

To the Congress of the United States:

As 1950 opens, renewed confidence prevails in the American economy. This confidence is in itself an element of strength; and it is justified by the facts.

Late in 1948 we stood at the peak of the inflationary boom. It was clear that an eventual adjustment was inevitable before we would have a firm basis for stability and steady economic growth. During 1949 we met the test of that adjustment. Despite rough going for a few months, we made necessary changes with much less distress and difficulty than ever before. Today we are on firmer ground than we were a year ago.

Prices are down somewhat, and show the relative stability on which firm business and consumer plans can be based. Inventories of manufacturers and retailers have been reduced, and now are better adjusted to the rate of sales. These changes were accomplished with only very small reductions in dollar incomes and consumer spending. Allowing for price changes, the volume of goods and services purchased by consumers in 1949 was actually larger than in 1948. Business is proceeding with good profit prospects. Home building in 1949 reached a higher level than ever before.

More important still, employment and production, which declined during the first few months of 1949, have in recent months been moving upward again. Considerably more people now have jobs than at the low point last year. Industrial production has increased by 9 percent since July. Holiday sales have hit an all-time peak.

The relatively safe passage from inflation to greater stability was no accident. Businessmen, workers, and farmers demonstrated much greater judgment and restraint than in earlier similar periods. Their actions showed that they had gained understanding of the causes of our economic situation and what should be done to improve it. Their efforts were aided by public policies which had been developed over the years and had been improved by experience. Government measures in such fields as credit and banking, social insurance, and agricultural price supports, proved their worth in cushioning the downswing and lending strong support to the recovery movement.

This effective teamwork between free enterprise and Government confounded the enemies of freedom who waited eagerly, during 1949, for the collapse of the American economy. Our economy continues strong. We are able to continue and advance the domestic and international programs which are the hope of free peoples throughout the world.

We have succeeded in avoiding a serious set-back in 1949. We have regained stability; but we need more than stability. The great motivating force in our economic system is the perpetual will to move ahead, to use our skills and our resources more efficiently, to produce more at lower cost, and to provide a better and richer life for all our citizens. The American economy must expand steadily.

Maximum production and maximum employment are not static goals; they mean more jobs and more business opportunities in each succeeding year. If we are to attain these objectives, we must make full use of all the resources of the American economy.

During the past year, we did not do so. Our success thus far in reversing the forces of recession cannot hide the high price we paid for economic instability. The downturn brought anxiety and suffering to millions who became unemployed, and to their families. It brought failure to many small businesses. It reduced the opportunities for the creation of new enterprises. It hurt the free nations whose continuing revival depends upon trade with us. It caused our total output for 1949 to be some 10 to 13 billion dollars lower than it would have been if maximum production and employment had been maintained.

In earlier economic reports, I emphasized the dangers of permitting inflationary pressures to continue, and urged measures to hold them in check. Most of these measures were not adopted, and the break in the economic boom, against which I had warned, came to pass. Six months ago, the Midyear Economic Report pointed out the way to recovery. Additional steps should now be taken to complete the process of recovery. We must not again make the mistake of failing to adopt affirmative policies necessary for continued economic stability and growth.

At present, our economy is moving upward again. But we have not yet reached the point of fully employing our resources.

Although output is high, some resources of plant and equipment are not being fully used. Although employment is large, unemployment in recent months has been about 1½ to 2 million higher than in the corresponding months of 1948. Furthermore, our technology, productive facilities, and labor force are continuing to grow.

If we are to use all these resources, we must tap the dynamic forces of expansion within the American economy. One of the most important of these dynamic forces is the process of business investment, by which productive capacity is enlarged and improved. In the fourth quarter of the year, business investment has not kept pace with the improvement in economic conditions. If the downward trend in business investment were to continue, our prospects for full recovery and continued expansion would be seriously endangered.

There is no need for this decline to continue. There are immense opportunities for business investment in nearly every segment of the economy.

There are in general sufficient funds available to businessmen who want to seize these opportunities. The initiative of businessmen, aided by proper Government policies, can and should soon reverse the trend of business investment.

Business investment can continue at a high level only if markets for consumer goods continue to expand. Price and wage policies should be directed at enlarging these markets. For only by broadening the distribution of goods and services can our business system find full use for its expanding productive capacity.

