

BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM

Office Correspondence

Date August 18, 1944

To Chairman Eccles

Subject: "American White Paper"

From Professor Hansen

Attached is the first working draft of our project.

We have had two meetings this week and I have assigned sections of this working draft for further development to the different members of the working group. We are meeting again next week, after which a revision will be made, and I shall keep you informed from week to week.

Aug 18.

August 17, 1944

POSTWAR EMPLOYMENT PROGRAM

Introduction:

1. Our sights have been raised.

During the war period we have achieved the entire war program and at the same time raised consumption standards above pre-war levels--all of this in spite of the withdrawal from the labor force of twelve million in the most productive age groups. We have produced \$200 billion of civilian and military goods and services a year in the peak of the war effort. If we let the postwar income fall to the 1939 pre-war level (slightly above the boom year 1929) we shall have 20 million unemployed.

(Insert paragraph on organizational and productive achievements of private enterprise.)

2. The legacy of the war.

Four years of war conditions will increase both the promise and the difficulties of the postwar period. Technological progress will improve our capacity to produce after the war. We shall have a greatly increased labor force even after several millions of women, old people, boys and girls have withdrawn from the labor market. The reconversion of the economy to a peace basis will give rise to difficult problems. Our chances for success later will depend to a large extent on the adequacy of our transition policy. In the wake of the war are the potentialities of a postwar re-stocking and re-equipment boom. Without planning, the prospects point to violent fluctuations--domobilization crises, booms and depressions.

3. Private enterprise primary factor in our economy. Government must act as balancing, contributing and sustaining factor.

I. Governmental Aims and Responsibilities.

1. It is a primary aim and responsibility of government to underwrite and maintain full employment. Full employment means adequate employment opportunities, but it does not mean forced or strained employment. It does not mean that older people who should be retired continue to work; it does not mean that younger people who should be in school should work; it does not mean that, in general, mothers and housewives would leave the home; it does not mean a long work week or overtime. Full employment must be defined within the pattern of a program of

a reasonably short work week, say 40 hours, a suitable provision for leisure in terms of vacations on pay. It is not a program of continuous strain and forced effort, such as a war employment program must necessarily be.

2. The government assumes responsibility to promote economic stability, to prevent both inflation and deflation. To this end the government must be prepared to take vigorous measures to prevent a threatened slump, deflation of prices and a cumulative decline in business activity and employment. The government, moreover, cannot escape responsibility to preserve the value of money and therby to safeguard the savings of the people. This means that government is prepared to take steps to prevent any inflationary development with respect to prices, and especially the cost of living.
3. 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 social services. It must therefore undertake an adequate program including:
 - a. social security, including unemployment and old-age insurance, and provision for temporary and permanent disability
 - b. public health
 - c. education
 - d. a comprehensive veterans program
 - e. minimum wages and labor standards
 - f. a farm security program
4. The government must assume responsibility to promote the most efficient use of labor and resources. To this end it should undertake a large program of scientific research, promote comprehensive planning with respect to land use, both urban and rural, undertake basic development and improvement projects, both regional and urban, and facilitate the movement of population into the areas and industries which can contribute most to real income.

5. The government must assume responsibility to encourage and promote new enterprise and provide the basis for the expansion and vigorous growth of private enterprise in general. To this end it must ensure an adequate total demand for goods and services, promote healthy labor relations and the settlement of industrial disputes through collective bargaining, and provide a tax structure which encourages risk-taking and business expansion.

II. Basic Requirements.

The basic requirements for the achievement of (a) full employment, (b) economic stability and (c) rising living standards are the following:

1. An adequate total volume of expenditures, public and private.

The maintenance of an adequate volume of effective demand to provide full employment for our productive resources, to provide adequate job opportunities for our labor force, to provide adequate markets for business and agriculture requires a flow of expenditures by individuals on consumer's goods and services, by business on capital outlays, and by government on social services and an improvement and developmental projects.

Government must assume responsibility to so manage its expenditures on social services and on improvement and developmental projects that the total flow of expenditures, public and private, will be adequate and stable. It must be prepared, therefore, to vary its expenditures to offset fluctuations in private expenditures, and to place a cushion under the total volume of expenditures so as to ensure an adequate total demand for goods and services. Government must also promote business expenditures not only by ~~promote~~ ~~ing~~ a high level of consumption but also by opening up new private investment outlets. This government can do by underwriting a national minimum of social services and of individual income, by undertaking basic development projects, by initiating research, and by appropriate tax policies.

2. Economic stability. This involves 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 general 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.

3. The most efficient use of resources, including labor, land and other natural resources, and capital facilities.

This involves the utmost mobility of labor and flexible adjustment in the use of resources so as to eliminate waste and inefficiency. Submerged land should be taken out of use, and labor and capital in a declining industry should be encouraged to transfer to other regions and other industries.

