

V. Long-Range Objectives for the American Economy

OUR ABILITY TO GROW

WHILE striving to overcome the inflation of today, we cannot safely neglect the problems of tomorrow. No great nation lives for the moment alone. In restraining the excessive demand which is now apparent, we must not cripple the market for an expanding output of American industry and agriculture. Our whole history shows that unless we go forward we shall slip backward. Our economy should be stable, but nonetheless it must continue to grow.

We cannot set aside long-range considerations while we deal with the immediate task of combating inflation. The Employment Act requires that we set objectives for the needed levels of employment, production, and purchasing power. Such objectives require that we look ahead and appraise our economic potentials in the perspective of long-range economic growth.

The best way to realize the growth that we can achieve is to look at what we have recently done. The Nation's Economic Budget has already been used in this Report as a summary device to depict the present state of our economy. In table 11, it is used to show the enormous strides that we have made since just before World War II, with the figures adjusted to allow for price changes.

No one can fail to be impressed by the fact that, within 8 years, our annual national product has increased by about 53 percent measured in constant prices. Some part of this increase is explained by the fact that our economy in 1939 was not running at maximum employment or production. The relentless pressure of the war speeded up certain economic developments. The American people hold a profound conviction that our war-time production record furnishes a significant demonstration of what we can do with maximum employment and effective economic policies.

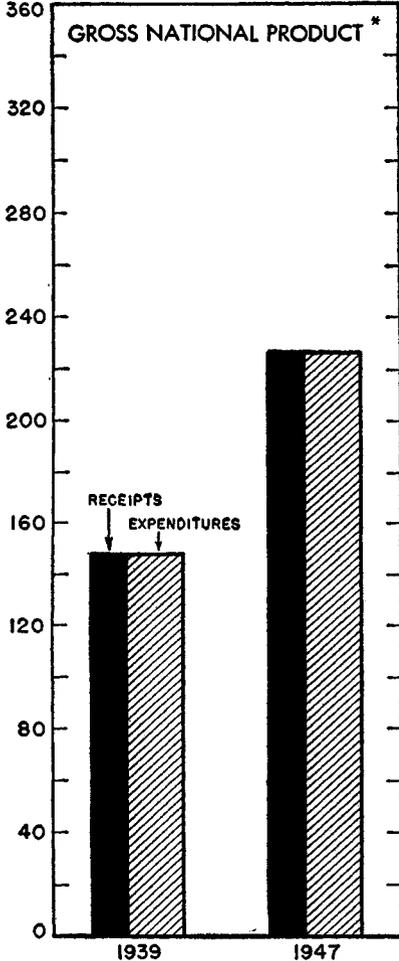
In recent years, a number of attempts have been made by private and public research agencies to measure the growth that lies ahead if we are successful in maintaining maximum levels of economic activity. These

CHART 11

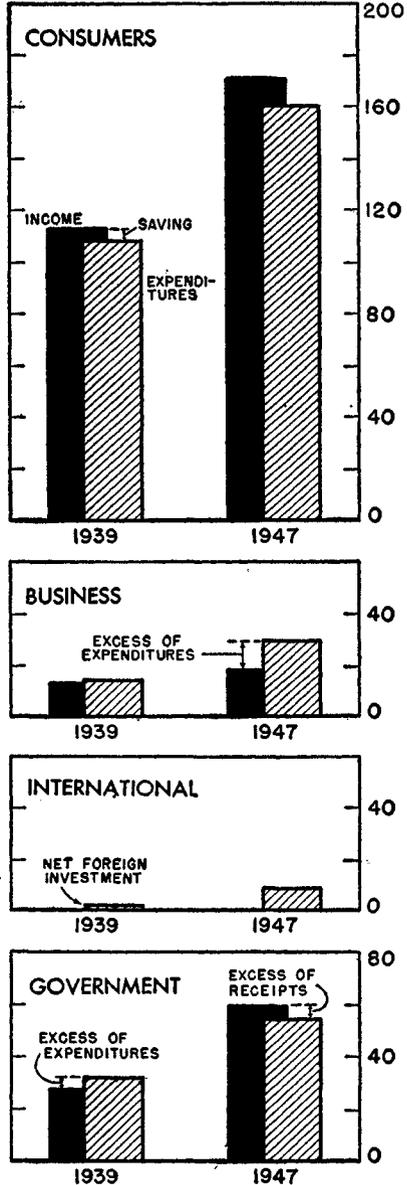
THE NATION'S ECONOMIC BUDGET IN CONSTANT DOLLARS

... Showing our economic growth from 1939 to 1947, with adjustments for changes in prices

BILLIONS OF DOLLARS
1st HALF OF 1947 PRICES



BILLIONS OF DOLLARS
1st HALF OF 1947 PRICES



*GROSS NATIONAL PRODUCT IS NOT EXACTLY THE SUM OF THE COMPONENTS BECAUSE OF CERTAIN ADJUSTMENTS. SEE APPENDIX A.
SOURCE: SEE APPENDIX A.

TABLE 11.—*The Nation's Economic Budget in constant dollars, calendar years 1939 and 1947*

| Accounts | Billions of dollars, first half of 1947 prices | | | | | | Percent increase 1939-47 |
|--|--|---------------|---------------------------|---------------------------------|---------------|---------------------------|--------------------------|
| | Calendar year 1939 | | | Calendar year 1947 ¹ | | | |
| | Re-ceipts | Expend-itures | Excess (+) or deficit (-) | Re-ceipts | Expend-itures | Excess (+) or deficit (-) | |
| Consumers: | | | | | | | |
| Disposable income..... | 112.5 | | | 171.0 | | | 52 |
| Expenditures..... | | 108.2 | | | 160.2 | | 48 |
| Saving (+)..... | | | +4.3 | | | +10.8 | 151 |
| Business: | | | | | | | |
| Undistributed profits and reserves..... | 13.1 | | | 17.1 | | | 31 |
| Gross private domestic investment: | | | | | | | |
| New construction..... | | 7.4 | | | 10.2 | | 38 |
| Producers' durable equipment..... | | 6.4 | | | 17.3 | | 170 |
| Net change in inventories..... | | .6 | | | 2.1 | | 250 |
| Total | | 14.4 | | | 29.6 | | 106 |
| Excess of receipts (+) or investment (-)..... | | | -1.3 | | | -12.5 | 862 |
| International: | | | | | | | |
| Net foreign investment..... | | 1.3 | | | 8.4 | | 546 |
| Excess of receipts (+) or investment (-)..... | | | -1.3 | | | -8.4 | 546 |
| Government (Federal, State, and local): | | | | | | | |
| Cash receipts from the public..... | 27.0 | | | 59.4 | | | 119 |
| Cash payments to the public..... | | 31.7 | | | 53.6 | | 69 |
| Excess of receipts (+) or payments (-)..... | | | -4.7 | | | +5.8 | |
| Adjustments to arrive at gross national product..... | -5.1 | -8.1 | +3.0 | -21.2 | -25.5 | +4.3 | |
| Total gross national product..... | 147.5 | 147.5 | 0 | 226.3 | 226.3 | 0 | 53 |

¹ Estimates based on incomplete data.

Source: See appendix A, sections I and II.

studies recognize that foresight is not perfect and that our knowledge of technological trends and economic relationships is still limited. Further improvements in these measurements are needed. But even now, they can serve to furnish us at least with some broad outlines of our prospects and problems.

Ten years from now, if we maintain maximum employment, we should reach a level of nearly 64 million jobs. This allows for population growth. It also allows for withdrawal from the labor force of some women to their homes and for longer school attendance of some of our young people.

Output per man-hour for our economy as a whole has increased by approximately 2 percent annually in recent decades. The war brought many technological advances which have not yet been adopted fully by peacetime industry. Assuming even the very conservative estimate of 2 percent annual increase in productivity, and allowing for population growth, maximum production 10 years hence would mean an increase of about 35 percent in our total output of goods and services if average weekly hours of work remain unchanged. This would mean per capita disposable income about 80 percent above the level of 1937 and 27 percent above the level of 1947 in

terms of constant dollars. Some part of this possible increase may, of course, be taken in the form of increased leisure.

We have within our reach an economic environment that would make it unnecessary for masses of people to be undernourished or ill-housed, to work in obsolete plants and shops, or to lack essential medical care, social security or education. No one would need to go without adequate rest and vacation after hard work. Attainment of these economic objectives would afford ever-increasing opportunities for individual initiative and greatly strengthen the cherished free institutions of American life.

But these gains will not come by accident. They would not be registered in an economy characterized by a period of idle or wasted resources after any period when for a few years we attain full utilization of our plant and labor force, or in an economy running at only three-quarter capacity even in "fairly good times." The attainment of our objectives will depend upon the best efforts of industry, agriculture, and labor, working with sympathetic understanding of one another's problems and of the common good. It will depend on a clear appreciation of maladjustments in the relationships among production, prices, and purchasing power; it will depend upon the willingness of all concerned to make necessary adjustments, and upon vigorous and forward-looking government.

DEVELOPMENT OF NATURAL RESOURCES AND CAPITAL EQUIPMENT

In the perspective of balanced economic expansion for the future, our first attention should be concentrated upon our productive resources, developed and potential, and the ways in which these resources are utilized. Since the beginning of the war, we have been forced to forego at many points development of our basic natural resources and the essential maintenance and improvement of our capital facilities.

Improvement of the country's natural resources and its capital equipment is a cooperative effort. Private groups and individuals, State and local governments, as well as the Federal Government, are challenged by the task. An expanding base of natural resources and capital equipment is necessary for the realization of increasing production and a rising standard of living.

Natural resources

Land. To meet the needs of a population of perhaps 175 to 185 million persons by 1975 living in an economic environment of sustained maximum employment and production with a considerable volume of agricultural exports, would require an increase of about 30 percent in agricultural production. It would also require a substantial shift in the pattern of agricultural land use to meet changes in demand.