The events of 1949 demonstrated anew the basic strength of the American economy. They also demonstrated that economic affairs are not beyond human control. We should now seek to establish a course that will complete the recovery and carry us on to steady economic growth.

Summary of the Economic Situation

Total civilian employment in 1949 averaged 58.7 million, somewhat less than the average of 59.4 million in 1948, and was 58.6 million in December 1949. Nonagricultural employment fell during the first five months, reaching a low of 49.7 million in May. Since that month it has increased at more than the usual seasonal rate, reaching 51.8 million in December.

Over the year, unemployment averaged 3.4 million, or about 5 percent of the labor force, compared with 2.1 million or 3 percent of the somewhat smaller labor force in 1948. Unemployment at its worst in July 1949 amounted to 4.1 million. In December, it was just below 3.5 million, 1.6 million more than in December 1948. There has been a rapid rise in the number of unemployed workers exhausting their rights to unemployment benefits.

Total production of all goods and services in 1949 was 259 billion dollars. Adjusted for changes in prices, this was about 1 percent lower than in 1948, and fell short of maximum production by 4 to 5 percent, or 10 to 13 billion dollars. The sharpest drop was in industrial production, which averaged 9 percent lower than in 1948, while agricultural output dropped about 1 percent. Construction advanced about 5 percent, and output of electricity and gas rose about .2 percent. There was a gain in the service industries.

From November 1948, until the low point of July 1949, industrial production declined 17 percent. Since July the trend has been upward, interrupted only by work stoppages. By December industrial production had regained nearly half of the lost ground.

Prices during the first half of 1949 showed a general but moderate decline, followed by relative stability in the second half. Wholesale prices by the end of the year were down 7 percent from their level of a year earlier and 11 percent below their 1948 peak. The sharpest declines were in farm and wholesale food prices. Farm prices are now 23 percent

below the postwar peak and 12 percent below what they were a year ago. The drop in consumers' prices was much more moderate. By November 1949, consumers' prices had declined 2 percent below the level at the end of 1948 and 3 percent below their postwar peak.

Wage increases were received by a much smaller number of workers than in previous postwar years. There was no general wage pattern. Wages averaged slightly higher than in 1948, and consumers' prices were somewhat lower. One outstanding development was the growth of pension and social insurance plans financed in whole or in part by employers.

Work stoppages in 1949 were about the same in number as in 1948, but the two major stoppages, in coal and steel, involved such a large number of workers that the loss in man-days of work was about 50 percent greater than in 1948.

Profits were lower in 1949 than in 1948. For the year as a whole, corporate profits before taxes and the inventory valuation adjustment were 27.6 billion dollars, a drop of about 21 percent. Much of the loss in reported profits represented the effect of falling prices on inventory valuation.

Farm income (realized net income of farm operators) declined about 15 percent, reflecting the decline in prices. The agricultural price-support program prevented a much sharper decline in prices and incomes.

Credit terms generally eased during the year. Interest rates declined. Business loans, reflecting the liquidation of inventories, declined sharply during the first six months but began to advance again in the latter part of the year. Instalment credit, after a slight decline in the first quarter, resumed its advance and reached a new postwar peak. Most notable was the more than 60 percent increase in automobile instalment credit during the year.

Consumers' disposable income was slightly higher in 1949 than in 1948, rising from 190.8 billion dollars to 192.9 billion dollars. The trend, however, was different, rising every quarter in 1948 and falling every quarter in 1949. In the fourth quarter of 1949 the annual rate was 191.1 billion dollars. Unemployment compensation in 1949 contributed 1.9 billion dollars to consumer income, 1 billion dollars more than in 1948.

Consumer expenditures for goods and services were remarkably constant throughout 1949. Their total was 179 billion dollars. This was equal to the total for 1948 as a whole, but about 2 billion dollars lower than the annual rate in the second half of that year. Allowing for price changes, consumers' expenditures represented a slightly higher volume of goods and services purchased than in 1948. An increased proportion of consumer spending was devoted to purchases of services and durable goods, a decreased proportion to the purchase of nondurable goods.