III. The Problem of Transition and Reconversion.

- A. The transition period between the defeat of Germany and the defeat of Japan.
 1. The extent and magnitude of demobilization of armed forces and war workers.
 2. Adequate unemployment compensation for dismissed war workers and veterans until re-absorbed into the expanding private industry; provision for transportation expenses.
 3. A program for increased production of civilian goods.
- B. The transition period between the defeat of Japan and the post-war re-stocking boom.
 1. Over-all reconversion program to peacetime, including the use of government-owned war plants, facilities, and supplies as a means of facilitating reconversion and a rapid increase in civilian production.
 2. A program of public works, federal, state, and local, having due regard to regional dismissal of war workers and regional redistribution of veterans.

3. An analysis of the commodities that are likely to experience serious price decline, including agriculture, raw materials, etc.; an analysis of commodities, the supply of which may quickly become scarce and which may involve inflationary developments.
4. An analysis of the problem of reduced take-home pay owing to a reduction in overtime and penalty pay and the question of adjustment of wage rates, partly to rectify inequalities and partly to offset in a measure the decline in take-home pay. Such adjustment of straight-time pay would in most cases be upward, but in some cases where wartime wages are out of line, it would involve a downward adjustment. In general, in the transition period there will be some adjustment of prices downward, while certain specific prices owing to the wage adjustment program would have to rise. To reach a proper equilibrium between total wage and salary pay roll and a postwar full employment income of, say \$130-40 billion, there must be some general upward adjustment of straight-time pay on the one side, and some decline in the general level of prices. If both adjustments occur, neither should be seriously disturbing.
5. A study of an appropriate level of taxes during this period especially the problem of the maintenance of the excess profits tax and the level of corporate and individual income taxes.

C. The Period of Re-stocking of Consumer's Durables and Re-equipment of Production Facilities.

1. Retention of rationing and price control where necessary, including control of land values.
2. A tax program designed to check inflationary tendencies.
3. A systematic program to secure an optimum redistribution of population to areas and industries consistent with the requirements of a peacetime economy.
4. Control of public works and residential construction so as to promote a smooth transition and prevent boom excesses.

IV. Policies for Full and Stable Employment with Rising Living Standards.

A. Action Programs.

1. The development of new enterprise, and the stimulation of private business in general.

An expansionist and developmental program should include ways and means of encouraging new business and new enterprise. Such a program involves among other things the thorough reform of the patent system and the institution of an adequately financed institute of governmental research, the findings of which would be available for all business, large and small alike. New enterprise and small business should, moreover, be fostered by a mutual loan insurance system similar to the FHA and underwritten by the federal government. Such a system of mutual loan insurance would enable new enterprise and small business to obtain credit at gilt-edged interest rates. Moreover, the mutual loan insurance organization should provide competent technical assistance to new enterprise and small business in the planning of a new venture and in conducting business continuously on an efficient plane.

2. A comprehensive long range nation wide development and improvement program.

Such a program includes:

- a. regional resource development

The developments that have already been undertaken in the TVA, the Columbia River Valley and elsewhere indicate the need for and the expansionist effect of resource development in different regions of the United States. Others that urgently need development are the Colorado River Valley, the Arkansas River Valley, the Missouri River Valley, the Ohio River and Great Lakes area, and different segments of the Atlantic seaboard.

- b. urban redevelopment and housing

There is an urgent need for urban redevelopment throughout the United States. Everywhere we witness the decay of cities in their central areas and the spread of slum

and blight. Measures must be taken at the earliest possible moment to overcome this process of deterioration. In such a program each level of government must play a part, the federal government mainly providing the financing involved in the acquisition of the slum and blighted land and in subsidizing low cost housing. The comprehensive planning must be done by the cities themselves and the cities themselves must assemble the land and undertake the lease or sale of the land to private development companies and the building and management of public low cost housing. Emphasis in an urban redevelopment program must be placed upon the need for comprehensive master planning for the urban communities, the control of densities, the development of neighborhoods, including parks and playgrounds, and the improvement of transportation, including improved terminal facilities and express highways through and around the cities. The assembly of the land, the program of demolition of existing obsolete structures by creating an increased vacancy will serve as a stimulus to private housing. At the same time it is quite impossible to house properly the present slum dwellers without providing in subsidized low cost public housing for that portion of the wage earning class whose incomes are inadequate to pay the economic rent for a standard dwelling.

- c. public aspects of transportation, including public roads, port facilities, airports, and waterways.
- d. agricultural development program
- 3. Underwriting a national minimum of social services, including social security, public health, education, veterans program, minimum labor standards and farm security program.
- 4. International economic collaboration.

The International Bank for Reconstruction and Development formulated at Bretton Woods provides the machinery for sound international investment and for the development of the resources of backward areas. The Bank, in fact, is a system of international mutual loan insurance under which new development projects in the backward countries can obtain loans in the leading capital markets of the world underwritten by all the nations of the world and up to the extent of their

subscriptions in the Bank, thereby ensuring gilt-edged interest rates for all such projects. Moreover, each project would have the benefit in its planning stage of a competent study and analysis of its productivity and soundness and also the benefit of technical advice. The development of backward areas serves to promote a high level of employment and income in a country like the United States partly by providing an outlet for our surplus savings, partly by providing a market for our heavy goods industries, steel machinery and equipment of all kinds, and partly by promoting a higher level of trade over the long run with these backward countries as their standard of living and purchasing power rises.