The yield of present cropland can be enlarged by improvements in plant breeding, increased use of machinery, supplemental irrigation, increased use of fertilizers, and more efficient marketing. To some extent, we can also increase production by adding to cropland through drainage, clearing, and irrigation.

Erosion of top soil and depletion of soil fertility are becoming more and more serious. About 60 million acres now cultivated should be used for grass and trees. Despite significant progress in soil conservation in recent years, half the Nation's cropland and pasture still needs to be put under improved soil-management practices as rapidly as possible. Expanded research, education, and demonstration programs are required. We need a Nation-wide program for increased application of fertilizers to depleted soils.

About half our acreage of farm pastures and range land has been impaired seriously by overgrazing, fires, and other abuses. Large tracts of land which should be ranges have been plowed for wheat. Higher levels of meat consumption can be met only if individual farmers and stockmen who own two-thirds of the country's range-land adopt better grazing practices. The 300 million acres of western grazing land controlled by the Federal Government, much of it organized in grazing districts, is being improved, but a large part of it requires further rehabilitation.

Water. Bound up as they are with land uses, water resources should be developed and controlled as an integral part of a broader national and regional resources-development program. Expanding programs are needed to prevent floods, provide for navigation, furnish urgently needed power, promote recreation, control pollution, conserve fish and wildlife, and maintain and improve underground and surface water supplies needed for agriculture and other uses.

An impressive example of the interrelated nature of water and land resources is provided by large multiple purpose dams and accompanying watershed programs. Such integrated programs should be stepped up, as soon as economic conditions permit, in a number of our larger river basins.

Forests. The estimated 461 million acres of private and public commercial forest land in the country ultimately will grow all the timber products we are likely to need, provided they are well managed. The problem is most acute in saw timber. Our present saw-timber stand is less than half that in 1909, and is poorly distributed and deteriorating in quality and size. Better forest practices would provide the greatest assurance of adequate supplies for the future. Achievement of better practices may be furthered by strengthening and expanding technical and other assistance to private forest landowners, including farmers. In addition, multipurpose

development of the national forests and other Federal forest land should be pushed to help meet national needs.

Minerals. Ample supplies of all essential minerals are vital to an expanding economy and for the Nation's security. Those minerals with which we are well endowed, such as coal and phosphates, should be mined and utilized efficiently. Those minerals for which we depend on foreign sources, such as tin, antimony, chromite, and strategic mica, will continue to require stockpiling and intensive search for substitutes and alternative sources of supply. Finally, those minerals for which we depend partially on foreign sources, such as zinc, lead, copper and, increasingly, high-grade iron ore, call for policies which emphasize stepping up the rate of discovery, improving mining methods, and developing commercial processes for the utilization of low-grade ores. For petroleum, new techniques and sources of supply from coal, natural gas, and oil shale will have to be increasingly relied upon to prevent the reserve situation from deteriorating and to meet the rapidly growing demand.

Regional development. Some large regions in the country possess the basic raw materials, population, and locational advantages to support a much higher standard of living, but are below the national average in material well-being. They require large-scale developmental efforts both for their own benefit and to contribute in larger measure to the national welfare. The objective should be to narrow such differentials by raising productivity and incomes in the lagging regions, particularly through improvement in agricultural methods and land uses, further industrial expansion and diversification, and lifting education and health levels.

In recent years, large parts of the West have been growing, in terms of per capita income and production, at rates well in excess of national averages, but they are so meagerly equipped with capital and population that they may accurately be termed underdeveloped. Programs for the development of these regions are practical and productive, and should be continued.

The Territory of Alaska furnishes a special case. Because of its resources and its strategic location as our last northwest frontier, a concerted and expanded effort on the part of public and private agencies and individuals for the rapid economic and social development of Alaska is required.

Regional development requires integrated programs of business, labor, agriculture, and all levels of Government. The Council of Economic Advisers, in cooperation with other agencies of the Government, is studying this problem.

Business plant and equipment

Productive capacity. A growing economy requires balanced expansion of our capacity to turn out consumer goods and crude and semi-finished materials and equipment.

For the greater part of the last two decades, business expansion has been irregular. In the worst depression years of the 30's, outlays were insufficient even for normal replacement. Table 12, which covers producers' durable equipment, shows how the rate of expansion varied from decade to decade before the war.

TABLE 12.—*Gross and net outlays for producers' durable equipment, by decades, 1869-1938*

| Decade | Billions of 1929 dollars, average annual rate | | | Percentage of gross national product | | |
|----------------|---|-------------|---------------|--------------------------------------|-------------|---------------|
| | Gross outlays | Replacement | Net expansion | Gross outlays | Replacement | Net expansion |
| 1869-78..... | 0.48 | 0.27 | 0.20 | 4.6 | 2.7 | 1.9 |
| 1879-88..... | 1.03 | .58 | .45 | 5.3 | 3.0 | 2.3 |
| 1889-98..... | 1.42 | 1.03 | .40 | 5.3 | 3.8 | 1.5 |
| 1899-1908..... | 2.58 | 1.54 | 1.04 | 6.2 | 3.7 | 2.5 |
| 1909-18..... | 3.88 | 2.52 | 1.36 | 7.0 | 4.5 | 2.4 |
| 1919-28..... | 5.48 | 3.88 | 1.60 | 7.0 | 5.0 | 2.0 |
| 1929-38..... | 4.77 | 4.47 | .30 | 5.9 | 5.5 | .4 |

Source: Simon Kuznets, *National Product Since 1869*, National Bureau of Economic Research, New York, 1946.

New stimulus to business investment came with the defense program of 1940-41. But during the war, though certain critical facilities were expanded, we had to curtail many lines of civilian goods and expansion of all facilities not contributing to war production. After 15 years of depression and wartime restriction, productive capacity was highly unbalanced and generally inadequate to meet the peacetime demand. The high rate of investment in new equipment during the past 2 years reflects in part the efforts of producers to make up the deficiencies.

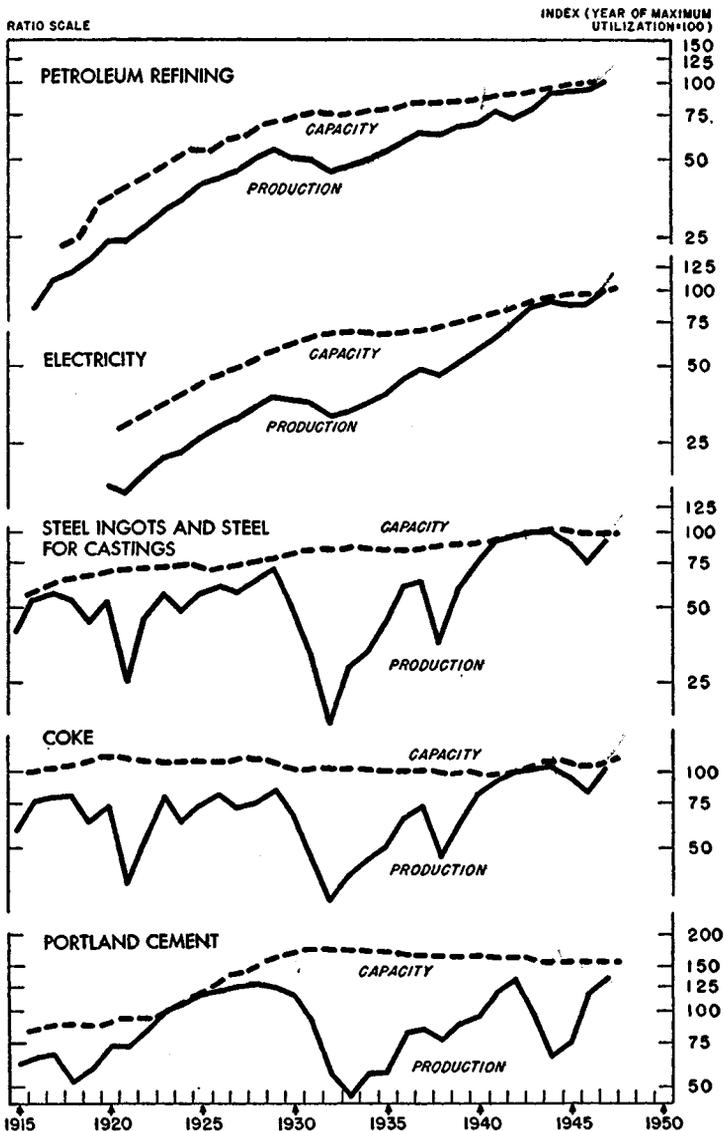
In some industries, present capacity appears adequate for the near future. In others, such as electric power and petroleum refining, expansion of capacity is substantial and is likely to continue for a considerable period until a better balance between demands and capacity has been reached. In a few industries, net capacity expansion during 1947 was less than that required annually to sustain maximum production and employment.

The best available studies indicate that to attain the levels of employment and output we hope to reach, we shall need substantial increases in the output of such basic commodities as steel, petroleum products, coke, and

CHART 12

CAPACITY AND PRODUCTION

Many industries are operating at close to practical capacity.



NOTE: CAPACITY AND PRODUCTION FOR EACH INDUSTRY HAVE BEEN PLOTTED SO AS TO TOUCH AT THE YEAR WHEN THE RATIO OF PRODUCTION TO CAPACITY REACHED ITS MAXIMUM. SUCH POINTS CORRESPOND APPROXIMATELY TO OPERATIONS AT THE LIMIT OF PRACTICAL CAPACITY, THOUGH RATED OR THEORETICAL CAPACITY WOULD IN MOST CASES BE HIGHER. ALL 1947 FIGURES ARE ESTIMATES BASED ON INCOMPLETE DATA.