Net personal saving amounted to 14.4 billion dollars, compared with 12 billion dollars in 1948. During 1949, however, the trend of saving was downward, from an annual rate of 16.3 billion dollars in the first quarter

to 13.1 billion dollars in the fourth. While personal saving in 1949 was high by any previous peacetime standards, it is estimated that about one-third of all families did not add to their savings, but instead spent more than they earned.

Private domestic investment in 1949 was 18 percent below the preceding year, primarily because of a shift from accumulation to liquidation of inventories. By the fourth quarter, the liquidation of inventories was slowed down, but investment in plant and equipment continued to decline. The drop in business investment was the principal feature in the lower level of economic activity in 1949.

Construction, in spite of a slow start, exceeded the high level attained in 1948 by 3 percent in dollar volume, and was an important stabilizing force in the economy. Public construction increased by 25 percent over 1948. Private construction declined by 4 percent, but residential construction was particularly strong in the second half of the year, rising to a new postwar peak in the fourth quarter. Housing starts for the year exceeded 1,000,000, compared with 931,300 in 1948. The number of multi-family units started was about one-fourth larger than in 1948.

By the end of the year, the rate of total construction activity was 11 percent higher than it was a year earlier, and the backlog of contracts had increased considerably. A reduction in prices and costs, the easing of credit, the expanded authority of the RFC to purchase mortgages, and the renewal of FHA authority to insure rental projects, all contributed to the upsurge.

Corporate finance reflected the changes in the economic situation. The shift from increasing inventories and increasing customer credit in 1948, to inventory reduction and a lower rate of increase in customer credit in 1949, permitted corporations to improve their financial liquidity while continuing large outlays for new plant and equipment. Liquid assets increased by 2.5 billion dollars. Short-term debt decreased by 4 billion, but long-term debt increased by about the same amount. In 1949, internal sources of corporate funds were larger than required for capital investment; in 1948, internal sources of funds amounted to only about 70 percent of the requirements for capital investment.

The export surplus (the excess of our exports of goods and services over our imports) was only slightly lower in total in 1949 than in 1948, but it fell sharply in the second half of the year. This resulted primarily from a sharp drop in our exports of goods and services, following severe losses of gold and dollars by the countries in the sterling area. The devaluation of foreign currencies subsequent to these losses has so far had little effect on our economy.

Government fiscal transactions in 1949 helped to stabilize the economy. Cash payments by governments—Federal, State and local—were about 8 billion dollars higher in the calendar year 1949 than in 1948. Federal cash payments alone were 6.2 billion dollars higher. Nearly half of this

rise resulted from the impact of recessionary forces on such programs as unemployment compensation and agricultural price supports, and the remainder was mainly the result of larger expenditures for international and defense programs. The increase in State and local cash payments was caused chiefly by higher expenditures for schools, roads, and other public works. With increasing government payments, and with a slight decline in the gross national product, the ratio of all government payments to total output increased from about 20 percent in 1948 to 23½ percent in 1949. Cash receipts declined primarily because of the 1948 cut in Federal taxes.

As a result of these changes, the cash surplus of all governments—Federal, State, and local—which amounted to over 7 billion dollars in the calendar year 1948, became a cash deficit of 3 billion dollars in 1949. For the Federal Government, the result was a shift from a cash surplus of 8 billion dollars to a cash deficit of about 1.7 billion dollars.

Unifying Principles for Action

These facts show our tremendous economic strength. But this strength does not rest in material things alone.

If we are to continue our economic growth the major economic groups must all pull together—businessmen, wage earners, and farmers must work toward the same ends. Government, in turn, must carry out the aspirations of the whole people.

Our success will depend upon the widespread conviction that all groups have a stake in the expansion of the economy—that all will share in the benefits of progress. In the days ahead we must broaden our understanding of how the various interests of our people are interrelated.

Toward this end, I should like to point out certain principles on which we can all base our economic efforts. The more widely these principles are understood, the better able we shall be to solve our common problems and reconcile the interests of different economic groups. The more widely these principles are used as the basis for economic action and decision, the more rapid will be our national progress.

First. Our economy can and must continue to grow.

