

by those who shape it; and the balance which depends upon economically efficient distribution of national income not only between producers and consumers, or between employers and workers, but also between industry and agriculture and among the various sections of the country.

Although those who operate our business system will continue voluntarily to make the decisions that add up to or subtract from the various essential economic balances, it does not follow that any individual or group alone can acquire the perspective and sweep of view over the whole economy which would enable them to synchronize and coordinate their efforts with those of others. The Congress clearly recognized this in requiring that the President in his annual Economic Report to the Congress should state "needed levels" of employment, production, and purchasing power. In discharging this responsibility, the Chief Executive exercises some leadership, but these needed levels cannot be dissected and defined and amplified without consultation and advice from businessmen, workers, farmers, and consumers. This is necessary not only to decide what the Government should or should not do, but also to make available working forums in which these groups may meet together and come to better accords as to what they themselves can and should do.

In the pursuit of its clearly defined responsibilities under the Employment Act, the Council fully recognizes that the tasks of economic analysis which it is called upon to perform require more study, more exchange of views, and further improvements in the tools of economic and of political science. We anticipate that in succeeding reports we may bring more exact measurements and refined judgments to bear upon the key issues that we have here disclosed.

### III. Maximum Production Would Involve Real Price Competition

Our review of the meaning of maximum production and means of attaining it has touched on the parts played by natural resources, created capital, labor effort, and managerial direction. It has emphasized the basic role of private enterprise and the complementary role of government action. In accord with the national purposes declared in the Employment Act, we have stressed the objective of continuous and well-balanced use of the Nation's productive resources as against short-lived booms of unbalanced overexpansion and overcapitalization, with neglect of prudent measures of conservation, these booms being followed by wasteful periods of unemployment, plant idleness, and demoralizing liquidation of property.

If this general analysis is projected against the concrete conditions which have unfolded during 1947, it should give us some sobering reflections. Have we used the time and opportunities available to us since VJ-day to organize our economic life skillfully and effectively for sustained maximum production and peacetime prosperity? Or can we discharge ourselves of responsibility in the matter, assured that the productivity of our resources, spontaneously—even if tardily—expressing itself in a flow of goods, will automatically solve our economic problems?

In closing this report, we wish to focus attention on a broad issue, already touched on from particular angles, which we believe may have to be faced more definitely before the end of 1948. Or if not then, sooner or later in the not distant future. This issue may be put pointedly in the form of a question: Will our present economic problems—inflation, high cost of living, threatened recession, and all the rest—be solved merely by “production, more production, and still more production?” Or may full production, in catching up with market demand, force disastrous price breaks, result in production cut-backs and thus prove to be its own undoing?

In the midst of a period of postwar shortages and strong domestic and foreign demand, it is but natural that both consumers and businessmen should look to the acceleration of production as the panacea by which all their ills would be cured. Consumers have felt the inconvenience of not being able to find the goods they want even though they had dollars with which to buy them. They have also felt the pressure of mounting prices as a result of buyer competition for scarce goods. They clamor for all possible expansion of production as a means of relief from these conditions. Businessmen, on their part, have been glad to make the most of the scarcity argument to absolve themselves of responsibility for high prices and to hold out hope that fuller production will automatically remedy the situation.

Prominent leaders in business and public life have proposed that the standard work week be lengthened from 40 hours to 44 or even 48. This done, they say shortages would rapidly be brought to an end, prices would come down, and all would be well. This proposal, however, leaves several unanswered questions.

It is evident that we cannot all work longer hours and thereby end present shortages. There are many industries that are on a continuous process basis, and hours cannot be added to their working day. In some industries, too, the problem is shortage of materials; lengthening the hours of work would not produce more final output but simply aggravate the amount of unproductive time which already shows such an adverse effect on productivity rates. And farmers' output is not determined to any significant extent by standard hours, but basically by weather conditions.

Even in those manufacturing lines where materials are adequate and weather impediments not the significant factor, it is not clear that merely stepping up the amount of labor effort would meet the real economic problems which confront us. There is a dilemma presented by the assertion, frequently made, that stepping up production will bring prices down to the proper point and the assertion, often made by the same people, that prices must be where they are because of the level of costs or that any wage advance since VJ-day not matched by like increase in labor productivity has been a maladjustment or inflationary factor.

If the producers who clamor for a longer work week have in mind primarily relief from payment of wage premiums for overtime work and a resultant lower average labor cost which would be reflected in lower selling prices, this could do something to check inflationary forces. But this would be true only so long as that saving is reflected in a checking of price increases or their lowering rather than giving employers or dividend receivers more buying power to bid up other prices.

Producers have been saying that they must move up their prices in order to keep up with costs and survive. If then the coming of larger production will make further rise impossible and force sharp reductions, will this be effected without checking of the level of productive activity? Or will the protective motive result in production cut-backs and cumulative recession? If producers must move up their prices in order to survive, how are they to go on producing in volume after prices fall in response to refilled pipe lines, unstopped bottlenecks, and a generally improved state of productivity?

Near-maximum production exists today by virtue of a whole group of rather abnormal circumstances. With special export demand, the more or less temporary crop shortages, the incompleting catching up on war and prewar depression interruptions of replacement in durable goods, and the continuance of postwar military preparedness, we are by no means in a stable equilibrium of a high production economy.

This means clearly that in the broader and longer-run sense, accelerated production or enlarging the flow of current product will not alone *solve the problem* of how to maintain a maximum level of production. It will simply advance the time when we shall have to *face the problem* of what price, income, and property value adjustments have to be made to strike an internally consistent or stable equilibrium. It seems clear that in reaching this equilibrium many industrial prices must come down at least in relation to other prices. Many rates of profit must subside while reasonable profitability is established in other areas. Gross imbalances in the wage structure must be rectified by some drawing together of those now at opposite extremes of the wage scale. Better balances of income among sections, groups, and individuals must be attained.

What relationships are needed in a given instance cannot be told by formula or foretold in advance of the evolving situation. But the attitude which should prevail is clear. In any composite of salutary policies, none is so significant as the achievement and maintenance of real price competition, which means the lowest price consistent with a fair return in a stable economy rather than the highest price that the traffic will bear in an unstable economy. Maintenance of a state of maximum production, once it has been reached, is absolutely inconsistent with the use of monopolistic control to exact for any organization or unit a more favorable distributive position than would be meted out to it by a system of completely fluid competition. This is recognized in the policy declaration of the Employment Act for "free competitive enterprise." The extent to which this policy is effectuated will be the supreme test of our business system.