SOURCES: BUREAU OF MINES (COKE, CEMENT, AND PETROLEUM), FEDERAL POWER COMMISSION (ELECTRICITY), AND AMERICAN IRON AND STEEL INSTITUTE (STEEL)

electricity. For these industries, the needed increases during the next 10 years range from 20 to 50 percent. Though such studies make no claim to precision, the only reasonable expectation is that continued high-level production will require large increases of capacity in the industries mentioned and in many others.

Chart 12 gives the historical perspective of expansion of capacity relative to output in several important industries. The tightness of present capacity is apparent. Potential stringencies are even greater than might appear from the chart. For example, if either freight cars or steel were more plentiful, demand for many other commodities would increase, disclosing further deficiencies in capacity. In fact, there are some industries where present capacity is inadequate for current output, providing less elbow room than management considers desirable for continuously efficient operation, satisfactory servicing of the market, and emergencies. Dependable reserve capacity of electric power generating facilities, for example, is normally at least 15 percent of peak load for any system. Near the end of 1947, it dropped to below 1 percent for the United States as a whole; in most areas no reserve capacity was available and in some areas acute shortages exist.

The needed capacities for various industries are related. There is no point in having capacity to make more automobiles unless we have capacity to supply steel and other materials. The output of steel is limited by supplies of coke, scrap, steel furnace capacity, blast furnace capacity, finishing capacity, and rail transportation.

The same principle applies to the development of raw-material-producing and raw-material-consuming industries. There is a serious question, in particular, whether our capacity to produce fuels and energy is being expanded fast enough to meet the fuel and energy demands indicated by expansion in other lines.

If the whole level of output is to rise steadily and rapidly with minimum waste of capacity, the balancing of expansion in different industries calls for considerably more thorough study than it has been given in the past.

Modernization of facilities. The amount of business capital required is only partly measured in terms of scaling up capacity to meet enlarged demands. As table 12 indicates, a large and increasing share of outlays for business equipment is devoted to replacement. The rate at which this renewal and improvement proceeds is set not so much by physical wear and tear as by the profitability of setting up facilities of new types, or for new kinds of products, or at new locations. Industrial equipment and structures are often obsolete long before they are worn out.

In deciding upon replacement, business has not felt it could afford to substitute new types of equipment for old as rapidly as the pace of technological advance would make possible. This lag was accentuated during the war.

At its close the progress of industrial and business technology had accumulated a reservoir of potentially profitable opportunities for modernization. If still more rapid technical advances are made and if prospective production economies justify the costs of accelerated modernization, both business investment and the rate of increase of productivity will exceed past rates.

Programs and responsibilities. In a period of far-reaching economic change, an adequate investment program of expansion and modernization taxes the vision and initiative of business management. This is especially true of the long-range planning of business expansion in a manner which preserves proper relationships among the productive capacities of various industries.

In a free enterprise system, business investment rests on profit expectations, which in turn reflect the outlook for consumer spending, costs of production and investment, availability of improved techniques, availability of funds, and the degree of uncertainty and risk involved in gauging these and other factors. The investment "program" is essentially the sum of a great many private programs—privately planned, financed, and executed. Government investment and operation, in special cases such as hydroelectric power and atomic energy development, clearly serve the public interest. More generally, the Government can help to develop a favorable climate which will encourage business to adopt adequate investment programs.

As the task of making up obvious war-accumulated deficiencies in productive capacity is completed, and as inflation is reduced, increasing attention will have to be given to fostering favorable conditions for balanced expansion and for aggressive development of new fields of investment. The most essential condition is continued acceptance and determined implementation of the national policy laid down in the Employment Act of 1946. A policy of sustained maximum production requires that the actions of business, labor and Government be based on broad agreement as to our over-all economic goals and on a reasonable degree of assurance that appropriate action will be taken to achieve them.

Transportation

In our far-flung economy, transportation needs are so obviously related to the development of natural resources and industrial production that the people long ago undertook through their Government to encourage and in many cases to participate in the building of extensive transportation facilities.

Shipping. Maintenance of a healthy shipbuilding industry, capable of rapid expansion, and the continued operation of an efficient and competitive merchant marine, are not only necessary to national security but are also

essential elements in the achievement of a continued high level of employment in the United States. Except for a few ships which are urgently needed now, construction of new vessels can well be deferred until inflationary demands have eased and materials are more readily available. Our present needs for shipping should be met basically by the use of existing war-built vessels. Meanwhile, the shipbuilding industry, by virtue of repair and conversion of war-built ships, is operating at levels considerably above the prewar average.

Highways. In the field of highway transportation, the Congress more than 30 years ago created what is now the Public Roads Administration. At that time, the Congress gave top priority to the problem of getting the farmers out of the mud—providing access to our agricultural resources and to markets for these resources. Although substantial progress has been made in this direction, much remains to be accomplished. In addition, major tasks before us are the efficient maintenance of rural roads, and their reconstruction as age or increased traffic dictate.

The second objective, making it possible to get to and from cities, was well on the way to attainment before the war, but we have lost ground in the last 7 or 8 years. Costs of maintaining many of our highways are so high that it is more economical to rebuild them. Maintenance and traffic records indicate that within 10 years at least 45 percent of existing highways will have to be rebuilt.

A third task, providing adequate facilities for intra-city traffic and healthy urban growth, is one we have hardly begun to tackle. The Congress has recognized the national importance of this problem by authorizing the expenditure of 125 million dollars per year out of the 500 million dollars Federal-aid funds for building through arteries in cities. This is an important undertaking and deserves continued attention.

Air transportation. The Government has undertaken a program of financial aid to air lines through mail payments under which rates of payment are related to the operating income and operating expenditures of the air lines and to the volume of the mail and the value of the service. Those charged with the administration of this program are constantly testing its effectiveness.

Government aid is most effective when it stimulates the resourcefulness and inventiveness of private enterprise in developing and applying technological advances in aviation.

The Government has also expedited the construction of necessary airports by sharing costs of construction of many publicly owned fields. The Federal Airport Act of 1946 authorized Federal expenditures aggregating 500 million dollars over 7 years. While that program is being completed, growing experience will furnish a basis for further decision as to the pattern of

the aviation network which national prosperity requires and how far it is desirable to go in multiplying air lines and in furnishing to a multitude of communities air transportation facilities with their accompanying burdens of maintenance costs.

Railroads. A most urgent national problem in the field of domestic transportation is the maintenance of an expanding and efficient railroad service. Large earnings of the war period permitted the more prosperous lines to fortify their financial position and brought about the financial rehabilitation of many railroads which for years had been in receivership. These great improvements in their financial position are rapidly being dissipated by the effects of inflation, and the railroads will benefit as greatly as any part of our business institutions from a successful effort to end the inflationary movement.

It is in the national interest to insure the continuance of efficient rail transportation. Consolidation of facilities, though it has shown but little progress after nearly 30 years of study and effort, offers such possibilities of convenience and economy that it should be steadily pursued. We can be optimistic about technical improvements helping to offset the rising costs of wages and goods if management and labor are alert to the opportunities which their introduction offers. The need must be recognized to protect the credit of the roads in order to enable them to finance the heavy expenditures which are necessarily involved in these technical changes.

Urban redevelopment

Approximately three-quarters of our population and three-quarters of our wealth are now essentially urban. Our cities, both large and small, make up an integral part of the productive plant that we need for maximum growth. Improved planning and redevelopment of these cities will not only enhance their physical usefulness as facilities for manufacturing and commerce, but will also increase workers' productivity in a living environment more conducive to good health and high morale.

When land is assembled in suitable blocks to facilitate economic redevelopment, extremely large investment opportunities become available. The construction industry will be called upon to supply management, labor to supply skills, and manufacturers to supply building materials and all the products and services which go into residences, schools, factories, offices, stores, and the other elements which constitute the communities of today. Moderate government outlays in redevelopment of urban areas will provide large investment opportunities for private capital. It has been estimated that over the next decade as much as 75 billion dollars—mostly private investment—could profitably be employed in these redeveloped areas. This is in addition to general urban public works.

It is none too early for basic planning of land acquisition and the working out of financial arrangements for urban redevelopment. This will permit rapid progress when there is less pressure on certain materials in short supply, and when additional investment opportunities will aid in maintaining maximum levels of employment and production.

The present acute housing shortage requires a large amount of new construction in outlying areas before we can engage in slum clearance and urban redevelopment on the large scale that will be needed. Some of this suburban construction needs to be located in whole new communities with adequate provision for municipal services, commercial facilities, and available employment opportunities. These need to be carefully integrated with better planning of our present urban areas. Otherwise urban congestion will be aggravated and local governments, both central and suburban, will be faced with ever-mounting costs.

Private enterprise and local initiative alone cannot rebuild and modernize our cities. Private developers lack both the resources and the legal powers to acquire land in large enough blocks to permit sound profitable redevelopment. Local governments are obtaining powers of land assembly but lack financial powers to undertake the task on the scale needed to encourage private investment and to permit cleared land to be made available at economically feasible prices.

Local governments should take the initiative in providing for site assembly and for area planning, and for streets, schools, and water, sewer, and other connected facilities. State governments should provide enabling and fiscal legislation. Under existing State powers, some worthy redevelopment projects have been undertaken, but most informed sentiment is in general agreement that some Federal aid is also required. The Federal Government is also concerned with highways, airports, Federal buildings, and other facilities as well as with slum clearance and low-rent housing.

I again urge that the Congress consider Federal aid to urban redevelopment along the general lines I have previously recommended.

