

To the Congress of the United States:

In this, my seventh and final Annual Economic Report to the Congress under the Employment Act of 1946, I think it appropriate to review the period of which the Act is both product and symbol.

Early in the past quarter-century, the United States fell from good times into a period of great economic adversity. Out of this experience, there arose the compelling demand which finally produced the declaration of national economic policy contained in the Employment Act—that our great resources were pledged to the maintenance of maximum production, employment, and purchasing power.

Later within this quarter-century, we achieved in great measure the kind of economic society of which the Act is a symbol—a prosperous and growing economy of free men, with increasing opportunity for all. In this accomplishment we have testimony that we can hold fast to our gains and add to them in the years ahead.

The Progress of the American Economy During a Quarter-Century

During this past quarter-century, the strength and vigor of the American economy have been severely tested. Since 1929, the Nation has suffered its most disastrous depression, fought its most costly war, and moved through a difficult postwar readjustment. Most recently, it has devoted a large portion of its output in the effort of the free world to overcome the menace of aggression.

Now, despite the wastage of depression and the heavy but necessary expenditures for war and national security, the Nation is far stronger economically than it was a quarter-century ago. Its people are enjoying a much higher standard of living. Its farms and factories are far more productive. And it is displaying in remarkable fashion the capacity for economic growth on which its future welfare and security so largely depend.

Production, jobs, and living standards

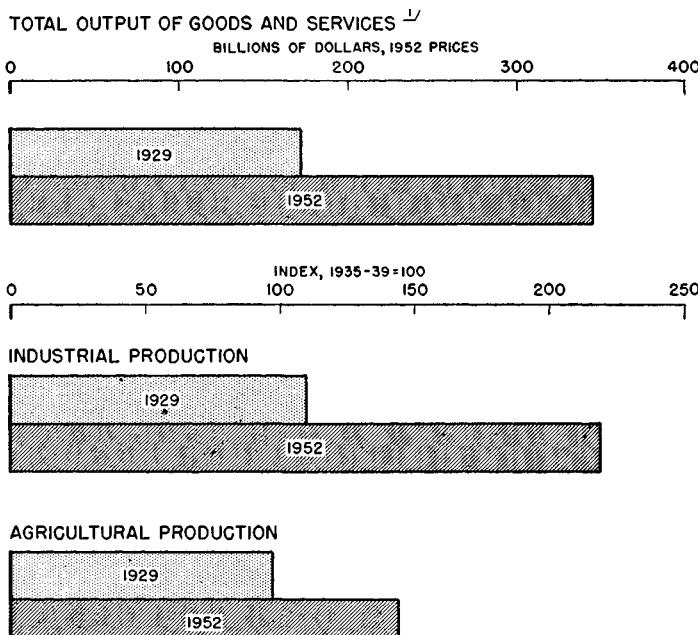
The Nation's progress during this past quarter-century is evident in the figures which sum up total economic activity.

In 1929, the output of all goods and services was 172 billion dollars; in 1952, total output amounted to 345 billion dollars—measured in both cases in uniform 1952 prices. Industrial production has doubled, and agricultural output has risen about 50 percent.

CHART 1

GROWTH IN PRODUCTION SINCE 1929

Total output and industrial production have doubled since 1929 and agricultural production has risen by almost one-half.



^{1/} GROSS NATIONAL PRODUCT.

SOURCES: VARIOUS GOVERNMENT AGENCIES. SEE APPENDIX B.

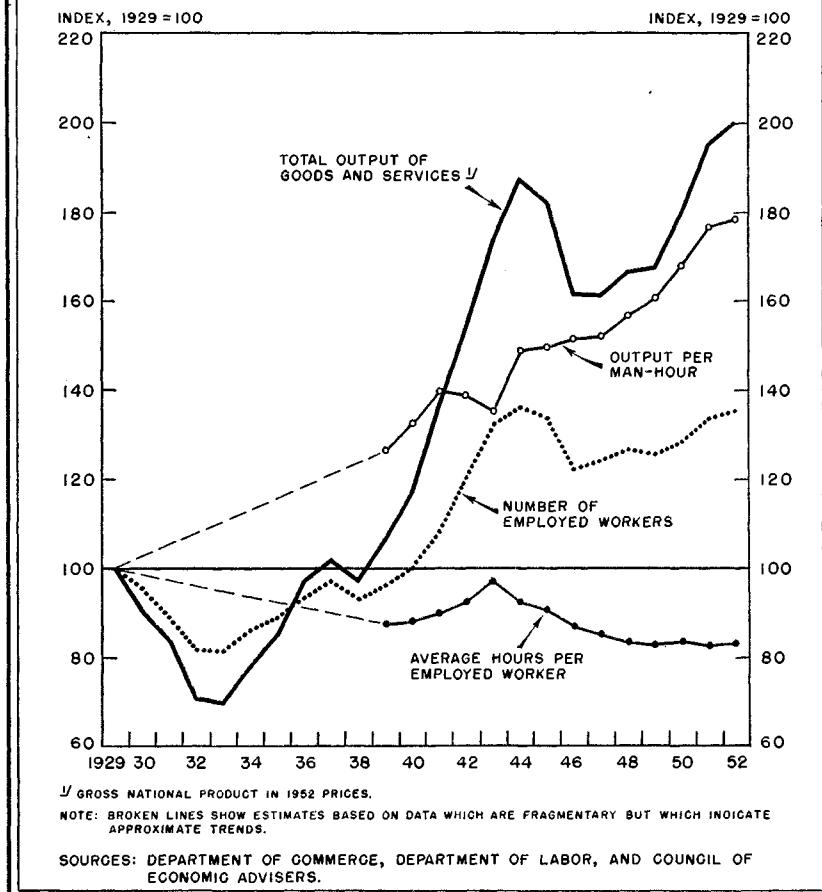
Last year, on the average, more than 61 million workers had civilian jobs, compared with almost 48 million in 1929. Both were good years for employment. In 1952, however, the average individual worked fewer hours—and produced more goods. From 1929 to 1952, the length of the workweek for all types of activity dropped from about 48 to 40 hours, but each worker turned out on the average 80 percent more goods and services. This greater yield reflects more and better equipment, and higher skills, than existed 25 years ago. Invention and business initiative have more than kept up with the rise in the number of men and women seeking work, and have made it possible for them to find better jobs.