An expanding population and an increasingly productive labor force require constantly expanding employment opportunities and steadily rising levels of investment and consumption. Within five years, we can achieve an annual output in excess of 300 billion dollars. The gain in national income would be equal to an average of nearly \$1,000 for every family in the United States. This would greatly improve standards of living. It would go far toward our goal of the complete elimination of poverty. It would provide employment opportunities for about 64 million workers.

Such prospects are not fanciful. They are based upon our long-term record of achievement, including some years when we did not use fully our

resources of plant, managerial skills, and labor force. And today, we are better equipped with these resources than ever before.

But we will not make this progress within five years unless we begin to move in that direction now. Our immediate goal for 1950 should be to regain maximum employment. This requires the reduction of unemployment to the minimum level consistent with labor mobility in a free economy. We should strive this year to reduce unemployment from 3½ million to 2 million, or 2½ million at most. This would mean about 61 million civilian jobs. It would mean stepping up our national output by about 7 percent above the 1949 total. These are our objectives for this year under the Employment Act. If we put forth sufficient effort, we can reach these objectives before the year's end.

Second. The benefits of growth and progress must extend to all groups.

Only in this way can the long-run welfare of any group be preserved. If any part of our economy is depressed, or fails to gain, it can only serve as a drag against the gains of other parts. There is no room for the feeling that one group can prosper only at the expense of another. There is abundant opportunity for all groups to prosper together. Expansion to a 300 billion dollar economy within five years would place 30 to 45 billion dollars more per year in the hands of consumers for buying the needs and comforts of life. It would provide opportunity for profitable business investment in plant, equipment, and housing which might run 3 to 6 billion dollars per year above the 1949 level. It would enable farmers to sell about 10 percent more food for domestic consumption.

Third. This growth will not come automatically, but requires conscious purpose and hard work.

Productivity per worker should be increased by at least 2 to 2½ percent a year. Labor should base its policies on the prospect of a stable and expanding economy. Businessmen should base their investment policies on confidence in growth, shape their price policies to the needs of larger markets, and proceed with vigor and ingenuity to develop new and better products of all kinds. Farmers should make full use of new technology, and make shifts in production toward those commodities most needed in a growing peacetime economy.

To promote an environment in which businessmen, labor, and farmers can act most effectively to achieve steady economic growth is a major task of the Government. It must perfect measures for helping to stabilize the economy. It must build up the natural resources which are essential to economic progress, and expand the protective measures against human insecurity. It must keep open the channels of competition, promote free collective bargaining, and encourage expanded opportunities for private initiative.

Fourth. The fiscal policy of the Federal Government must be designed to contribute to the growth of the economy.

The Federal Budget is an important part of the national economy. Wise budgetary policies can promote stability and maximum production and employment throughout the economy.

In fields such as resource development, education, health, and social security, Government programs are essential elements of our economic strength. If we cut these programs below the requirements of an expanding economy, we should be weakening some of the most important factors which promote that expansion. Furthermore, we must maintain our programs for national security and international peace. These programs are the defense of the world against disaster. Upon them, our whole future depends.

Government revenue policy should take into account both the needs of sound Government finance and the needs of an expanding economy. Federal receipts should be sufficient over a period of years to balance the budget and provide a surplus for debt reduction. At the same time, the tax structure, and the changes made in it from time to time, should be such as to promote the amounts and types of investment, consumption, and saving needed for economic expansion. We should recognize that the expansion of the economy will generate additional revenues and strengthen the fiscal position of the Government.

Fifth. We must deal vigorously with trouble spots which exist in our economy even in times of general prosperity.

Special measures are needed to help low-income groups and, even more important, to provide them with better opportunities to help themselves. We must deal with the particular problems of communities or areas which are depressed, or whose economic growth has been retarded. Whenever a shortage of jobs, or lack of business opportunity, affects as many persons as it does today, it is a matter for national concern. Economic stagnation anywhere is an injury to the whole economy. We must direct specific measures to these special problems.

In the light of these guiding principles, I turn to the consideration of needed economic policies.

Economic Policies

Under our system, private and public policies go hand in hand. Private economic policies provide motive power of the economy. Public economic policies provide the framework for economic activity. Sound plans for our future growth must take account of both, and blend them to achieve maximum effectiveness.