Housing

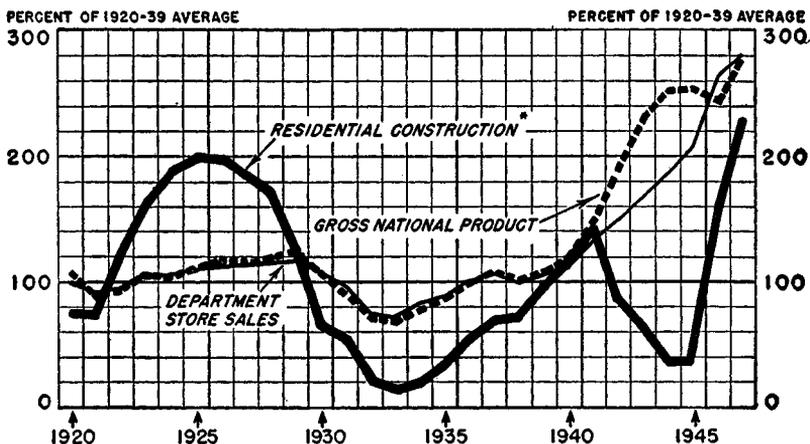
We must maintain residential construction at much higher than present levels in order to eliminate the quantitative shortage and also to replace urban slums and rural shacks with an American standard of housing within a reasonable period of time.

From the viewpoint of economic stabilization, there is a compelling reason for maintaining residential construction at consistently high levels. In the past, the volume of housing production has fluctuated more violently than any other major segment of economic activity. This is shown in chart 13. The instability of housing has contributed significantly to the

CHART 13

RESIDENTIAL CONSTRUCTION AND ECONOMIC ACTIVITY

Residential construction has fluctuated more widely than other economic activities.



* INCLUDES PRIVATE FARM AND NONFARM AND PUBLIC.

SOURCES: DEPARTMENT OF COMMERCE (CONSTRUCTION AND GROSS NATIONAL PRODUCT 1929-47), BOARD OF GOVERNORS OF THE FEDERAL RESERVE SYSTEM (DEPARTMENT STORE SALES), AND HOUSING AND HOME FINANCE AGENCY (GROSS NATIONAL PRODUCT 1920-28).

instability of the economy as a whole, and stabilizing residential construction would be a powerful factor in helping to stabilize the general economy. The importance of housing in the national economy is shown in chart 14.

A reasonably steady flow of house production, starting at a high level and increasing gradually from year to year, is essential during the next decade. Taking account of our growing population, the urgent desirability of replacing substandard units as rapidly as possible, and the amounts of home building that will help to maintain maximum employment for the economy as a whole, we need an average of more than a million new urban dwelling units a year for the next 10 years. The needs of rural areas are also great.

During 1947, more than 850,000 new permanent nonfarm dwelling units were started, and conversion and temporary units brought the total to more than 900,000. Measured by volume and allowing for shortages of materials and the unusual strength of competing demands, this was a good start for a 10-year program. But the record cannot be measured by volume alone. When examination is made of the relationship between the cost of this housing and our income structure, it is clearly apparent that most of

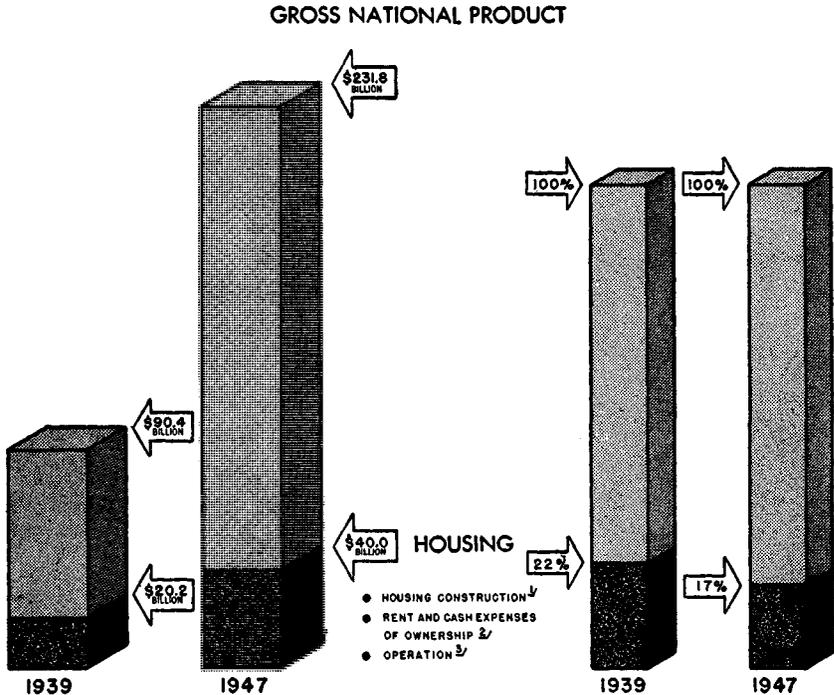
the housing is being built for families in the higher income brackets. To the extent that families of low and middle income are being served, the high cost is placing an excessive financial strain upon them.

The cost of housing has been getting further and further out of line with incomes. Only a small minority of our families can afford to purchase new houses of satisfactory size and quality. This is true despite the fact that we have maximum employment and a high national income, and a better income distribution than we had before the war. Unless housing costs drop, the volume of private residential construction will almost certainly decline in coming years, placing new difficulties in the way of our

CHART 14

HOUSING EXPENDITURES IN RELATION TO GROSS NATIONAL PRODUCT

Housing expenditures, doubled since 1939, have increased less than the gross national product.



1 NEW CONSTRUCTION, REPAIRS, ADDITIONS, ALTERATIONS, AND MAINTENANCE.
2 RENT OF TENANT-OCCUPIED UNITS AND RENTAL EQUIVALENT OF OWNER-OCCUPIED UNITS.
3 FURNITURE AND HOUSEHOLD EQUIPMENT, FURNISHINGS, AND OPERATION SERVICES SUCH AS FUEL AND UTILITY AND DOMESTIC SERVICES.

SOURCE: DEPARTMENT OF COMMERCE AND HOUSING AND HOME FINANCE AGENCY.

maintaining maximum employment. The poor adjustment of housing costs to income in the 1920's is precisely what caused a sharp and increasing decline in home building which commenced four full years before the general depression to which it contributed.

Industry and labor and local governments need to bend ever-increasing efforts toward the abolition of obsolete practices and restrictions. Many of these restrictions have developed as protective devices for individuals or organizations caught in the insecurity of an industry subject to wide fluctuations. The fluctuations have caused the restrictions far more than the restrictions have caused the fluctuations. Only an affirmative program for stabilizing housing construction can clear the way for the elimination of restrictions, reduction in costs, and adequate provision of housing.

Even the minimum housing program required embraces a number of items. These include research and experimentation to devise better building techniques and concerted efforts to modernize building codes; land assembly programs as an aid to housing; the use of Federal insurance to stimulate longer term investment with lower financing charges both for home ownership and for rental housing; special forms of insurance to amplify the interest in large-scale projects already being shown by builders and institutional investors who have the resources to lay the foundation for the reorganization of the housing industry along more modern lines; and the provision of publicly-aided housing in urban and rural areas—on both a rental and home ownership basis—for families of low income.

On several occasions, I have recommended the enactment of comprehensive, long-range housing legislation. Postponement of this action represents postponement of attention to a problem of utmost economic importance.

DEVELOPMENT OF HUMAN RESOURCES AND PRODUCTIVITY

Even with modern factories, fertile fields, abundant sources of power and raw materials, and smoothly flowing arteries of commerce, the growth of our economy will depend ultimately upon the men and women whose mental and physical energies constitute its greatest wealth. We have learned that those programs which make people healthier and more secure also make them more efficient. In this light, the educational and health and social security programs which were once thought of as purely "social" take on a deep economic significance.

Size and composition of the labor force

Our total population, now about 145 million, will continue to grow for a number of decades at a rate exceeding prewar estimates. This is due to an unusually high rate of marriages and births during and since the war together

with a steadily declining death rate. As a result of population growth and plentiful job opportunities, the labor force, and particularly the employed segment of the labor force, has expanded during and after the war. Civilian employment is now 6 percent higher than the war peak and 26 percent above the 1939 level.

One result of the war has been to increase the employment of teen-age workers, and of men and women in the older age groups. The exacting economic demands of modern employment, no less than social considerations, should impel us gradually to reverse this trend. Educational and retirement programs thus influence the optimum use of our labor force.

While these considerations should increasingly determine the size of the labor force, there is the further question of its quality. The progress of industrialization has led to the use of more complicated equipment although much of it is more automatic in its operation. This reduces both the physical exertion and the need for manual skill of operatives generally. At the same time, it increases the proportional demand for engineers and supervisors of higher technical training. And while many operatives have their task reduced to a simple routine, they assume new responsibilities for the proper handling of expensive machinery.

As members of labor unions voting on strike action and other union issues, and as citizens reacting to economic policies and candidates for office, they need a higher degree of economic and civic education. The general requirements of intellectual competence are steadily moving upward.

Moreover, the progress of modern technology, both industrial and agricultural, means that a smaller proportion of the population is required in manufacturing and farming and more people are available for the service callings and professions, where even higher levels of training are required. This trend is reinforced because some of these areas will suffer from shortages of trained personnel for some time to come—teaching, medicine, and nursing being the chief examples.

The adjustment of the labor force to the changing character of our economy thus commences with the problem of education.

Education for the modern economy

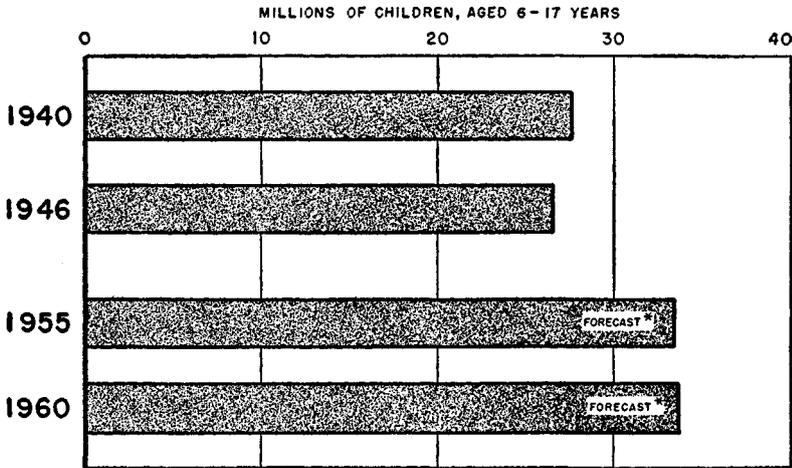
With a higher average of competence required by our economy, the most urgent educational problems now center in the elementary and secondary schools. It is here that boys and girls receive their basic training and prepare themselves to absorb more specialized training.