While we have been producing more for consumers, we have at the same time been adding to equipment on farms and in factories. In 1952, for example, we spent about 26 billion dollars for machines and other kinds of durable equipment, compared with a little more than 11 billion dollars in 1929, both measured in 1952 prices.

CHART 2

NATIONAL OUTPUT AND LABOR INPUT

The expansion of production since 1929 has been accompanied by rising trends in employment and productivity and a declining trend in working hours.



Vast resource development projects and conservation programs have been undertaken in the past quarter-century, some public, some private, and many a mixture of the two. Public construction expenditures for flood control, navigation improvements, agricultural land reclamation, hydroelectric power facilities, and soil and forest conservation have increased more than 300 percent in real terms. Multiple-purpose development of the Tennessee, Columbia, and other rivers has been far advanced. Huge additional amounts are being invested in atomic energy. Private mining, timber, and other concerns have increasingly adopted conservation practices,

and have invested heavily in research and development. Individual farmers, frequently aided by the Government, have greatly enlarged their investment in their own land. Production and consumption of nearly all raw materials have increased since 1929. These developments have enormously enlarged the productive power of our factories and farms, helped to power and equip the American home with the most modern conveniences, and correspondingly lifted the standard of living.

The Nation's progress is shown also in greatly increased earnings and improved living standards. In 1929, average annual income after taxes was a little more than \$1,000 per capita, while last year the average was about \$1,500—again measured in 1952 prices. It should be noted that, while the real buying power of individuals was rising, the population of the United States increased by about 35 million. Our economy now provides much more for many more people.

The greatly improved living standards which have been achieved during the past quarter-century are evident in more tangible data than the number of dollars earned or spent.

In 1929, there were 23 million automobiles in use, and in 1952 there were 44 million. In the same span of time, the number of homes with a mechanical refrigerator increased from about 10 to 80 percent. The number with radios increased from 40 to 96 percent, and 40 percent now have television sets. Compared with 10 percent in 1929, nearly 90 percent of all farms are now electrified.

During the era as a whole, we have built 12 million new nonfarm homes, most of them since World War II. Home ownership increased from 48 percent of all families in 1930 to 55 percent in 1950. Terms of housing finance have improved greatly, bringing home ownership within the reach of lower income groups, and also facilitating construction of apartments and other houses for rent. In the blighted sections of cities, a hopeful number of slum clearance and redevelopment projects both public and private have been undertaken, though far from enough.

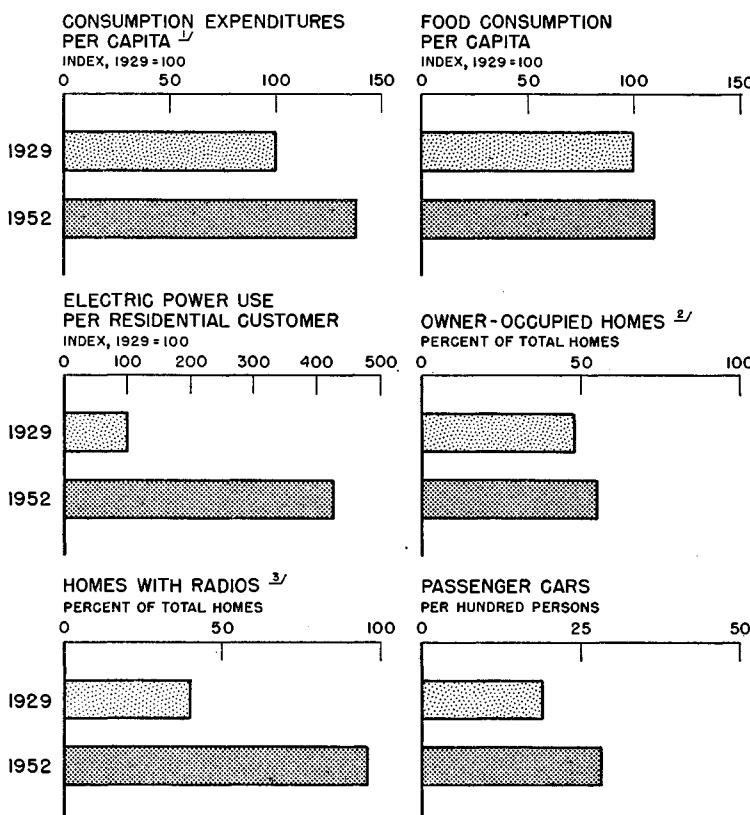
And the record has not been written in total quantities alone, whether of dollars, automobiles, or houses. The products of our economy are now far better distributed than they used to be. Adequate statistics do not go back to 1929. But since 1935-36, the real incomes of families and single persons in the lowest two-fifths of the income range have increased 90 percent, while the increase in the top fifth has been about 40 percent. This improved distribution is not only a mark of social progress and increasing human contentment; it is also a vital underpinning of sustained and advancing general prosperity for all sectors of the economy.

Economic justice and the higher values

Improved and more widely available education, medical care, and economic security are among the cherished features of the American way of life. So are the basic freedoms, full enjoyment of which depends upon

CHART 3

IMPROVEMENT IN LIVING STANDARDS SINCE 1929



^{1/} INDEX BASED ON EXPENDITURES IN 1952 PRICES.
^{2/} DATA ARE FOR 1930 AND 1950.
^{3/} END OF YEAR DATA.

SOURCES: DEPARTMENT OF COMMERCE, DEPARTMENT OF AGRICULTURE, EDISON ELECTRIC INSTITUTE, AND COUNCIL OF ECONOMIC ADVISERS.

progressive removal of discriminatory practices in the market place and elsewhere. These are higher values in the sense that they are abiding objectives of policy and action. But they also undergird the economic and moral strength of the country. They provide the source of a strong, healthy, and skilled labor force, and an imaginative and responsible management. They provide a motivation for economic growth.

Although the pursuit of these values during the past quarter-century has been interrupted by depression, world-wide war, and the necessities of the defense build-up, considerable headway has nonetheless been made.

Total educational expenditures, in constant prices, have about doubled since 1929. Capital outlays for public schools, again in constant prices, have gone up 63 percent in the same period. Teachers are better trained, curriculums have improved, and schools are designed for more effective learning.