B. The financing problems of an employment program.

How shall we finance the national minimum and the program of national development and expansion outlined above? The program we find will be financed partly from a system of progressive taxation and partly by borrowing. Many of the development projects will be more or less self-liquidating and therefore clearly justified. Whether such a program can in the long run be adequately financed from progressive taxation and from the amortization payments on self-liquidating projects so as to prevent a rise in the federal debt cannot easily be categorically answered. It is at any rate possible to set out clearly the limits within which the use of the public credit is necessary. It can be convincingly shown that the limits are such that there need be no fear that the national debt will rise proportionately more rapidly than the national income. Accordingly, the problem remains a thoroughly manageable one. How far the use of the public credit is needed depends, indeed, in a large part upon the extent to which the underwriting of a national minimum by government may raise the ratio of private consumption expenditures to disposable private income and the extent to which the national development programs may enlarge the outlet for private investment sufficiently so private capital requirements will be able to use the flow of private saving.

C. Administrative and legislative machinery.

To enable the government to underwrite and guarantee full employment and high levels of income and business activity on a sustained basis it becomes necessary to improve substantially the administrative and legislative machinery of government having to do with these problems. It will be necessary to set up on the administrative side a national investment board or a

fiscal authority to cooperate closely with a joint congressional fiscal committee. Under a broad legislative grant a program of public construction should be laid out for a period of 5 to 10 years. The national investment board or fiscal authority should be allowed to adjust and fluctuate the total expenditure so appropriated according to the requirements of economic stability. A long range public construction program should be planned in advance to the blueprint stage and should include a properly balanced assortment of projects, short term and long term, so that the construction could be adjusted so as to stabilize the entire construction industry, public and private, at a high level. The public construction involved includes, in particular, three types: (a) standard public works, (b) development projects of all kinds, large and small, and (c) public housing. The public investment board or fiscal authority should, moreover, operate within a broad grant of power by Congress and, within specified limits imposed by Congress, should be empowered to make variations in income tax rates and in social security pay roll taxes as a means to regularize the flow of total expenditures and to promote economic stability.

V. Conclusion: The Role of the State and the Role of Private Enterprise.

The statement should conclude with an analysis of the role of the federal government in underwriting and maintaining an adequate volume of effective demand and purchasing power so that business can find adequate markets and operate at sustained and high levels of activity. The interrelationship between the federal government and state and local government should be explored, each performing appropriate functions so as to preserve local economy to the utmost possible extent and yet take full advantage of the vast fiscal powers of the federal government, as a means of ensuring full functioning of state and local governments within their appropriate spheres.

Under such a system the government will ensure and underwrite an adequate volume of purchasing power and effective demand by maintaining a national minimum of social services, by undertaking an improvement and development program of public works, regional resource development, urban redevelopment and public housing, and by underwriting and making loans to private business and to foreign countries. The combined flow of expenditures can within this pattern be varied so as to assure stability and high levels of employment and business activity. These expenditures of the state involve direct ownership and operation only in limited fields such as public power and, in the case of local government, public housing. Public ownership of power facilities does, indeed, involve more or less

competition with private enterprise, but the line of demarcation between public and private can and should be worked out. Basic and comprehensive regional development programs cannot in the nature of the case be undertaken by private enterprise. But within the scope of these broad regional public development projects private enterprise, including private power, can be fitted in so that public and private enterprise in such development projects mesh and dovetail with one another, each reinforcing and supplementing the other. Properly worked out, it can be seen that such a program fundamentally does not mean that the state supplants private enterprise, but rather enlarges outlets for private enterprise. Here and there such a program does, indeed, impinge upon certain special private interest groups, but this is incidental to a broad comprehensive program which invigorates and opens up fields for private enterprise.

Such a program does not impose direct controls upon business regulating what it is to produce at what price, goods to be sold, or how production is to be organized. The program leaves individual private enterprise quite free to operate within the framework of a free market and under conditions of open competition. The program is designed to ensure a proper functioning of the free market and the price system by underwriting the total effective demand. It is not a production control program. It is a program to underwrite and sustain a flow of total expenditures, public and private, adequate to provide sustained markets.

Such a program is designed to promote the growth and expansion of private enterprise. The role of the state is a marginal one. The government supplements and sustains private expenditures by useful and productive community expenditures designed on the one side to ensure high standards of community services and the improvement and development of our human resources, and on the other side to improve and develop the material resources of the nation. The production of goods and services will be carried on by private enterprise except in such limited cases as clearly can better be undertaken by the government--federal, state, or local. In the usual case even public development projects when properly planned ahead can be undertaken under private production contract.

Such a program should be undertaken on a continuous and sustained basis. It is a program designed to underwrite a continuous high level of employment and income on a sustained basis. Such a program

provides insurance against any drastic cumulative deflation and depression. Nevertheless, while operating on a continuous and sustained basis, there must be sufficient flexibility in the program to offset disturbances and fluctuations in the functioning of the economy and provide not only a high level of income and employment, but also substantial economic stability.