The number of children of school age is increasing far more rapidly than had been estimated before the war. In 1940, there were 27.6 million children between the ages of 6 and 17; by 1955 there will be more than 33.3

CHART 15

THE SCHOOL-AGE POPULATION

More children will require increased school facilities.



* BASED ON TOTAL POPULATION FORECASTS MADE ON THE ASSUMPTIONS OF HIGH FERTILITY, LOW MORTALITY, AND NET IMMIGRATION OF 1 MILLION PERSONS EVERY 5 YEARS AFTER JULY 1, 1945.
SOURCE: DEPARTMENT OF COMMERCE.

million. By 1955, school enrollment should be more than one-third above the 1940 level.

In the face of this need, our educational plant is desperately inadequate. State school officials report minimum needs for 7.5 billion dollars of capital outlays for elementary and secondary schools—twice as great as total construction expenditures for all levels of education during the decade of the 20's. Due largely to low salaries, the number of trained teachers is not keeping up with the increasing need. These shortages in plant and personnel are much more serious in some regions than in others. While the 10 States with the highest per capita incomes are spending about \$177 annually for each school child, the 10 States with the lowest per capita income are spending only about \$64.

This maldistribution of educational opportunities is both result and cause of differences in wealth and income in the several areas. Some of the States that are paying least per capita for education are devoting a higher percentage of their total revenues to educational purposes than others with higher per capita outlays. Federal aid to elementary and secondary education should contribute to that equalization of opportunity in various parts of the country which will fit our youth for living and working in the kind of economy that we shall have when they are grown.

CHART 16

EDUCATIONAL EXPENDITURES IN HIGH AND LOW INCOME STATES

Low per capita income means low educational standards even with equal effort to finance schools.

EDUCATIONAL EXPENDITURES PER PUPIL

HIGH PER CAPITA
INCOME STATES

\$ 176.91

LOW PER CAPITA
INCOME STATES

\$ 64.09

EDUCATIONAL EXPENDITURES AS PERCENTAGE OF TOTAL PERSONAL INCOME

HIGH PER CAPITA
INCOME STATES

1.6%

LOW PER CAPITA
INCOME STATES

1.8%

SOURCE: FEDERAL SECURITY AGENCY.

A large proportion of the young people who are now crowding the elementary schools will progress through high school and enter college after 1955. They will replace the veterans who are now in college. Compared with an enrollment of 1.4 million when the war started and a current enrollment of 2.4 million, we should now plan for an enrollment by 1960 of 4 to 5 million students in an expanded and improved system of higher education.

I urge the Congress to consider a comprehensive program of Federal aid to education and to enact immediately assistance to elementary and secondary schools.

Research

The expansion of national output, as well as national security, depends increasingly upon scientific accomplishments. Before the war, we drew

heavily upon the basic discoveries of scholars all over the world. The war impeded this free flow of knowledge from other lands, and destroyed much of it at the source. During recent decades our own progress in industrial and agricultural research has been tremendous, but we cannot afford to rest on our laurels. There is need for enlarged research, both in basic principles of physical, biological, and social science, and also in their practical application.

Part of the expansion required to meet a reasonable goal of research development will occur as part of the long-range growth of our economy. Considerable growth in industrial research may be counted on. Existing universities and research institutes will continue to make important contributions. But it is clear that the required expansion in research into scientific principles and their application will be impossible without a comprehensive program in which Federal aid should play a part.

Good health and productivity

Study of health records affords another example of the connection between the economic objective of maximum production and the humanitarian objective of improved well-being. With the labor force at its present size, the annual cost of illness, long-term disability and accidents is about 3,500,000 man-years. A part of this loss arises from improper working conditions. Occupational diseases and industrial accidents also take their toll. An even greater charge upon productivity are the millions of people who are physically substandard without being disabled. Inadequate diet is impairing the strength of too many workers. Our goal should be the establishment of safe working conditions and an increase in the physical standards of the whole population.

This problem has economic aspects, not only because health standards below the maximum attainable reduce productivity, but also because the lifting of these standards requires economic measures which remove the incapacity of many communities to support and of millions of individuals to purchase adequate medical care.

On these grounds, I again urge the Congress to enact a comprehensive national health program of the character I have already recommended.

Security and productivity

Job security. No matter how stable a particular business, industry, or region may be, it can rarely avoid unemployment in the event of a serious depression. A national policy of vigorously promoting maximum employment will be the longest step toward the sense of individual security which is conducive to high productivity.

There is no substitute for this national policy, but it should be supple-

mented with planning by individual firms and industries for the stabilization of their own activities. Wage security plans have been proposed, and a report on this subject is being prepared by the Council of Economic Advisers. Training programs, an adequate and efficient public employment service, and other improvements of the labor market can all play their part. For those who will be temporarily unemployed despite our best efforts, unemployment compensation should be increased in amount and duration, and extended in coverage.

Maximum production must be based upon proof that it is not self-defeating. Only by providing alternative jobs for those who suffer displacement, and by ironing out the fluctuations in business, can we convince both labor and industry that restrictive tendencies are unnecessary for them as well as hurtful to the economy as a whole.

Old-age security. The retirement problem has economic as well as social aspects. Those who have withdrawn from productive activity because of age continue to require goods and services, and to make expenditures which flow into the general income stream. A systematic national program which provides for regularity and certainty in the basic income of those who have retired is a more efficient economic policy than the haphazard treatment of this problem which preceded the establishment of old-age insurance. Such a system has the further advantage that it helps to regularize the saving habits of workers during their productive years.

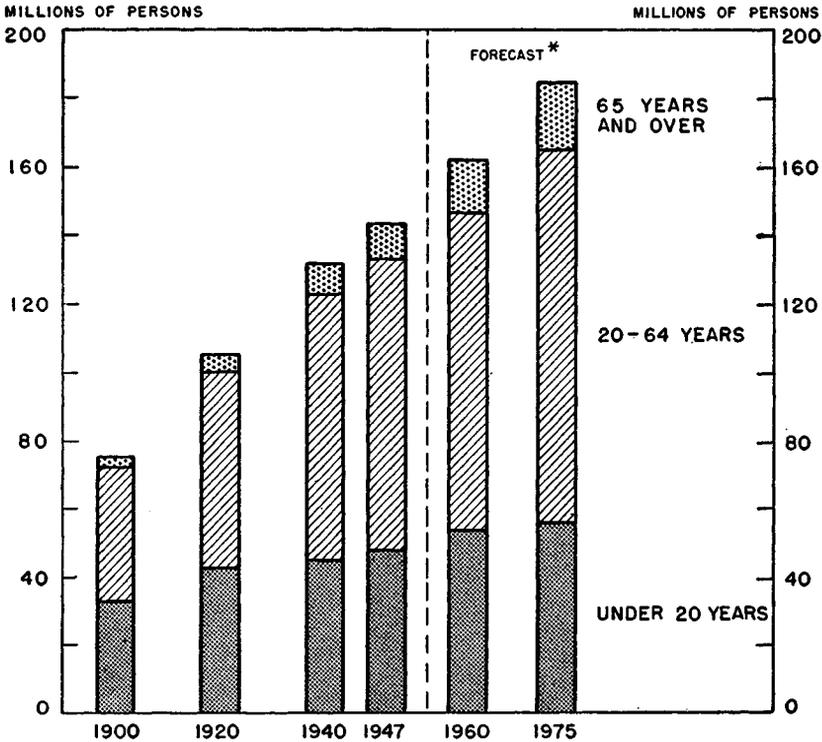
There are now more than 10 million people in the United States, about 8 percent of the total population, who have reached the age of 65. (See appendix B, table XXXVI.) By 1960, about 15 million people, or about 9 percent of the population, will have reached that age. Our systems of protection against the economic hazards of old age and dependency are inadequate. There are now some 17 million jobs in which workers cannot build up wage credits for old-age retirement. The coverage of old age and survivors' insurance should be extended, and benefits should be adjusted upward with a higher limit upon earnings which may be received after retirement without loss of benefits.

A lowering of the retirement age will be feasible in future years as we attain the levels of national output that sustained maximum employment and production will bring. At the same time, industry should provide opportunities for the efficient employment of those older people who are able and willing to work although they have earned the right to retire.

Public assistance. The social insurances are supplemented by public-assistance programs financed by States with the aid of Federal grants. The public-assistance programs are now more significant, both in terms of the number of people aided and in terms of total expenditures, than the social insurances. About 4 million people now depend on public assist-

THE AGING POPULATION

The total population continues to increase rapidly, with relatively more people over 65.



* FORECAST BASED ON ASSUMPTIONS OF HIGH FERTILITY, LOW MORTALITY, AND NET IMMIGRATION OF 1 MILLION PERSONS EVERY 5-YEAR PERIOD AFTER JULY 1, 1945.

SOURCE: DEPARTMENT OF COMMERCE.

ance, in part because existing social insurances, particularly old age and survivors' insurance, are deficient and because there is no national health insurance program. Expansion of social insurance will decrease the need for public assistance expenditures, but those who must still rely on public assistance should receive adequate payments. The Federal Government should make grants to States to help them finance general-assistance payments, and all public-assistance grants should take account of variations in the ability of the States to finance adequate assistance programs.