Total per capita expenditures for health and medical services have nearly doubled during this era, after adjusting for price change. Outlays for hospital construction, both public and private, have risen about 83 percent. There is one doctor for every 740 persons now, compared with one for every 800 in 1929. Expenditures for medical research mounted to nearly 200 million dollars in 1952. The quality of medical care has improved with the development of new drugs, better techniques of surgery and hospital treatment, and the extension of preventive medicine.

It has been essential to do justice to those who have fought to defend us against enemies. Since 1929, the number of veterans has increased from 4.7 million to 19.7 million. Veterans and their families now comprise 40 percent of the total civilian population. Some 7.8 million veterans have received education and training aid since World War II, and an additional 600,000 have received vocational rehabilitation training. Increasing numbers of Korean war veterans will be receiving similar help. Unemployment insurance has been paid to about 9 million veterans. Farm and business loans, and housing mortgage guarantees and loans, have also helped veterans.

Progress in social security has been significant, with the advent in the mid-1930's of old-age insurance, unemployment insurance, and new and improved public assistance programs. The Federal old-age and survivors insurance program covers 45 million persons, while Federal-State public assistance is available for dependent children, the blind, needy old persons, and the permanently and totally disabled. The Federal-State unemployment insurance system now covers about 35 million jobs.

The eventual elimination of discrimination based on race, religion, economic status, or section of the country is a continuing objective of national policy. Discrimination is in part economic in origin, and can be reduced by economic measures. Throughout the past quarter-century, particularly as part of the economic and social reforms of the thirties, great though insufficient gains have been made.

Workers have been guaranteed the right to organize and bargain collectively. The Fair Labor Standards Act established the principle of minimum wages and maximum hours. Fair employment practices acts have been passed in some 12 States.

Economic justice for American agriculture has advanced tremendously since the period just before the great depression. Vast conservation programs, intensified agricultural research, loans and assistance to farm families, especially low income families, price supports to reduce instability, and rural electrification have combined to improve rural life. Since 1929, per

capita farm income in constant dollars has increased about 80 percent. The gain here has been relatively large, because the farmer had been left so far behind during the uneven prosperity of the late 1920's.

Opportunities for business have also widened, particularly as a result of the unprecedented period of prosperity since around 1940. There were only a third as many business failures in 1952 as in 1929, even though the number of business firms in operation has increased by one-third. In this quarter-century, while wholesale prices rose 80 percent and consumers' prices 55 percent, corporate profits rose more than 300 percent before taxes and more than 100 percent after taxes.

Working conditions have benefited enormously under the joint impact of union efforts, business policies of sharing productivity gains, and government programs. For factory workers with three dependents, the increase in average weekly take-home pay (after allowing for the taxes paid by a family of this size) has been from \$39 to about \$63, measured in 1952 prices.

Reinforcements against economic fluctuations

During recent weeks, a variety of commentators far and wide have noted the profoundly protective and stabilizing elements which have been built into our economic system during the past quarter-century. There is now a rather prevalent view that the danger of any economic setback getting out of hand during the next few years is minimized by broader and fairer distribution of income among individuals and economic groups; a more progressive tax system which automatically adjusts in part to changes in business conditions; a level of public expenditures which, while we all want to see it lower as soon as world conditions permit, stabilizes demand and stimulates private investment; unemployment compensation and the rest of the social security system; farm price supports; a far more shock-proof system of banks and securities exchanges; the greater firmness of wage rates due in part to strong unions; and more enlightened business practices with respect to pricing, marketing, collective bargaining, and investment planning. And not the least of the stabilizing effects of these programs is the increasing confidence in the maintenance of prosperity which they inspire.

Much remains to be done

Despite these great gains, many of our domestic economic problems have not been solved, some things should have been done better, many inadequacies still exist, and above all, the task of maintaining and advancing the rate of progress and forging new tools to meet new needs is always with us. In addition, while the current defense build-up is near its peak, the new problem of America's role in the world economy presses for solution. This problem will long endure, and it will call for many further changes in our thought and action.

Here at home, the recent period of economic growth has been accompanied by periodic inflation. Such periods of inflation not only threaten the continuance of growth but also prevent the benefits of growth from being enjoyed equitably by all the people in all sectors of the economy. We can still observe, despite unparalleled prosperity, deprivation of one kind or another among American families to be counted in the millions. We may face in the future, particularly when defense spending can safely be reduced, more serious tests of our ability to avoid depression than those which have occurred since World War II. And as we continue to build safeguards against such a test, it would be imprudent to rely excessively upon the stabilizing factors already in being which have been set forth above. They are not of themselves sufficiently strong to check inflation when it threatens, or to safeguard us from depression and maintain continuous prosperity and growth.

While much has been accomplished, much remains to be done.

The basic legislation which calls for this Economic Report—the Employment Act of 1946—is the framework within which we should strive to develop the further improvement of our economic condition. In the remainder of this message, I shall endeavor to evaluate this framework and to set within it some of the problems we face and some of the promises that lie ahead if we meet these problems effectively.

Purpose and Performance Under the Employment Act

Purpose of the Act

The Employment Act of 1946 is one of the most fundamental compacts in domestic affairs which the people through their Government have made during my tenure as President. It represents the refusal of Americans in all pursuits—in business, labor, agriculture, and Government—to accept recurrent depression as a way of life. It voices a profound conviction that all of us—working together—can maintain and enlarge prosperity, not only during or as an aftermath of war, but enduringly for all time.

The Act is more than an essay in wishful thinking. It represents the closely reasoned conclusion of economic minds, both scholarly and practical, that its objectives are obtainable by sensible private and public policies and can best be sought within the framework of our established political and economic institutions.

There were historical roots for this endeavor. The lessons of the past had been particularly compelling in the decade and a half which preceded 1946. These had been years of unprecedented contrast, so far as economic abundance was concerned. On the one hand, there was the stark tragedy of the early thirties, and then the seemingly boundless energies of the early forties. The period had been rich in careful social experimentation and legislative reform; the economic role and responsibilities of the Federal

Government had increased enormously. Many of the experiments had been temporary in character, to meet the emergencies of the depression or the extraordinary demands of war. But many of them were developed and improved to become permanent additions to our economic and social fabric.