Price and wage policies

The basic economic problem facing the country now is not to combat inflation. Instead it is to increase production, employment, and incomes to complete the recovery from the 1949 downturn, and to go on to the higher

levels which will be made possible by a growing population and rising productivity.

Business policies concerning prices should be determined with these objectives in mind. In general, prices now seem at or near a stable level consistent with continued expansion of business activity. There are few if any major areas in which price increases would be justified under present circumstances. In some outstanding areas, price cuts are feasible and needed to maintain and expand sales. Furthermore, technological progress should in part be reflected in price reductions from time to time.

Wage adjustments are one historic method by which buying power has increased with increasing productivity. These adjustments are now in the hands of management and labor. That is where they should remain. At the same time, the participants in collective bargaining, particularly in dominant industries, should recognize that wage adjustments affect not only the employers and workers immediately engaged, but also the whole economy.

I am glad to note that the Council of Economic Advisers is encouraging joint conferences in which representatives of industry, agriculture, and labor may together study the economic principles underlying maximum economic activity. Such conferences should be productive of improved policies.

Business investment

The large and imaginative programs of expansion and modernization of plant facilities which have been undertaken since the war represent a signal achievement by private enterprise. The trend of business investment, however, has recently been downward, and its continued decline would be a cause for real concern.

There are tremendous business opportunities in a growing economy. Not only are there more people in our country every year, needing food and clothing, homes and household equipment, and all the other goods and services of our bountiful productive system. Even more important, the results of research and experience give us every year new and better materials and productive methods; new products are constantly being developed, and whole new industries begun. All these changes are continually opening up new opportunities for productive investment.

There are, in general, ample funds available to businessmen who want to expand or build new plants, to replace obsolete equipment, or to extend their operations to new geographic areas. Banks are in a position to provide funds for sound loans, and interest rates have been declining. The flow of institutional savings, such as insurance premiums, is at record levels. Corporations as a whole are in excellent financial condition. While there are real difficulties facing some businessmen, particularly those whose enterprises are small or medium-sized, and those in certain parts of the country,

as a whole there is no general financial bar to a steady expansion of business investment.

In order to reverse the present downward trend, and to achieve the rising volume of business investment consistent with an expanding economy, businessmen should grasp the opportunities which lie ahead; and should help to make the adjustments in prices and incomes which will translate potential markets into real markets. The enterprise and imagination of private businessmen will be a crucial factor in achieving the upward growth of which our economy is capable.

While our primary reliance should be placed upon private initiative, the Government can also help to encourage a reversal of the downward trend of business investment. The tax recommendations I shall transmit to the Congress in the near future will, in addition to providing some net increase in revenue, propose certain changes in our tax structure which will make it more equitable and stimulate business activity.

There is a great need to meet the problems of small businessmen who cannot now obtain adequate financing on reasonable terms. New devices for encouraging private financial institutions to furnish equity capital to small and medium-sized concerns are being studied in the Executive Branch, and I hope to make recommendations to the Congress on this subject during the present session. Meanwhile, I recommend that the Reconstruction Finance Corporation be authorized to increase the maximum maturity of its business loans substantially above the present 10-year limit.

Private housing investment

Housing is one of the major fields in which more investment is required to meet the growing needs of our people. The level of housing construction in 1949 was only slightly higher than in 1925, despite a much larger population. The relative lag of housing technology and various outmoded practices have resulted in a wide gap between the cost of producing good housing and the vast potential market for housing to be found in the needs and desires of families of low and middle incomes.

The housing problem requires a vigorous combination of action by private enterprise and by all levels of government. Reduction of housing costs, through technical progress, better organization, and improved financing, is imperative. Aside from public subsidized housing, further methods must be found to enlarge the flow of private capital into housing. The Federal Government should supplement the comprehensive housing legislation, enacted last year, with a new program to stimulate the flow of low-cost private money into the development of middle-income housing, mainly through cooperative and other non-profit ventures.

A high level of residential construction is an integral part of a generally expanding economy, and requires not only direct stimulation of investment but also continued growth in consumer purchasing power.

Rent control

While the preceding recommendations aim at the fundamental solution of the housing problem, the increases in rents which would follow a sudden ending of rent control would still create severe hardships in a large number of areas. It would lift the cost of living, impair consumer buying, and complicate the problem of wage adjustments. Therefore I recommend extension of rent control for another year.