Freedom from discrimination. Maximum employment and production cannot be maintained when men and women are discriminated against because of race or color, creed or national origin. An effective system which will assure fair employment practices should be established.

Fiscal aspects of benefit programs

The whole question of benefits cannot be divorced from the question of the cost of the payments and how these costs are borne. It is of paramount importance to bear in mind that the costs of unemployment, old age, and sickness are borne by the community whether social security measures exist or not. Social security measures involve a change in the distribution of money, goods, and services among consumers only to the extent that the existence of the measures diverts additional funds to the support of the aided groups. This diversion does occur, but the additional funds are far less than the total volume of benefits provided under the programs.

Nevertheless, the fact that wage earners' risks are met under social security measures through payments derived from taxes rather than directly from private sources in itself has economic implications. The social insurances are now financed by employees' contributions and employers' payroll taxes; the public assistance payments are financed from general revenues. Employees' pay-roll taxes place a heavy drain upon mass purchasing power while the employers' share of these taxes adds to costs of production. In financing an expanded social-insurance program, these economic aspects should be considered.

DEVELOPMENT OF INSTITUTIONS AND PRACTICES FOR A HIGH-PRODUCTION ECONOMY

Preceding sections have discussed the means by which our natural resources, our capital equipment, and our human resources may be developed to support a maximum level of well-being. But the ability to produce will not alone assure economic stability and growth. Recurrent periods of recession or depression have led to the realization that maximum resource utilization depends upon many adjustments within our complex economy. It is necessary for us to apply systematic forward thinking to the shaping of our economic institutions and the practices of the men and women whose behavior determines how those institutions will in fact operate.

The problem of progressively improving these institutions, policies, and practices so as to attain balanced growth of the economy divides naturally into four main parts: first, in the industrial area we need price-wage-profit policies which maintain balance between the output of industry and the ability of consumers to buy that output. Second, in the agricultural area, we need balance between city and farm income and between farm and industrial prices. Third, the fiscal policies of the Government, such as taxation and debt management, need to be so contrived as to afford maximum incentives to production and to improve the balance within the economic system generally. And fourth, we must strike a wise balance between our internal economic activities and our international trade.

Industrial price-wage-profit policies

The national purpose of maximum employment, production, and purchasing power enunciated in the Employment Act of 1946 includes a declaration "to foster and promote free competitive enterprise and the general welfare." Discussion of industrial price-wage-profit policies may therefore quite properly begin with the problem of maintaining a truly competitive system of free enterprise.

Maintenance of competition. To operate effectively without a high degree of Government intervention, a free enterprise economy must adjust itself to changing conditions through appropriate movements of prices, costs, and production. In a very vital way this depends on the maintenance of fair competitive rivalry among business enterprises. This is recognized in the long-standing policy embodied in the antitrust laws, the central purpose of which is to prevent monopolistic control of markets, and, in the words of the author of the Sherman Act, to gain for the people the advantage of "the natural competition of increasing production."

Unregulated private monopoly tends to undermine independent enterprises and to create exaggerated extremes of wealth and power within the country. Strong monopoly elements are likely to retard seriously the cost-price-output adjustments necessary to economic stability with full employment. For these reasons, as well as for the other counts against unregulated monopoly, there must be a strong and continuing pressure by the Government to keep alive the competitive characteristics of the business system. If this were not to be done, we should have to look forward, first, to a great increase of private monopolistic control of American business, and thereafter, since this would be intolerable, to a great increase in the public regulation of business activity, if not actual public operation in some fields.

In considering the character of competition in the future, it is impossible to ignore the tremendous changes which have occurred in the organization of business control over the past 50 or 60 years. From a situation in which industry was typically organized on a small scale basis, we have arrived at a situation in which there exist corporations of gigantic size. In many industries one, two, three or four companies control a major fraction of production. In many areas of industry, modern technology requires that firms be of a very considerable size. The best opinion is, however, that the largest enterprises in many industries are larger than is necessary to secure the benefits of technical efficiency. In the future amendment and enforcement of the antitrust laws, the principle should be followed of checking the further excessive concentration of industrial control and, by protecting the position of smaller competing enterprises, of reversing the past trend toward concentration.

Much of the adaptability of the American economy stems from the initiative and enterprise which give rise to small business concerns throughout the Nation. They should have the opportunity to develop and prosper. The existence of the antitrust laws, although not a sufficient basis for a healthy development of new enterprises, is an essential condition. Beyond this, we must insure that no artificial barriers to their growth exist either through the tax laws or otherwise, and in particular that credit suited and adequate to their needs is made available.

The present degree of concentration of economic power and the existence of other monopolistic elements pose very grave problems. It was in recognition of this fact that the Temporary National Economic Committee was set up in 1938 to engage in a far-reaching inquiry into business organization and practice. The central problems have not been altered by economic changes in the intervening years and it is important that in the light of the findings of the TNEC we move forward to a clear enunciation of public policy and a program of public action.

The problem of price policies. The effect upon prices of corporate bigness and collusive monopolistic practices is only one aspect of a much wider pricing problem. Many a business manager fears that the use of price reductions to expand his share of the market will merely result in retaliatory price changes by other firms. Business therefore has sought, as far as possible, to place the competition for markets which it must meet upon some other basis than price competition. The pricing system is thereby deprived of much of the elasticity needed to adjust relative changes in cost and demand.

Moreover, in the effort to realize profits through the ups and downs of business, prices and profit margins are geared to the expectation that full use of capacity is not a normal situation. This means that, in periods of high production, pricing policies and practices are followed that produce a level of profits designed to protect the individual company during future declines in business activity rather than to contribute to the prevention of such declines. Such policies are not conducive to the continued health of the business community because they act on the assumption that it will not continue.

The price mechanism may serve either to promote or to prevent a safe balance among prices, wages, and profits. The greater the success of our free enterprise system in maintaining this balance, the less need there will be for direct governmental intervention in the economic system. This imposes a heavy responsibility upon those business managers whose decisions importantly affect the levels of prices, wages, and profits. Management must recognize that sustained maximum production requires that gains in productivity be passed on through lower prices and better wages to the

fullest extent consistent with adequate incentives to business enterprise.

The collective bargaining process to determine wages also plays a vital part in the determination and maintenance of healthy price-wage-profit policies. It cannot fulfill its function if it is used merely as a test of the sheer force which one party or the other can exert in the pursuit of immediate self-interest. Collective bargaining must be based upon a better understanding of the long-range interests of management and labor in the context of the interests of the whole economy.

The greatest opportunity for bringing about economic betterment lies in achieving and maintaining a proper balance among prices, wages, and profits. One of the purposes of the Employment Act is to provide a new climate for pricing policies. The act contemplates that the combined resources of business, labor, agriculture, and the Government will be used to do away with business fluctuations of the violence known in the past. To determine what price and wage policies and practices are appropriate to this objective, a reexamination of the problem is necessary.

Therefore, I have instructed the Council of Economic Advisers to continue its work on this problem with the assistance of representatives of all groups concerned. The results of such a study should contribute to the development of sound legislative proposals. But its most important outcome should be a wider and deeper understanding on the part of the Government, business, labor, and consumer groups as to the price, wage and production policies and practices which will contribute most fully to the maintenance of high levels of consumption and investment.

Markets and income distribution. During the postwar period, our economic balance has thus far been maintained in the sense that we are still operating at maximum levels of employment and very high levels of production. But the situation is precarious to the extent that the balance cannot be maintained indefinitely without changes in the current pattern of economic relationships.

The Nation's Economic Budget, in constant dollars, for 1939 and 1947, shown on page 55 of this Report, indicates changes in the relationships of the major components of the economy. At the present time, an unusually large proportion of the market demand for goods and services results from business investments, net exports, and Government outlays. These have attained a level relatively higher than consumer expenditures, compared with the prewar period. In terms of 1947 prices, annual expenditures for producers' durable equipment have increased by 170 percent, while annual consumers' expenditures have increased by only 48 percent above the prewar level.

We cannot regard the relationship between capital formation and consumption either in 1939 or in 1947 as a model for the future. Domestic

capital formation in 1939 was not sufficient. On the other hand, we are now in the stage where the improvement and modernization of our national productive plant has a high priority claim on our resources. Nonetheless, after the most urgent deficiencies in our national plant have been overcome, and the extraordinary export surplus has been reduced, a very substantial increase, both absolute and relative, in individual consumption will be possible and necessary. Without this substantial increase in the general standard of living, we would not be able to sustain an expanding economy of full resource utilization.

The increases in consumer incomes and expenditures which have taken place over the last decade are the result not only of the general increase in national income, but also of significant changes in income distribution. On page 18 of this Report, estimates are presented which show the trend toward better distribution of family incomes. This trend needs to be continued if ready and constant markets are to be available for a potential increase of 35 percent in total output of goods and services within a decade. The trend should be continued also because there are still millions of families whose incomes are too low to provide a decent standard of living. A substantial part of our increasing productivity should be devoted to the betterment of these families.

An increase in full-time employment and in the number of employed persons per family were important elements contributing to creating equality of income during the past decade. But with maximum employment now virtually achieved, further increase in these factors can no longer be expected. Already, recent trends in the real incomes of individuals and families indicate that we are losing some of the gains registered before price inflation gained momentum in the middle of 1946. This price inflation presents in a new and aggravated form the old and unsolved problem of assuring continuous maximum production by maintaining the maximum real purchasing power which must go with it without relying too long upon the depletion of savings, extraordinary use of credit, and an abnormal export surplus.

Our central problem is to make gradual readjustments so that the conditions for permanent stability are reached without generating a recession of employment and business activity in the process.