Yet the Employment Act was not written in a spirit of conflict. It was not focused on the interests of any one group, whether powerful or down-trodden, but was addressed explicitly to the general welfare. And to an amazing degree, when one considers the thinking which it marked, it was noncontroversial. The subcommittees of the Senate and the House which skillfully ushered it into the legislative world worked to a large extent as bipartisan teams, and the final bill commanded overwhelming majorities of both parties in both houses of the Congress.

There are those who have suggested from time to time that, because the Act was relatively noncontroversial, it cannot have been very consequential. This is erroneous. Near unanimity, in this instance, was not a mark of the unimportant or the hackneyed; it was evidence that a legislative proposal of the greatest moment was extraordinarily well timed. It wrote into the codes of the Nation a great new area of agreement about the essential functions and responsibilities of the Federal Government almost as soon as that agreement existed.

It is likewise a mistake to underestimate the importance of the Employment Act, as some have done, because it did not set down a specific prescription of economic policies for solving future economic problems. The decision of its framers in this respect was deliberate, and did not represent simply an inability to get agreement on more technical or specific provisions. Instead, the decision was that such basic legislation should not attempt to prejudge the exact character, causes, and remedies of all of the future's general economic problems, but rather to define the general spirit and provide the general method for meeting these problems as they arise. With these problems in view, the Act has three specific purposes.

First, it is the purpose of the Act to achieve, within the Congress and the Executive Branch, and also between private enterprise and all levels of government, better economic policy coordination. In the thirties, and again during World War II, the economic programs of the Government had become increasingly diverse and complex, and any realistic appraisal indicated that they would remain so. The special pressures which were brought to bear upon public economic policy-making had become more powerful, more numerous, and more confusing.

But this growth of complexity had not been matched, especially within the permanent institutions of the Government, by the development of adequate means for gauging whether our farm programs, developmental programs, international trade policies, tax policies, credit policies, business regulatory policies, industrial relations law, and the rest, were consistent with one another and fitted together into a sensible economic policy for the

over-all economy. In the thinking of Congressmen from particular sections and on particular committees, and of leading administrators with specialized responsibilities, the whole too often was lost in preoccupation with the parts.

The governmental reforms in the Employment Act have sought to meet this problem by strengthening the President's facilities for economic policy coordination within the Executive Branch, by supplying the Congress with a similar facility, and by providing in the Economic Report a regular method for improved coordination between the two branches. Thus the Act meets the problem squarely within the framework of our constitutional system of separated powers. Instead of attempting to circumvent the system with a hybrid agency which would be clearly responsible neither to the Congress nor the President, it installs a mechanism intended to make the traditional system work better. And it provides also, by requiring consultation with business, farm, labor, consumer and other groups, for cooperation and coordination between private and public economic thought and action.

Second, it is the purpose of the Employment Act—the one most widely recognized at the time of its passage—to prevent depressions. As World War II drew to a close, recollections of the shocking costs of the great depression were much sharper than they are today after a dozen years of uninterrupted high prosperity.

The minds of most of us in 1946 were still deeply etched with the memory of the winter of 1932-33, when about 15 million American workers, or about 30 percent of the total civilian labor force, had no jobs; when industrial production was only half what it had been in 1929 and the total output of the economy only about two-thirds; when business was deep in the red; when farm prices and incomes had dropped out of sight; and when banks were collapsing by the hundreds. It has been calculated that the depression cost us some 600 billion dollars of output, measured in 1952 prices, or 3½ times everything we produced in 1929.

The Employment Act stands as a pledge on the part of the people voiced through their laws that never again shall any such sacrifice be laid on the altar of "natural economic forces." In the bigger economy we now have, a disaster of anywhere near the same proportions could mean some 20 millions of our workers walking the streets.

Moreover, the cost of another serious depression would not stop at our own borders. What was becoming apparent in 1946 is now a reality: the strength and stability of the whole free world depend on the avoidance of economic collapse in this country.

Third, the Employment Act had still another clear purpose even more profound and challenging than those of improving economic policy coordination and preventing depressions. It is one which carries beyond the essentially negative and intermittent objective of counteracting slumps. It is the positive resolution of a great people, not simply to avoid pitfalls, but to maintain as a matter of continuing policy a full, bountiful, and growing

economy, for themselves, for their children, and as a standard and inspiration toward the freedom and welfare of all peoples—and to do this in full peace no less than in limited war.

This is a purpose of which we must never lose track. The Act is not meant simply for salvage operations; it does not set up a standby mechanism to be brought onto the scene only on those extreme occasions when the economy needs to be dredged out of a hole. It symbolizes the marshaling of the forces of private and public policy in support of a full and growing economy.

In such an economy, performance is not measured in the dimension of employment alone; instead, a dynamic, growing productive potential enables us to provide a steady expansion of output as well as full employment.

In such an economy, expansion facilitates the spread of economic justice, and the quality of the expansion is measured in terms of justice as well as efficiency.

In such an economy, there is abundance and stability enough to permit an increasing devotion of energies to the higher values. More and more people, being able to take the needs of their stomachs for granted, can devote increasing attention to the needs of their minds and hearts.

Performance to date under the Act

Such are the purposes of the Employment Act. And after 7 years, it may be fairly said that we have made a start toward fulfilling these purposes. The job of course has not been finished. Indeed, since the purposes are perennially fresh, it will never be finished. But the start has been good.

The progress has been tangible in the matter of policy coordination. These last 7 years have been extraordinarily eventful ones in the realm of economic policy. We have negotiated a transition from major war to substantial peace with unprecedented economic success. We have experienced a relatively peaceful period of restocking and retooling in the civilian economy, while at the same time bringing the United States' economic role in international affairs into line with its newly expanded international responsibilities. And then, most recently, we have been executing the build-up of a preparedness defense mobilization of a character which has no forerunner in American history, and which has been managed in a fashion not to weaken the civilian economy but rather to strengthen it.

I submit that in no previous period have the economic programs of Government shown so high a degree of internal consistency, or so clear a relationship to the needs of the over-all economy. This achievement I credit in large measure to the existence of the Employment Act, to the facilities for policy coordination with which it provides the President, and to the greater concern for systematic and interrelated programming which the Act has inspired in most Executive Branch officials. And it has been accomplished in a Government conducting economic programs far more extensive and complex than ever before.