Fiscal policy

At the present time the Federal Budget shows a deficit, principally because of the drop in incomes and employment in 1949, the untimely tax reductions in 1948, and the continuing heavy demands of national security programs. As business conditions continue to improve, we should bring Government receipts and expenditures into balance, and provide some surplus for debt reduction, at the earliest date consistent with the welfare of the country.

Despite the current deficit, the fiscal position of the Federal Government is basically strong. If the trend of business continues upward as it should, Federal revenue will increase. At the same time, under the policies I am recommending in the Budget, Federal expenditures should decline somewhat over the next few years. This movement toward a balanced budget should be accelerated by changes in our tax laws which will reduce present inequities, stimulate business activity, and yield a moderate amount of additional revenue.

This reliance upon a combination of three factors—an expanding economy, all reasonable reductions in expenditures, and a moderate increase in revenues through changes in the tax laws—is the wisest course toward a balanced budget. In the long run, the Government's fiscal position depends upon the health of the national economy. It will not be promoted by drastic slashes in expenditures which are essential to our economic growth and to continued peace. Neither will it be promoted by tax increases so drastic as to stifle business activity. Either action would impair our chances for achieving our major national and international objectives and would threaten further recovery.

Credit policies

To carry out the purposes of the Employment Act, the Government should be equipped, as a permanent matter, with the minimum tools necessary to control the basic factors of credit expansion.

To eliminate the competitive disadvantage of Federal Reserve membership, the authority of the Board of Governors of the Federal Reserve System over bank reserve requirements should be revised. The Board should have broader powers than it now has to increase bank reserve requirements in a period of inflation. This would be a protective measure for the entire banking

system, and accordingly should be applicable to all banks insured by the Federal Deposit Insurance Corporation.

The Board's authority over instalment credit ended last June. Since that time the excessive relaxation of instalment terms offered to consumers has demonstrated the need for a restoration of the Board's authority.

I have heretofore pointed out the need for more effective Government supervision over speculative trading on the commodity exchanges. I recommend that the Congress grant more specific and more adequate authority for this purpose.

Farm policy

A generally prosperous economy will do more than all else to help the farmer. As the economy grows, it can absorb an expansion of total agricultural output, provided the necessary shifts in amounts and types of different products are made to meet the needs of a changing peacetime economy. Changes in our farm policy are needed to accelerate these shifts in production, to check the decline in farm incomes which has persisted for more than a year, and to accord to farmers a fair share of the fruits of prosperity. These basic objectives of farm policy call for some shift of emphasis from the support of prices of particular commodities to the support of farm income.

There is also need for additional methods of support. Perishable products, in particular, cannot be supported satisfactorily by loans and purchases alone, and yet these are the products the expansion of whose output is most desirable. I therefore urge that support through production payments be authorized.

Special measures are needed to aid low-income groups in agriculture. These include measures to provide credit and management aids to low-income farmers to help them enlarge and improve their farms. They include programs to provide rural electrification, rural telephones, better farm housing, and improved opportunity for medical care. In addition, we must continue to improve the education of our farm youth not only to make them more efficient farmers, but also to help some of the underemployed people in agriculture find useful work in other occupations.

Increased emphasis should be given to encouragement of types of farming which are most needed. Research and education, and conservation and credit programs, as well as the Government's support of farm prices and farm incomes, should be directed toward this end.

Developmental programs and community services

After the restraints imposed by war and by postwar inflation, Federal programs for resource development, transportation, education, and health are just beginning to adjust to the needs of an expanding national economy. Even now, the requirements of national security, international aid, and veterans' adjustments are so urgent and so large that progress in develop-

mental programs and community services must necessarily be limited to gradual advancement at a rate below the genuine need.

Nevertheless, we are continuing to expand our investment in the development of our rivers for flood control, navigation, reclamation, and electric power, in the expansion of our highways, and in the development of atomic energy. I again urge early authorization of the St. Lawrence seaway and power project, which should be started as soon as plans can be completed. In most of our major river valleys we do not have satisfactory means for preparing integrated programs of development. I have already recommended, and I again urge, that the Congress authorize the consolidation of a number of Federal activities in the Pacific Northwest into a Columbia Valley Administration.