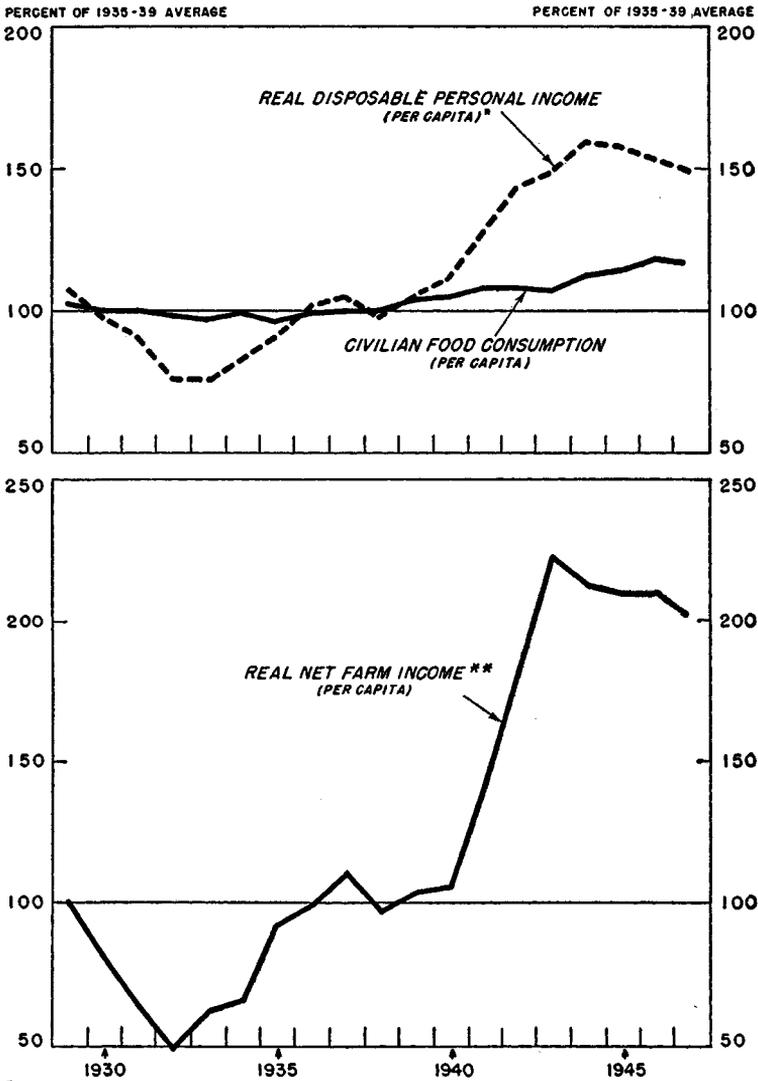
Agricultural and food policies

The new farm problem. For two full decades after the first world war congressional and executive policy was dominated by "surpluses" and low prices for farm products. The trends in our economy since the start of World War II have changed basic conditions so markedly that the farm

CHART 18

CONSUMER INCOME, FOOD CONSUMPTION, AND FARM INCOME

Increased consumer income has brought higher food consumption,
and has raised farm income.



* ADJUSTED FOR CHANGES IN CONSUMERS' PRICES

** NET INCOME OF PERSONS ON FARMS, FROM FARMING, ADJUSTED FOR CHANGES IN PRICES PAID BY FARMERS FOR COMMODITIES USED IN FAMILY MAINTENANCE.

SOURCES: DEPARTMENT OF AGRICULTURE (FOOD CONSUMPTION, FARM INCOME, AND PRICES PAID BY FARMERS). DEPARTMENT OF COMMERCE (DISPOSABLE INCOME AND POPULATION). DEPARTMENT OF LABOR (CONSUMERS' PRICES).

problem of today is not to dispose of surpluses but to get enough production to prevent inflated prices. (See appendix B, tables VI and XIV.)

If we succeed in our efforts to maintain industrial stability, we can look forward to many years of large markets and agricultural prosperity. Farmers have a large stake in this endeavor. The farm problem today and in the foreseeable future should be stated in terms of a maximum production economy. Farm policies should aim at continuing expansion.

To achieve stabilized farm prosperity, there will need to be changes in the traditional patterns of farm production. Increased efficiency will be required to enlarge the total production of a farming industry which cannot be materially increased in acreage. The depletion of our soil resources during the war years calls urgently for the extension of conservation programs.

Needed levels of farm production. The greatly increased demand for food on the part of our civilian population was a remarkable feature of our wartime economy. This profound change in eating habits, founded upon higher and better-distributed national income, has continued since VJ-day. In 1947, per capita food consumption was about 17 percent above the 1935-39 average. Among the items increasing more than the average were chickens and turkeys, 33 percent; eggs, 28 percent; meats, 24 percent; and fluid milk and cream, 18 percent. (See also appendix B, table XXXV.)

In view of the growing population and expanding income, we should seek within a decade to raise agricultural production about 10 percent above present levels. This would mean that crop production would be about 25 percent, and livestock production nearly 50 percent, above prewar levels.

Increasing farm productivity. Achievement of the high objectives set for agriculture will require efficient use of resources. This means increasing emphasis upon research and education to improve technology. It will necessitate an increased capital investment per worker, to raise the individual's productivity about 50 percent above the prewar level. It will also mean using two or three times as much fertilizer as before the war, about three times as many tractors on farms, and more of other types of machinery and equipment.

There are still tremendous variations in the efficiency of farm manpower use. Many farms are well organized. But some 2 or 3 million are too small or have poor land or have inadequate buildings and equipment. There is need to increase the efficiency of labor on such farms, and to help some farmers and farm laborers find other, more profitable, employment. More adequate educational and financial aids should be provided for this purpose.

Security for agriculture and the farm market. Both farmers and con-

sumers should be protected from the feast-and-famine cycle that the vagaries of nature impose from time to time on farm production. Technological progress will reduce this problem, but there will be continuing need for crop insurance and for storage programs for staples and marketing programs for perishables. Orderly marketing and the widest possible distribution of bumper crops call for educational and service work with industry and consumers in moving large supplies.

Great opportunities exist for further advances in marketing farm products through intensified research and through educational and service programs. From the farmer's standpoint, marketing improvements mean wider outlets and more adequate returns for his product. From the consumer's standpoint they mean both savings in costs of these products and better, more adequate, and more conveniently available supplies.

Commodity price supports are desirable as assurances against special dislocations which might arise in case of recession. I emphasize, however, the need for keeping support levels flexible. I am glad to note the effort currently being made by various groups, outside as well as inside the Government, to modernize and improve the parity formula.

I also realize the stake of many American farmers in maintaining a stable and satisfactory foreign market. Our farmers should continue to export substantial quantities of wheat, cotton, tobacco, rice, and fruit. Though export demands, especially for grain, are now at a high level, some of our more difficult long-term problems are in the foreign trade field.

Interdependence of farm and city. Maintaining an expanding demand for farm products depends not only on maximum employment for the whole economy, but also upon raising the incomes and living standards of those portions of the urban population who have suffered from excessively low incomes even in times of prosperity.

So long as 13 percent of our total families have incomes under \$1,000 a year, and 28 percent have incomes under \$2,000 a year, as is shown in table 3 on page 19, the dietary standards of these low-income families cannot comport with the true meaning of maximum production for agriculture. Studies made in 1941 indicated that the families and single individuals having incomes of \$2,000 or more—enough to satisfy their food wants fairly liberally at the price level then prevailing—bought 60 percent more fruit, 25 percent more vegetables and meats and milk, and 10 percent more eggs than the average for the population as a whole. This means that minimum wage and other programs designed to encourage a better income balance throughout the wage-earning population should be regarded by the farm population as serving their interests also. The farmer is a prime beneficiary of well-distributed prosperity.

High and stable levels of food consumption are essential to a prosperous

agriculture. When demand is high there is little need for direct price supports. Programs to maintain food consumption can go far to prevent economic recessions, to maintain good markets for farmers, and to safeguard the diets and health of the public. Our agricultural and food program should therefore give increased emphasis to measures designed to protect the diets of such groups as school children and low-income families.

Just as the farmer sells to the city and depends upon urban prosperity, so also the products of industry are sold to farmers in larger quantities when there is farm prosperity.

The relatively low income of farmers before the war was proverbial. Its effects on the demand for industrial products are equally striking. This is shown in the following figures comparing per capita net income from farming of farm people with what they bought, in three significant years:

Farm income, per capita: 1929—\$223; 1933—\$90; 1947—about \$725.

Farm implement sales: 1929—519 million dollars; 1933—177 million dollars; 1947—around 850 million dollars.

Mail-order sales: 1929—447 million dollars; 1933—220 million dollars; 1947—over 1,100 million dollars.

Feed and farm supply store sales: 1929—1,119 million dollars; 1933—463 million dollars; 1947—nearly 3 billion dollars.

Despite recent gains, the purchasing power of many farmers is low compared with that of nonfarm people. The average per capita income of farm people derived from all sources was \$779 in 1946, while the income of nonfarm people was \$1,288. This low average for farm people reflects, not low farm prices—prices were high—but the low productivity of many farmers.

The more widespread enjoyment of satisfactory incomes in farm areas will provide enormous new outlets for industrial products. As recently as 1945, only 58 percent of all rural homes had refrigerators or ice boxes; only 46 percent had electric irons, and only 28 percent had running water. Since then, the installation of these conveniences in farm homes has given businessmen and wage earners some conception of the large stake they have in the maintenance of farm prosperity and its extension to an ever-increasing number of farm families. Electrification, particularly, is providing for farmers a vast range of labor-saving equipment and living conveniences and is creating an increasing market for industrial products.

Our economy is indivisible. Maximum production and purchasing power in the city and on the farm are inseparably connected. As shown by the relative instability and inadequacy of farm income in the past, and the impact of this upon the whole economy, the economic future of the country as a whole will require concentration upon those policies which

will enable the farm population to share equitably in economic growth and in the improvement of living standards.

Taxation and debt management

Taxation. The first feature of our long-range tax policy must be the maintenance of tax revenue which, except in years of depression, will balance the Federal budget and provide a substantial surplus for debt retirement.