Correspondingly, there has been greater coherence and clearer attention to the needs of the total economy in the economic legislation of the Congress within the last few years. Outstanding in this respect has been the tax legislation since the Korean outbreak, which has evidenced an unprecedented sense of fiscal responsibility on the part of the Congress. And this was implemented by the alert and emphatic insistence of the Congressional Joint Economic Committee, immediately after the Korean outbreak, on the need for a pay-as-we-go anti-inflationary tax program.

Beside the improvements in policy coordination which the Employment Act has assisted in both the Legislative and Executive Branches, it has been useful in reinforcing the channels for communication between them. It would be foolish to deny that many difficulties in legislative-executive coordination have persisted. But these are a reflection of broad political problems in our governmental process; they are no indictment of the mechanism of the Employment Act itself. As the basic obstacles to legislative-executive policy-making are progressively overcome, that mechanism will prove increasingly useful.

More commonly overlooked but equally significant, the machinery under the Employment Act has helped to bring to private enterprise a better understanding of the problems of Government, to bring to Government a better understanding of the problems of private enterprise, and to help both to integrate their actions more effectively for the benefit of the whole economy. This is the most realistic way—the American way—to avoid excessive centralization of authority. The continuous consultation among the Council of Economic Advisers, other agencies concerned with economic affairs, and representatives of workers, farmers, businessmen, and consumers has brought improved results over the years and should be continued. It has helped greatly in the development of national economic policies and in the preparation of these Economic Reports.

The Employment Act's second great purpose, that of preventing depression, has been served well since 1946. The Nation has thus far traversed its first aftermath of a major war without a major depression. This record as a whole cannot be attributed to the Employment Act. But at the very least, the Act symbolizes the related operation of many public programs, the longer-viewed character of business, labor, and agricultural decision-making, and the better coordination of private and public policies, which have featured this period. And these things together have vastly assisted in the maintenance of high prosperity.

In 1947 and again in 1948, reporting under the Employment Act was an important device for calling the attention of the Congress and the Nation to the inflationary danger then in process. It was pointed out that excessively rising prices, if unchecked, would ultimately result in an economic downturn. Specific actions—both private and public—were suggested to meet this threat. Where these actions were taken, they proved valuable.

To the extent they were not taken, in private action or in legislation, the inflation was not sufficiently arrested.

Because inflation was not sufficiently arrested, the postwar economy encountered its first recessionary test in 1949. When this occurred, the various reports under the Employment Act measurably helped the Government and the business community to understand that episode and to meet it successfully. In much the same fashion, the Council of Economic Advisers, in its current Economic Review, the Joint Economic Committee, and other Government agencies are now laying foundations for successful transition to a more civilian-oriented economy in the years ahead.

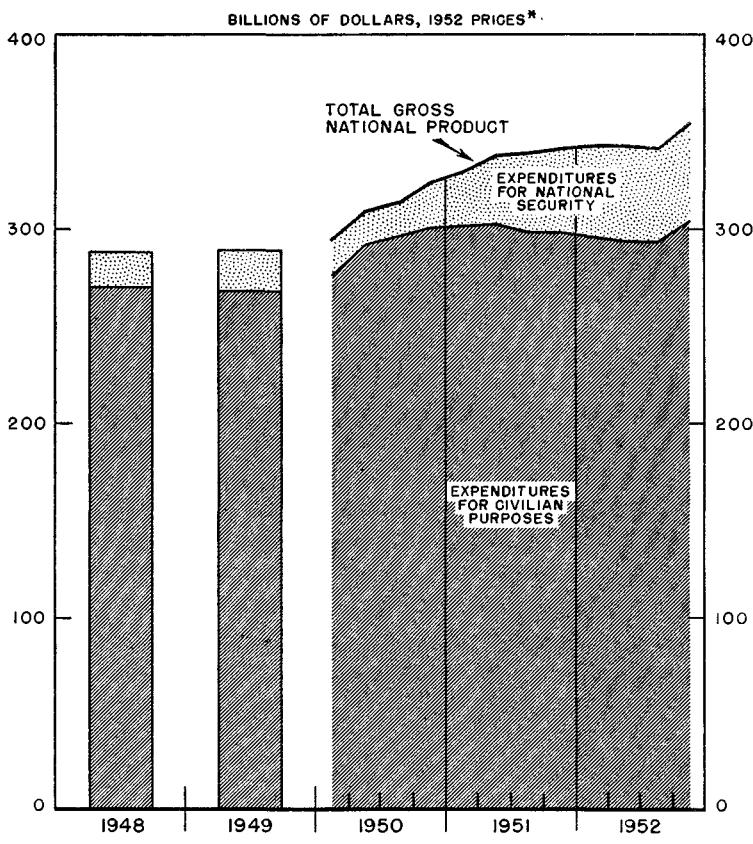
And finally, there has been a strengthening in practice of the Employment Act's third great purpose, that of positive, continuing maintenance of an economy operating at maximum—which means growing—levels of employment, production, and purchasing power. In some ways this has been the most significant accomplishment under the Act, sometimes lost sight of by those who believe that the Act has not yet been tested because we have not had a depression to challenge its effectiveness.

The periodic reports under the Employment Act have helped to express in a practical way the possibility and promise of an expanding economy. In 1948, when there was some sentiment that employment and production were at abnormally high levels and that there must be a serious downturn before progress could be resumed, the reports under the Act pointed out that an economy like ours must move forward to remain healthy. By mid-1950, despite the slight recession of 1949, and before the Korean outbreak led to increasing defense outlays, the economy was registering levels of production and employment higher than in the boom year 1948. Immediately after the Korean outbreak, when there was some doubt as to whether we could greatly accelerate our security efforts without imperiling the civilian economy or without great and prolonged shortages of civilian goods, the work under the Employment Act was fundamental to the program of over-all economic expansion which the Government adopted. What has happened since is in some respects even more striking than what happened during World War II. Starting with productive resources not nearly so slack as they were in 1939, and without the extreme pressures of total war, our national output has risen from about 285 billion dollars in 1948 (the peak before Korea) to an annual rate in excess of 350 billion dollars at the end of 1952, both measured in 1952 prices. The difference between these two figures is far greater than the increase in total security efforts, and consequently per capita civilian supplies and per capita incomes after taxes and adjusted for price change are higher now than in 1948. This is a remarkable record. It reflects the practical application of the philosophy of the Employment Act, and it opens up limitless prospects for the years ahead if the same approach is maintained and further improved.

