee on February 2, 1951. The study, which was an outgrowth of earlier investigations by the Subcommittee on Low-Income Families, presents new information on the extent of underemployment among rural families, what existing governmental programs are now doing to improve the lot of the underemployed farm families, and lists the results of questions directed to technicians in various States as to the extent, causes, and remedies for underemployment of farm families in their areas.

The third staff report was released on February 28, 1951, and presents an analysis of the problem of inflation, based on data from the committee's hearings on the President's Economic Report and from public and private publications and staff conferences with technicians, inside and outside of Government. The report, entitled The Economic and Political Hazards of an Inflationary Defense Economy, was submitted for the use of members of the committee in their consideration of the Joint Economic Committee's report on the President's Economic Report. It attempts to provide the most reliable estimates that can be obtained on the nature and magnitude of the inflation problem and translates these estimates into a Nation's Economic Budget covering the period up to June 30, 1952. Materials are also included on the extent to which inflation in other countries has aided the growth of communism and other subversive political and social movements. An appendix to the report summarizes the views of more than 30 economists and business executives who testified before the committee in the hearings held on the January 1951 Economic Report of the President. Other appendixes summarize the views and recommendations submitted to the committee by outstanding organizations of businessmen, farmers, labor, and consumers, and set forth the technical method and assumptions, together with the basic statistical charts and tables, used in developing the economic estimates in the body of the report.

COMMITTEE HEARINGS HELD JUNE 1950–MARCH 1951

Hearings were held January 22, 24, 25, 26, 29, 31, and February 2, 1951, in connection with the committee's review of the 1951 Economic Report of the President. Members of the President's Council of Economic Advisers and the Director of the Bureau of the Budget appeared before the committee in executive session on the first day of the hearings; these meetings were followed by a series of public hearings and four panel discussions. Representatives of the agencies directly concerned with administering the Government's economic stabilization program made individual presentations before the committee and were followed by panel discussions with outstanding technicians in the fields of general economic policy; fiscal policy; monetary, credit and debt management; and direct controls.

DISTRIBUTION OF JOINT ECONOMIC COMMITTEE MATERIALS

The last report on the distribution of Joint Economic Committee materials covered the period January 1949 through April 1950.[1] Between April 1950 and

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[1] See p. 113, Joint Economic Report, Report of the Joint Committee on the Economic Report on the January 1950 Economic Report of the President, S. Rept. No. 1843, 81st Cong., 2d sess.

March 1951 the Joint Committee on the Economic Report released a total of six studies in the form of committee prints, reports, or documents. In addition to these six studies, the committee still had available for distribution a small stock of some of its earlier studies. Total distribution of these new and prior publications totaled 25,000 copies for the period. The committee also issued during the year, the monthly statistical publication, Economic Indicators. Over 12,500 copies of Economic Indicators were distributed to Members of Congress, congressional committees, the press, and the Council of Economic Advisers.

Ten of the Joint Committee's reports were on sale by the Superintendent of Documents for varying lengths of time during the period April 1950–March 1951, with total sales amounting to approximately 10,000 copies. Sales of Economic Indicators averaged better than 2,500 copies per month.

PUBLICATIONS OF THE JOINT COMMITTEE ON THE ECONOMIC REPORT[1]

JANUARY 1949–MARCH 1951

Joint Economic Report (Report of the Joint Committee on the Economic Report on the January 1949 Economic Report of the President), Senate Report 88: March 1949.

Joint Economic Report (minority views of the Joint Committee on the Economic Report on the January 1949 Economic Report of the President), part II of Report 88: April 1949.

Employment and Unemployment (initial report of the Subcommittee on Unemployment), committee print: July 1949.

**Economy of the South* (the impact of Federal policies on the economy of the South), committee print (sale price 25 cents): July 1949.

**Factors Affecting the Volume and Stability of Private Investment* (materials on the investment problem assembled by the staff of the Subcommittee on Investment) Senate Document 232 (sale price, 55 cents) September 1950: reprinted from committee print of October 1949.

Hearings on Federal Expenditure and Revenue Policies, September 23, 1949, containing National Planning Association reports prepared by Conference of University Economists: October 1949.