It is a remarkable feature of the postwar period that there has been so little fear of the effects upon the national credit or upon the national well-being of a public debt ten times as large as the debt which a dozen years ago was causing much uneasiness in the financial world. But although we have learned that an enormous public debt is not necessarily ruinous to public credit nor destructive of national prosperity, we should never forget that within it is a sleeping danger. If less propitious conditions arise within the economy, the public debt may indeed be found a serious burden upon the process of readjustment. Every consideration of prudence with respect to future problems of the national economy and of the national credit in critical circumstances requires a firm and sustained policy of reducing the public debt.

The second requirement of our long-range tax policy is that the tax rates and the character of the taxes be such as to help sustain prosperity. This cannot be done by a tax structure that remains the same regardless of changing economic circumstances. Lowering particular taxes on business may at one time be needed as a means of stimulating business expenditures when they are inclined to lag, but maintaining or advancing taxes at another time may be needed as a means of checking overexpansion or overcapitalization. These adaptations can be made without the injection of uncertainties into businessmen's calculations greater than those they are already accustomed to deal with. Similarly, the abatement of taxes on consumers or certain classes of consumers may at one time be important as a means of supporting their purchasing power, whereas at another time the maintenance or increase of taxes may be the most effective means of damping an inflationary tendency.

There is an obvious conflict between the desire of consumers to have taxes upon their incomes reduced and the desire of business to be relieved of taxes which figure in operating costs or which lessen the funds that they have for reinvestment and business expansion or that large income receivers have available to invest as equity capital. This conflict of private interests must, in the consideration of tax policy, be resolved by the Congress through adjustments which will promote the most prosperous and stable economy. There is no formula by which the best distribution of the tax burden can

be determined. However, the lessons of wartime and early postwar experience seem to indicate that for the sustaining of an economy of maximum production and a market commensurate with this rate of production, more concern will need to be directed during the years just ahead toward easing the tax burden on the consumer than toward accelerating the rate of capital formation.

Debt management. The vast increase in the public debt has not created the difficulties that many people feared, partly because our national debt is owned by our own citizens, and partly because of the technical skill with which the debt has been managed jointly by the Treasury Department and the Federal Reserve System.

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

The established policy of supporting the market for Government securities makes it possible for banks to obtain additional reserves, on the basis of which to expand credit, by selling part of their large holdings of securities to the Federal Reserve. This policy, therefore, does not permit the Federal Reserve to make effective use of the traditional method of limiting inflationary movements in the economy by requiring banks to borrow in order to obtain additional reserves and by raising the discount rate charged on such borrowings. The result of such a policy would be an increase in general interest rates. If the rate of interest upon other investments rose, they would become more attractive than Government bonds, both to banks and to other investment holders, who would call upon the Federal Reserve banks to buy bonds. Any purchases by the Reserve System would offset the effects of the restrictive discount rate policy.

In the recent congressional hearings there have been proposals to solve this dilemma by abandoning the support policy and freeing the Federal Reserve banks to bring about an anti-inflationary contraction of credit by increasing the discount rate, as was done in 1920. No such change in

policy should be considered. The financial world should rest easy that the investment market will not be subjected to the demoralization which swept over it in 1920 when the unsupported market for Government bonds fell about 20 percent below par.

Affirmation of a policy of supporting the Government bond market as a continuing program of the Government requires the use of other and less dangerous methods to restrain inflationary bank credit. Voluntary but effective restraint by the banks of inflationary bank credit expansion may prove adequate to the problem. If it does not, more direct action by the Federal Reserve banks will be required. Such actions as may be taken will not involve withdrawing support from the Government bond market.

International economic relations

The far-reaching effects of World War II upon the use of economic resources and upon the trade and business relations between nations will be felt for many years. The enormous destruction of the physical and organizational basis of production spread over most of Europe and parts of Asia, while elsewhere many new industries were developed and old ones stimulated. In the reconstruction process many alterations in the patterns of economic organization and trade relations are taking place. Great Britain is engaged in a difficult task of industrial and trade rehabilitation, while two other former leading industrial nations, Germany and Japan, are now thrust into minor roles.

The relative importance of the United States in the world economy has been greatly enhanced, partly because some of the older great nations have suffered adversity, but primarily because of our own increase in production. Although other nations fortunately possess most of the resources which they need for reconstruction, certain critical resources, such as food and machinery, which are needed to revitalize their productive energies, can be supplemented only by supplies from the United States and other countries of the Western Hemisphere. The program which I have asked Congress to authorize in order to assist European recovery over the next 4 years may make the difference between success and failure of world reconstruction.

The changing economic position of the other industrial nations is of great significance. During the war and its aftermath, many areas that formerly looked to these nations for industrial products have become intent upon their own industrial development. They cannot secure supplies sufficient to meet their increased requirements for capital goods from their traditional trade sources, and they are beckoning increasingly to American machine makers, to American capital, and to American skill in management and production.

A development which we cannot yet evaluate is the growth of the policy of state control of foreign trade in many countries. Because of critical shortages throughout the world there has been little relaxation of the war-time controls over exports, imports, and foreign exchange, and the course of action in some countries indicates a purpose to continue these controls. Our experience, however, shows that the difficulties of trade between a nation with state control and a nation with free enterprise can be surmounted and they can be expected to diminish as goods become more readily available in world markets.

Other developments bound to affect the course of trade are the occupation of Germany and Japan and the emergence of several new independent and self-governing states.

Against this background of new developments we can place the more familiar consideration of our own requirements. For some commodities we must have foreign markets or undertake a serious task of shifting our resources. A substantial part of agricultural and industrial employment is in production for export. On the other hand, our need for imports, especially of raw materials, will increase, notwithstanding our progress in the production of substitutes for such materials as natural rubber and silk, two of our most important prewar imports. The great enlargement in national production which has been portrayed in this Report requires a corresponding increase in those raw materials which come from abroad and in many other goods and services supplied by foreign countries. The heavy drain of war production upon our own natural resources must be remedied by a conservation policy supported by heavier imports, and the national security must be fortified by stockpiles of strategic materials which we do not produce at home.

Undeterred by the uncertainties arising from new political and economic conditions, this Government has been striving consistently to promote recovery and reconstruction efforts which would eventually contribute to mutually profitable and harmonious international economic relations. In addition to relief and reconstruction aid, we have supported within the framework of the United Nations a series of international organizations, such as the International Bank for Reconstruction and Development, the International Monetary Fund, and the Food and Agriculture Organization, to cope with the different categories of economic problems. This vast effort is now well advanced and many of these international organizations are already operating.

Still in process of creation is the International Trade Organization. The draft charter of this organization lays down a code of fair play in the international trade field. Nondiscriminatory and multilateral trade unhampered by high barriers, is the central aim of the proposed organization.

A major step toward this long-range goal is the General Agreement on Tariffs and Trade, recently concluded between ourselves and 22 other countries. This agreement reduces or eliminates preferences affecting a large part of our trade with the British Commonwealth. It provides for reductions of many tariffs and the maintenance of a low rate or free entry on other products. These concessions are protected by provisions designed to prevent participating countries from resorting to alternative means of restriction or discrimination. Like the proposed charter of the International Trade Organization, this agreement will help establish conditions under which world trade can flourish in less troubled times and under which the present reconstruction efforts can be carried forward.

The recovery of foreign production and ability to export, our own high demand for imports, and the international agreements to reduce obstacles to trade may be expected to help other countries buy our products in the future without depending upon the extraordinary financial assistance that is now required. Nevertheless, it is natural and desirable that we maintain some surplus of exports in the years ahead by the steady investment abroad of private capital. It is desirable both from our point of view and that of other countries that we, a country rich in capital, make some of our savings available to areas where capital is needed and where properly safeguarded private investments can earn a good return.

THE TIMING OF ECONOMIC PROGRAMS TO PROMOTE STABILIZATION

While it is most urgent now that we combat inflationary dangers, we cannot wait until the tide turns before considering affirmative measures that will be needed in the future. Economic conditions may turn rapidly, but the formulation, enactment, and initiation of economic and fiscal programs require a considerable amount of time. Prudence demands that we look ahead and prepare for tomorrow while we act for today.

In timing the adoption of measures for long-run prosperity we must give careful consideration to the following principles:

(1) Certain programs related to national security and foreign policy, to promotion of urgently needed production, and to protection of our natural and human resources against serious economic hazards must go ahead even though Government outlays for foreign or domestic programs contribute to the necessity of anti-inflationary measures.

(2) Certain adjustments, such as the increase in minimum wages and tax adjustments, are needed in order to mitigate the hardship imposed on those who are the hardest-hit victims of the inflationary price rise.

(3) Major parts of the proposed expansion in the social security program will be deflationary in the first period after inauguration. Therefore,

there is no reason to postpone the adoption of these urgently needed measures.

(4) Federal, State, and local public works in general should still be deferred wherever feasible. We need, however, certain initial steps immediately to prepare these measures for future years. For instance, the Federal Government and State and local governments should be preparing drawings and specifications for public-works projects to be undertaken when needed. In my budget for the fiscal year 1949, I have included appropriation requests and estimated expenditures in amounts sufficient for the initial steps of new public works.

(5) When the inflationary pressure subsides, we should speed up the programs of resource development, transportation, and urban rehabilitation, and further expand the social security, health, and education programs.

Since our first experience with the Employment Act is occurring under conditions that give priority to measures needed to counteract inflation, we are given time to consider carefully the measures that will aid in meeting the threat of unemployment at some time in the future. But we must not fritter away the time thus granted us. We must not be complacent and believe that the job of employment stabilization has been solved. A boom carries in it the seeds of its own destruction. We must be prepared to act in time if we want to make good our promise and prove to the world as well as ourselves that an economic system of free institutions can be made to work steadily as well as efficiently.