CHART 4

TOTAL NATIONAL OUTPUT

In spite of the increase in expenditures for national security, expenditures for civilian purposes are higher now than in 1948.



While the details of action must change with the times, I believe it worthwhile now to set forth a few economic principles for the future—principles arising out of experience, and already justified by what their application has achieved.

Basic Economic Principles for the Future

(1) *Full employment must be a constant objective of policy*

Under the Employment Act, full employment means more than jobs. It means full utilization of our natural resources, our technology and science, our farms and factories, our business brains, and our labor skills.

The concept of full employment values ends as well as means; it values leisure as well as work; it values self-development as well as dedication to a common purpose; it values individual initiative as well as group co-operation. In the broadest sense, full employment means maximum opportunity under the American system of responsible freedom.

And it is a concept which must grow as our capacities grow. Full employment tomorrow is something different from full employment today. The growth of opportunity, with a growing population and an expanding technology, requires a constantly expanding economy. This is needed to abolish poverty and to remove insecurity from substantial portions of our population. It offers the prospect of transforming class or group conflict into cooperation and mutual trust, because the achievement of more for all reduces the struggle of some to get more at the expense of others.

Although our dedication to full employment has made great strides within recent memory, we cannot afford to be complacent. We cannot assume that henceforth what needs to be done to promote the maintenance of full employment will be done. None of us—regardless of party—should let the idea of full employment degenerate into a slogan bandied about for narrow political advantage. Like freedom, it needs to be guarded zealously and translated into action on a continuing basis. Moreover, if we fail in this, our very freedom may be placed in jeopardy.

The enemies of our free system say that, in the long run, we cannot succeed in this task. They point to history and to the false conclusions which Marx drew from the defects of nineteenth century industrialism. They point also to the calamity of the great depression of the early thirties. They argue that general economic insecurity must grow remorselessly in our society, leading ultimately to collapse and revolution. These enemies say that time and history are on their side. But history and time are on our side if we use our opportunities wisely.

This does not mean that we know enough to avoid economic fluctuations completely, or that we would want to even if we could. In a dynamic, free economy, the consumer is sovereign. Business is always seeking to anticipate the nature and intensity of consumer demand. In response to anticipated or actual changes, the economy is marked by a ceaseless shifting of resources from areas of lesser to areas of greater demand; existing industries are growing or contracting; new industries and products make their appearance, requiring new skills; prices and employment are being accommodated to the ebb and flow of demand; investment decisions are adjusted to changing conditions.

This process requires the flexibility which is so characteristic of our economy. Some errors of anticipation are inevitable. The expansion of capacity may appear temporarily excessive, inventories may have been overbought, and waves of excessive optimism and pessimism may appear in the economy. These factors must lead to some fluctuations in the general level of business. This is the price we pay for a dynamic economy, and it is not too high for what we gain.

But while some economic fluctuations may remain necessary or even desirable, it does not follow that we should not try our best to maintain full employment, or that we should wait until small recessions begin to spiral before seeking to reverse their course or to prevent them from growing into large depressions. Such a passive attitude is fraught with danger. For all experience has taught us that, when the economy starts to roll down hill, it becomes progressively more difficult to check the decline. It is far easier, and a far more rewarding task, to maintain the momentum of a growing economy than to reverse a downward spiral. Thus the essence of sound economic policy is constant vigilance and prompt action. The Employment Act is not an antidepression measure; it is a pro-prosperity measure. It does not call for quiescence until hard times; it calls for daily vigor, in the American tradition, to make tomorrow even better than today.

(2) Full employment requires the maintenance of economic balance

Expansion is vital, because our population is growing, the number of those seeking jobs is growing, and their individual productivity is growing. But expansion cannot continue smoothly unless it is based on a sound and fair distribution of the increasing product. Our economy is built upon mass markets. Unless each important sector receives a workable share of the expanding output, the expansion will come to an end because the market demand will be lacking. Growing capacity to produce requires growing ability to buy.

I have already cited the great gains we have made in bringing about better balance in our economy during the past quarter century. But while our economy now seems to be in fairly good balance, there are signs of some trends in the opposite direction. It is none too early to note these.

While agriculture is highly prosperous, the most recent period has witnessed a relative inability of agriculture to join in the gains which other groups have registered. Even in absolute terms, there has been for a year or so an adverse trend in farm incomes. This may be looked upon with favor by those who believe that the farmer's prices have been relatively too high, or that he has received more than his fair share of the national income, during recent years. But it will not be looked upon favorably by those who know that, even at the peak, the farm population as a whole did not attain real parity of income with other major sectors of the population. Nor will it be looked upon with favor by those who realize from bitter experience that any decline in relative farm prosperity is not a good omen for the economy as a whole. This is a problem of economic balance which requires active attention and far-reaching efforts.

A second area, in which we should strive for even better economic balance, is in the wage structure. While the gains made by the strongly positioned wage earners have undoubtedly tended to lift labor standards generally, and while most of the working population has made real gains, there is now need for relatively more stress upon helping those at the bottom of the wage structure. This places a large responsibility upon public programs, not only

such programs as minimum wage laws, but also those which by developing natural resources, facilitating private industrial growth, and improving the level of education and health, raise the productivity of these types of workers.

There is also need for even better balance between the opportunities open to large and to small business, through the further encouragement of competition and the strengthening of those laws designed to prevent unfair competition and to restrain monopoly; and also through more positive programs to make the benefits of ample credit and full access to the new products of science and research and invention available to business regardless of size or financial power.

And finally, there is need to work toward even better economic balance in and among the different geographical regions of the country, through improved protection against discriminatory practices, and through Federal programs designed toward the strengthening and further equalization of opportunity for human and material development. Top priority on this list, of course, should be accorded to the broader extension of adequate health services, housing, and educational facilities, and to the further development of natural resources and industrial potentialities.