Present deficiencies in education and health are so compelling that I repeat my recommendation for new programs. Expansion of public health services, and of enrollments in schools of medicine, nursing, dentistry, and public health, should be started now. The growing number of children of school age cannot be permitted to delay their education. I therefore urge the prompt enactment of aid to elementary and secondary education, and the provision of funds for a survey to determine the extent of the need for school construction. There should also be authorized a limited program to assist capable young people who are now financially unable to secure the higher education essential to the full development of their talents.

Many of the existing procurement, construction, and loan programs of the Federal Government can be adapted, to some extent, to alleviate serious unemployment in particular local areas. The program initiated for this purpose in the summer of 1949 has shown some good results and it will be continued. It is evident, however, that some localities are faced with long-term rather than temporary difficulties and that effective programs to provide permanent solutions need to be worked out. The Federal Government will continue to use all available resources for the aid of such distressed areas and, cooperating with State and local agencies and private groups, will assist in preparing programs adjusted to the long-range problems and opportunities of those areas.

Social security

In our growing economy, there can be no excuse for failure to develop an adequate system for protecting our citizens against economic insecurity. As we produce more, we can and should make more adequate provision for the aged, those who cannot find work, and others in our society who are in need.

I urge the Congress to act promptly on the recommendations I have made for the extension and improvement of social security. We must move rapidly toward a comprehensive social insurance system protecting nearly all workers—including those employed in farming—and their families against the risks of old age, unemployment, disability, death of the family

wage-earner, and illness. The costs of such a system, when measured against the growing output of our economy, are well within our capacity to pay.

The present programs of social security are grossly inadequate. Because of the limited coverage of the present law, and the exhaustion of benefits by many workers, one-third of the unemployed are now receiving no unemployment insurance benefits, and in some areas the proportion approaches two-thirds. Many communities provide no public funds for the relief of jobless workers and their families. There are also several million disabled workers, many with families to support, who are not eligible for public insurance benefits. In some places, they do not even receive public relief. Only 650,000 of the millions of bereaved or broken families with very low incomes are receiving survivors insurance. Only 30 percent of the aged population are eligible for social insurance benefits, which are so meager that few can retire voluntarily. Needed medical care is denied to millions of our citizens because they have no access to systematic and adequate methods of meeting the cost.

The current inadequacy of the social insurance programs is sharply reflected in the disproportionate load now being borne by public assistance programs. Increasing numbers of the aged, the disabled, and the unemployed have been forced to resort to public assistance. This distorts the original intent of the Social Security Act that people are entitled to security as a matter of right. The burden of public assistance is straining the fiscal capacities of State and local governments. While enactment of proposed social insurance programs will alleviate this problem in the future, provision must be made for dealing with the problem in the meantime. I therefore urge enactment of the proposals which I submitted to the Congress last spring for the extension and improvement of the program of Federal grants to States for public assistance.

International economic programs

We are now in a transitional stage in the development of our international economic policies. Our short-run programs of aid to friendly countries abroad have begun to bear fruit in increased production, expanding trade, and rising living standards. At the same time, the long-range nature of the problems of world production and trade has emerged more clearly, and the need for the United States to play a continuing role in world development through capital and technical assistance has become evident.

The progress already made toward achieving the objectives of the European recovery program and of other short-run aid programs should prompt the continuation of these programs on a basis commensurate with need. To cripple them now would imperil past progress and risk the waste of expenditures already made. I recommend that these programs be extended on a scale sufficient to accomplish the purposes for which they were established.

In the years ahead, we must lay increasing emphasis upon long-run international economic programs. We need to move vigorously toward a world-wide increase of international trade. This will result in larger imports into our country, which will assist other countries to earn the dollars they need, and will at the same time increase our own standard of living. An immediate step in this direction is to approve promptly the proposed Charter for the International Trade Organization, which has been negotiated to establish a code of fair trade practice and a means for steadily improving international commercial relations.

Even the maximum feasible reduction of barriers to world trade would not alone make possible the continued increases in world production and living standards which are essential to world peace. Such reductions are of little immediate benefit to the underdeveloped areas of the world, which cannot produce enough to achieve an export surplus and build up their productive capital. These areas urgently need improved technical knowledge and increased capital investment. The aim of the Point Four program for assistance to underdeveloped countries is to help meet these needs.