Selected Government Programs Which Aid the Unemployed and Low-Income Families (materials assembled by the staffs of the Subcommittee on Unemployment and the Subcommittee on Low-Income Families) committee print: November 1949.

**Low-Income Families and Economic Stability* (materials on the problem of low-income families assembled by the staff of the Subcommittee on Low-Income Families) Senate Document 231 (sale price, 30 cents) September 1950: reprinted from committee print of November 1949.

**Compendium of Materials on Monetary, Credit, and Fiscal Policies* (a collection of statements submitted to the Subcommittee on Monetary, Credit, and Fiscal Policies by Government officials, bankers, economists, and others) Senate Document 132, (sale price, $1): January 1950; reprinted from committee print of November 1949.

Hearings, Subcommittee on Investment (September 27, 28, 29, 1949) November 1949.

Basic Data Relating to Steel Prices (materials assembled by the staff of the Joint Committee on the Economic Report for use in steel hearings) committee print: January 1950.

**Highways and the Nation's Economy* (materials assembled by the staff of the Joint Committee on the Economic Report), Senate Document 145. (Sale price 20 cents): January 1950.

Hearings on Monetary, Credit, and Fiscal Policies (September 23, November 16, 17, 18, 22, 23, and December 1, 2, 3, 5, 7, 1949); January 1950.

**Monetary, Credit, and Fiscal Policies* (Report of the Subcommittee on Monetary, Credit, and Fiscal Policies), Senate Document 129. (Sale price 15 cents): January 1950.

**Employment and Unemployment* (Report of the Subcommittee on Unemployment), Senate Document 140. (Sale price 30 cents): February 1950.

Hearings, Subcommittee on Investment (December 6, 7, 8, 9, 12, 13, 14, 15, 17, 1949), February 1950.

Hearings, Subcommittee on Low Income (December 12, 13, 14, 15, 16, 17, 19, 20, 21, 22), March 1950.

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[1] Publications marked with an asterisk (*) are on sale at the Superintendent of Documents, Government Printing Office, Washington 25, D. C. It is the general practice of the Joint Economic Committee to make available a limited supply of single copies of its publications for free distribution and to arrange for the sale of its studies through the Superintendent of Documents to take care of quantity orders.

Printed reports of hearings are available only on special request for each hearing, and are distributed to depository libraries throughout the country.

Hearings, January 1950 Economic Report of the President (January 17, 18, 19, 20), February 1950.

Hearings, December 1949 Steel Price Increases (January 24, 25, 26, 27), March 1950.

**Low-Income Families and Economic Stability* (final report of the Subcommittee on Low-Income Families), Senate Document 146. (Sale price 20 cents): March 1950.

**Volume and Stability of Private Investment* (final report of the Subcommittee on Investment), Senate Document 149. (Sale price 15 cents): March 1950.

**December 1949 Steel Price Increases* (Report of the Joint Committee on the Economic Report), Senate Report 1373. (Sale price 20 cents): March 1950.

**Handbook of Regional Statistics* (material assembled by the staff of the Joint Committee on the Economic Report), committee print. (Sale price $1): April 1950.

**Joint Economic Report* (Report of the Joint Committee on the Economic Report on the January 1950 Economic Report of the President), Senate Report 1843. (Sale price 35 cents): June 1950.

**General Credit Control, Debt Management, and Economic Mobilization* (materials prepared by the staff of the Joint Committee on the Economic Report), committee print. (Sale price 25 cents): January 1951.

Underemployment of Rural Families (materials prepared by the staff of the Joint Committee on the Economic Report), committee print: February 1951.

* *The Economic and Political Hazards of an Inflationary Defense Economy* (materials prepared by the staff of the Joint Committee on the Economic Report), committee print. (Sale price 25 cents): February 1951.

Hearings, January 1951 Economic Report of the President (January 22, 24, 25, 26, 29, 31, February 2), March 1951.

**Economic Indicators* (a monthly publication of the Congress under Public Law 120, 81st Cong., 1st sess.) (Sale price 15 cents a copy, $1.75 a year): monthly.

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