(3) Full employment requires planning ahead

While the Employment Act calls for an appraisal of recent economic trends and foreseeable future trends, it places main emphasis upon future needs and how these needs may best be satisfied. It imposes the responsibility to define what maximum levels of employment, production, and purchasing power we should seek to attain in the year or years immediately ahead. It requires also that we state the policies, both private and public, best suited to reach these goals.

Thus the Act rejects the idea that we are the victims of unchangeable economic laws, that we are powerless to do more than forecast what will happen to us under the operation of such laws. Instead, the Act correctly asserts that our economy within reasonable limits will be what we make it, and that intelligent human action will shape our future.

In accord with this faith in human progress through human endeavor, the reports under the Employment Act several years ago began to estimate what levels of employment and production should be our goals for the years ahead, taking into account the material and human resources at our disposal. These estimates were then used to analyze what kind of purchasing power, what relative flows of income to investors and consumers, to businessmen and workers and farmers, would be most conducive to the achievement of these employment and production goals.

This was primarily an effort in economic education, and not a blueprint for central planning in the manner of the totalitarian states. It was in the American tradition of planning—which means the cooperative effort to look ahead and to work together toward making the future better than the present. The idea has been that, if our private and public policies are geared to planning for economic growth, we can achieve this growth.

If businessmen and farmers plan their investment programs with the realization that a steadily expanding economy will provide markets for more food and more industrial products, these regularized investment programs in themselves will contribute to a high and stable rate of growth.

If business and labor plan their price and wage policies to encourage the balanced expansion of production and consumption, of jobs and markets, then our economic growth can be steady.

And Government, because it is the most powerful single force in the economy, has the clearest responsibility to plan its operations so that they will make the greatest contribution in the long run to economic stability and growth. Under current world conditions, this problem of Government is complicated. Government must now give prime consideration to our national security, which is even more vital than absolute economic stability or a uniform rate of economic growth.

The more effectively all of these forces within the American economy work together in this kind of planning for the future, the greater the likelihood that economic fluctuations will be ironed out and a steadier rate of growth maintained. The less effectively this is done, for example if important groups in the economy assume that the traditional business cycle is inevitable and conform their actions to this belief, the more difficult it will be to maintain steady growth.

It is noteworthy that efforts to encourage this kind of action have met with increasing response in recent months. Not only governmental agencies, but many planning organizations supported by business, and many business organizations themselves, are now following this same approach with hearty enthusiasm. They are studying future markets and how to serve them. This is one of the most concrete signs of progress. But it is only the first taste of what may be accomplished as this process continues in the American tradition.

(4) Full employment requires responsible Government as well as responsible private enterprise

Private enterprise, under our free system, bears the major responsibility for full employment. This report has already set forth the basic features of that responsibility, and how much its exercise is contributing to the well-being of the American people. The role of responsible Government, while vital, is in a sense supplemental.

It is the duty of Government to help improve the environment in which private enterprise works. In normal times, this means the minimum use of direct control over materials, prices, and wages. As soon as we safely can, in view of the world situation and our own increasing productive ability, we should suspend operation of these controls. To aid in maintaining stability in the longer run, the Government should place principal reliance upon the careful use of fiscal and credit policy, along with the well-established regulatory and protective programs.

But in addition to encouraging an environment favorable to enterprise and exerting a stabilizing influence, responsible Government has an even more general task. This is to enable the people to develop together those resources which in their very nature cannot be developed otherwise. Public spending, as determined by the Congress and other legislative bodies throughout the Nation, represents a continuing determination by the people as to what part of their total productive power they wish to devote to the things which they must do together instead of doing separately.

While there should be true economy in public spending no less than in private spending, it is obviously superficial to regard public spending as unworthy by definition. Throughout our history, the American people have recognized that their public programs represent a high order of national priority, and are undertaken for this very reason. These services under current conditions include defense, foreign aid, benefits to veterans, social security, public education, and the like. And they include long-term resource developmental programs, aids to agriculture, aids to housing, and other efforts which, while clearly desirable in themselves, are also necessary to improve and to support the functioning of the free enterprise system.

All of these programs, like those of private industry, should be geared primarily to the long-run needs of the Nation. The pace and timing, however, are partly dependent upon changing conditions. For example, the speed-up of our defense efforts has caused us to cut back some other programs to avoid undue strain. If and when we can relax our defense efforts, we shall be able to push ahead with the other programs which serve the long-term peaceful needs of the people.

Since public spending diverts resources from private use, except in times of depression, the burden of this diversion is borne by the people whether or not taxes are imposed. But taxation serves to impose the burden more equitably, and in a manner least detrimental to the whole economy. For otherwise, particularly when the economy is running at very high levels, spending in excess of taxation aggravates inflation—the most unfair and damaging way of imposing the burden. Under present conditions of very high defense spending, we have made a good record of keeping close to a balanced budget, although we should have done even better. In times of very high prosperity but a lower level of defense spending, we should accumulate a budget surplus for the independently desirable purpose of reducing the large national debt.

If we should run into periods of declining economic activity, on the other hand, we would expect some decline in revenues. But this should not frighten us into cutting back those programs which the Nation needs, and which in fact would help to cushion the decline and to restore full employment. If a substantial part of our productive resources were lying idle because private enterprise could not utilize them, it would do good rather than harm to utilize them through public action even though this occasioned some deficit.

(5) Full employment can be maintained without inflation

It is not true that the goal of maintaining full employment must be sacrificed in order to avoid inflation. The postwar inflation was not a continuing process; most of it came in two major spurts. The first followed shortly after the war, when controls were prematurely abandoned before supply could come into balance with demand. The second took place in late 1950 and early 1951, under the impact of the Korean outbreak followed by the large-scale Chinese intervention.

The fact that these two inflationary spurts came under the peculiar conditions of an immediately postwar period or the first stages of preparation for defense against the possibility of future war is no reason to neglect the lessons of this experience. We live in a world where peace is neither complete nor certain, and where changes in the international situation could rapidly occur. It was a mistake to abandon controls too rapidly in 1946, and we should not abandon them too rapidly now, although the outlook for stability is better now than it was at that time. Similarly, we would have been much better off if price and wage controls could have been imposed more quickly after the Korean outbreak and especially after the Chinese intervention in late 1950, instead of early in 1951. But we were handicapped not only by the inadequacy of legislative authorization, but also by the absence of a standby organization ready to cope with the first wave of inflation. The sharp price increases between the Chinese attack and early 1951 were a dramatic illustration of the importance of adequate economic preparedness in a cold war world—a lesson we should not forget.