To make the most effective use of invested capital, underdeveloped countries require technical assistance. Hearings have already been held by the Congress on the legislation I have recommended to stimulate the interchange of technical assistance. I urge action on this proposal as soon as possible.

The United States has sufficient productive strength to provide capital for investment in productive developments abroad. In order to encourage the private investment of United States funds abroad, I urge the Congress to act promptly on the legislation now before it to authorize the Export-Import Bank to guarantee such investments against certain risks peculiar to foreign investment. Through the negotiation of treaties, the Government is moving to improve conditions for investment abroad and assure protection for the legitimate interests of United States investors. It will also continue to be the policy of the Government to encourage American investment abroad only when it is carried on in a way that protects the interests of the people in the foreign countries concerned.

I recommend also that certain provisions of the tax laws governing the taxation of income from foreign investments be revised in order to stimulate the flow of American capital abroad.

In addition to its direct contribution to increased production, the technical assistance program should prepare the way for, and stimulate the preparation of, concrete development projects, on the basis of which an increasing volume of private and public investment can be made. It is unlikely that private funds, including those invested through the International Bank, and the present resources of the Export-Import Bank, will be sufficient to meet the need for investment abroad. It will probably become necessary at a later time to increase the lending authority of the Export-Import Bank.

Summary of Legislative Recommendations

I summarize below the legislative recommendations contained in this Economic Report, and urge that the Congress enact them into law:

1. Make some revisions in the tax structure to reduce present inequities, stimulate business activity, and yield a moderate amount of net additional revenue. My specific recommendations on taxes will be transmitted to the Congress at an early date.

2. Enact a new program to stimulate private investment in housing for middle-income families.

3. Substantially increase the maximum maturity period for business loans made by the Reconstruction Finance Corporation.

4. Improve the protection of farm incomes and encourage needed shifts in farm production, by authorization of production payments and other changes in present legislation.

5. Establish a Columbia Valley Administration, and authorize the St. Lawrence seaway and power project.

6. Provide for Federal aid to elementary and secondary education, for a limited program of aid in support of higher education for capable students, for aid to medical education, for the improvement of local public health services, and for grants to States for surveys of the need for school construction.

7. Extend and liberalize the social security structure by improving old-age, survivors, and unemployment insurance, enacting disability and health insurance, and expanding Federal grants-in-aid to States for public assistance.

8. Extend rent control for another year.

9. Continue the foreign recovery programs on a basis commensurable with need.

10. Approve the Charter for the International Trade Organization.

11. Authorize the program for technical assistance to underdeveloped countries, and for guarantees by the Export-Import Bank against risks peculiar to private investment abroad; and revise certain provisions in the tax laws governing the taxation of income from foreign investments.

12. Provide additional authority over banking reserves to the Board of Governors of the Federal Reserve System; extend that authority to all banks insured by the Federal Deposit Insurance Corporation; and restore the Board's authority to regulate consumer credit. Provide authority to regulate speculation on the commodity exchanges.

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In the Message on the State of the Union, I have stressed the fateful role which the United States has come to occupy in the progress of human destiny. Our responsibilities are already determined by the course of world

events. But how well we measure up to these responsibilities remains in our own hands.

Moral leadership comes first, as we seek to inspire free men everywhere with confidence in their cause. But history proves that many great moral purposes have failed or faltered because the material strength to support them was lacking. The economic power of the United States, at its full potential, is the keystone of this support.

The Congress foresaw this when it gave our national economic policy the degree of central significance accorded to it under the Employment Act of 1946. As the deliberations of the United Nations demonstrate, other nations recognize the overwhelming importance to the cause of freedom of wise economic policies and full employment.

Our economic situation today is good, and it can be better. The lessons of the past and the magnificent challenge of the future continue to spur us on. For all to thrive and prosper together, all must work together—with mutual understanding and common purposes. That is the spirit of our democracy. That is the spirit in which I transmit these recommendations to the Congress, and to all those whose actions affect our economy.

HARRY S. TRUMAN.

JANUARY 6, 1950.