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BOARD OF GOVERNORS  
OF THE  
FEDERAL RESERVE SYSTEM  
WASHINGTON



ADDRESS OFFICIAL CORRESPONDENCE  
TO THE BOARD

September 18, 1944

Mr. Jones:

Attached are three copies of Hansen's memorandum with some slight editorial changes. We hope it does some good.

R.A.M. and K.B.W.

September 18, 1944

POSTWAR EMPLOYMENT PROGRAM

During the past four years the United States has set a new record of economic expansion. The war galvanized the American economy into a mighty effort. We have produced ships, planes, tanks, guns, uniforms, food and other supplies to equip our vast new Army and Navy of over 11 million men and women, and we have aided on a stupendous scale in furnishing equipment and supplies for our Allies. In the present year, 1944, war production is running at the rate of \$90 billion per year. At the same time we are able to produce \$110 billion of civilian goods and services. While fighting the greatest war in history and using nearly half our resources for war purposes we have at the same time succeeded in raising the consumption and basic living standards of the population to a higher level than any peacetime year. Total national production has risen to nearly double the boom year 1929 and to more than three times the depression years 1932 and 1933.

This record has amazed us; it has amazed the world. The achievement in production exceeds anything which even the most optimistic had thought possible. It is a striking demonstration of the ingenuity, resourcefulness, technical knowledge, and organizational skill of the American economy. It is a revelation of what American business, labor, and agriculture can do when there are adequate markets for their goods and services and when they all cooperate together to reach a common goal.

The war production achievement stands out as a peak against the background of past performance. It presents both hopes and fears for the future--hopes of a new high level of prosperity and living standards; fears of vast unemployment.

As an intelligent and vigorous nation we cannot vacillate between hopes and fears. We cannot rely on chance and good luck. We must know where we are going. We must have confidence in ourselves and in our future.

Our labor supply is growing and its efficiency is increasing year by year. If we let production and income fall to the prewar level we should have 20 million people unable to find work.

Having gained a new and expanded view of the possibilities that lie before us, having had our sights lifted to new levels hitherto undreamed of, the people will rightly refuse to go back to prewar standards.

It is the task of the postwar to translate the demonstrated production power of our economic system into peacetime prosperity; to assure jobs for all; to provide adequate markets for private enterprise; to push on to new and higher standards of living for all people in the nation.

In the attainment of postwar goals business, labor, agriculture and government all have important roles to play. Private enterprise-- labor, business and agriculture--can and will produce the goods and services. But they can only function at full efficiency with continuous effectiveness within the framework of wise and vigorous government policies.

The Federal Government must assume responsibility for its part in a full employment program. It alone can establish the framework within which families, private business and state and local government can plan and execute effectively their part. No family can prudently plan the building of a house or the education of the children if job prospects are

uncertain. No private business can in any realistic fashion plan ahead if, leaving things to chance, we fluctuate between boom and depression. No mayor of a city, no governor of a state can plan a program for their respective governments if left in the dark about the plans of the national government. Indeed, any program which they might undertake would be wholly wrecked if our national income in the future is to soar and collapse as in the past--\$80 billion in 1929, \$40 billion in 1932, and \$160 billion in 1944. Such fluctuations make planning for families, for private business and for state and local government utterly impossible. Assurance of general economic progress and stability can only be provided by sound national and international policies. On such a foundation alone can the initiative of all members of the community--individuals, business units and local governments--flourish.

To provide this foundation the Government must assume the following responsibilities:

1. It is a primary objective and responsibility of government to underwrite and maintain full employment. Full employment must be defined within the pattern of a reasonably short work week, say 36-40 hours, and suitable provision for leisure in terms of vacations with pay.

Assurance of full employment requires the maintenance of an adequate flow of total expenditures, public and private. Adequate markets for business and agriculture must come from adequate expenditures by individuals on consumers' goods and services, by business units on capital outlays, and by government on social services and on improvement and developmental projects.

The government must assume responsibility to so manage its fiscal operations that the total flow of expenditures, public and private, will be adequate and stable. It must be prepared, therefore, to vary its own expenditures to offset fluctuations in private expenditures, and to place a cushion under the total volume of expenditures so as to sustain the total demand for goods and services.

2. The government must assume responsibility to encourage and promote new ventures and provide the basis for the expansion and vigorous growth of private enterprise. Free enterprise has been and will remain the backbone of the American economy. The role of the government is to create conditions under which free enterprise can reach its maximum possible development, and to supplement its activities in areas where only the government can do the job.

The development of free enterprise is a major prerequisite for the achievement of full employment. But equally, full employment is a prerequisite for the development of free enterprise. There is a close community of interest between all the groups of our economy. If there are jobs for all, the businessmen and the farmers have large markets and can operate profitably. If there is unemployment and people do not have the funds with which to buy, businessmen and farmers as well as workers are in trouble.

Expansion is a necessary condition for the success of free enterprise. Expansion requires adequate investment opportunities. Here the government can play a vital role. Investment outlets for private enterprise can be promoted by a comprehensive program of regional resource development, by urban redevelopment, and by a thoroughgoing modernization

of our highway and airport systems. To encourage new products, new processes, and new industries the government should undertake a large program of scientific research. Finally, the government must provide a tax structure which encourages risk-taking and business expansion.

The government must assume responsibility to promote the most efficient use of labor and resources. To this end it should promote comprehensive planning with respect to land use, both urban and rural, and facilitate the movement of population into those areas and industries which can contribute most to real income.

3. The government must assume responsibility to promote economic stability, to prevent both inflation and deflation. To this end the government must be prepared on the one side to take vigorous measures to prevent a threatened slump, and on the other side to check an inflationary and speculative boom. The government cannot escape responsibility to preserve the internal purchasing power of money and thereby to safeguard the savings of the people.

The government must promote a pricing and wage adjustment program consistent with expansion and progress. The broad aim should be stability of prices, particularly the cost of living. We must guard against a high pricing policy which permits industry to "break-even" at low capacity output. The program involves an orderly upward adjustment of wages and money incomes generally in proportion to the over-all increase in per capita productivity. Industries which enjoy a more rapid increase in productivity than the general average should reduce prices so as to give the widest possible benefit to consumers generally, and to tap larger

consumer markets for the expanding product. Thus an industry experiencing exceptionally rapid progress would be expected to lower its prices to the consumer as in the case of the automobile. In general, however, as productivity in the whole economy increased, money income would be expected to rise so as to maintain substantial stability in the cost of living as a whole, thereby permitting a general rise in real income commensurate with the increase in per capita productivity.

4. The government must, moreover, assume responsibility to promote rising living standards for all its citizens. To this end it must underwrite and guarantee a national minimum of income and public services. It must therefore undertake an expanded program of social security, including unemployment and old-age insurance, and provision for temporary and permanent disability. It must greatly improve and extend the facilities for public health and education, especially in the backward areas in our country. It must carry through a comprehensive veterans program. It must enforce minimum wages and improving labor standards.

These are the broad goals that this administration is pledged to achieve when victory is won. The administration is prepared to assume the basic responsibilities necessary to assure the attainment of these aims. The people will not and need not again permit the waste or the tragedy of useless sacrifice imposed by violent price and wage fluctuations, insecurity, and mass unemployment. America is a great nation. Within its grasp are the means to become far greater. There are no limits to our opportunities to build a better future for us and our children. We need only to work together in peace as well as in war to reach our common goals of full employment, economic security, and progress within the