Nonetheless, this peculiar problem of dealing with near-war situations should not be confused with the more general and enduring problem of maintaining full employment without inflation. Since early 1951, despite the pressure of the defense program, we have achieved a reasonably stable price level while enjoying full employment, and the prospect is that we will continue to do so this year. This does not mean that we have thus far learned fully how to reconcile enduring full employment with adequate price stability. Much more work needs to be done in this direction, in the field of fiscal policy, monetary and credit policy, and other public policies which are not limited to use in emergency periods. Even more important, we must learn more about the value of individual and group self-restraints, about the general economy and its interrelationships, and about those private price and wage policies which may contribute most to a stable and growing economy.

But we should guard against the dangerous solution of trying to avoid the problem of preventing inflation by abandoning the pursuit of full employment. Stable prices do not outweigh the disadvantages of a sluggish or static economy; and downward-spiralling prices are certainly no blessing in a declining economy.

While striving vigorously to avoid inflationary movements, we must realize that our primary purpose is full production and employment, and the

fair distribution of this abundance among all people in all groups. Price policy, like all other economic policy, should be constantly tested against these objectives; it should not be allowed to obscure them.

These comments apply to monetary policy. That policy can contribute to economic stability. For example, during the inflationary period, as part of a comprehensive program to combat inflation, I made recommendations to the Congress which were not accepted to restrain inflationary bank credit through changes in reserve requirements. More recently, some changes in monetary policy have occurred, affecting bank credit, the bond market, and interest rates. This is one weapon in the anti-inflation armory, but price stability since early 1951 has been the product of many economic forces and Government programs in the field of taxation, credit restraints, and material and price-wage controls, and has resulted largely from increased production.

Monetary policy is a tool which must be used with great wisdom and skill. It is the function of monetary policy to control the expansion of credit, so that the total money supply will be commensurate with the needs of the economy, avoiding on the one hand excessive credit creation which might lead to speculative abuses, and avoiding on the other hand contractions in the money supply which would interfere with production, employment, and investment. A money supply which is in balance with the level of economic activity, adequate credit at reasonable rates of interest, and, above all, the distribution of the money supply on a fair and workable basis among individuals and groups have been essential to our growing prosperity.

Just as a money supply which is redundant can have unfortunate inflationary consequences, so an inadequate supply of money, or of credit, can push backward the businessman who must borrow to operate, the farmer who traditionally depends upon credit to produce and market his crops, the home owner who wants a decent house that he can afford to live in, and the worker who is not willing to accept lower production and more unemployment in exchange for lower prices.

We must and can find ways to price stability which do not threaten to bring on the very hardships they are intended to prevent. Excessively tight money, which means higher cost of capital, may reduce prices, but it does so by depressing productive efforts. The sound method to stabilize prices is not to reduce incomes, but to expand productive effort and the output of goods.

(6) *Full employment requires that group interests be reconciled with the general interest*

Big business, big labor, and big farm organizations are permanent parts of the American economy. Few of us would change this if we could, for much of the economy's dynamism and productiveness depends upon this very circumstance. Nonetheless, thoughtful and continuing efforts are required to keep an economy of large groups from damaging conflicts of interest.

There is the problem, first, of maintaining fair and peaceful bargaining among the powerfully organized private groups. The Government can help in this by protecting the development and encouraging the maintenance of balanced bargaining power.

Beyond this, however, there is the problem of reconciling the interest of particular groups with the general interest. The net bargains of the organized groups—as is sometimes the case, for example, with a “price-wage spiral”—do not always add up to the public interest. Nor do they protect the broad interest of weakly organized consumers.

Government intervention into such situations should proceed cautiously, and be more inclined to wield the instruments of persuasion than those of authority. Above all, the effort—in both public and private quarters—should be to set the particular problem in an economy-wide framework. It is essential, for instance, that the best available thinking of farmers and farm experts be brought to bear on the farm policy problem. But this is not enough; the needs of consumers, of industry, of national security—to name but a few—must also be weighed carefully in the process of developing a farm program. This, indeed, is the theme of the Employment Act, and why utilization of its machinery is essential to the treatment of economic matters affecting the whole Nation.

Finally, there is the fundamental problem of reconciling the effective operation of an economy of large groups with the maintenance of effective competition. For competition is the shield of the often inarticulate consumer; and by opening doors to new ideas, new enterprises, and new successes, it is a prime source of economic progress.

The Government has a long record of concern with this problem. That concern must not be allowed to flag; the cutting edge of competitive markets must not be allowed to dull. At the same time, there is no need to stimulate those speculative excesses of competition which stampede markets into violent upward and downward fluctuations. Moreover, our action in this sphere must not be the creature of stereotype. We must be quick to recognize and encourage new forms of competition, so long as they work to the advantage of the public.

(7) Full employment does not depend upon war

Some people say that full employment is possible only during war, or only while meeting the shortages caused by war, or only while building defenses to fight another war if it should come. This idea is fallacious, although it may have some utility if it warns us to prepare for the new economic problems of a more peaceful world.

The two depressions which we suffered after World War I came when the country had no substantial economic policies to prevent them, and no commitment to a policy of full employment.

It is true that the economic recovery between 1933 and the outbreak of World War II in 1939, while very substantial, was not complete. This

proves how difficult it is to recover completely from a great depression once it has been allowed to occur; it does not prove that prosperity cannot be sustained once it is achieved. Moreover, the task between 1933 and 1939 was to achieve recovery and reform at the same time, which is a peculiarly difficult undertaking which we should never again be faced with in the same degree. The real test of the economic reforms then enacted came, not during the period when they were first put into effect, but in the period following World War II. It is against this later history that we must test the adequacy of these measures to avoid depression and maintain prosperity without war.

After World War II, the level of defense spending was reduced by an annual rate of well over a hundred billion dollars, expressed in the price level of today. While there were important war-created backlogs, the support for the very high levels of economic activity which prevailed from 1946 to mid-1950 was increasingly found in the satisfaction of the peacetime needs of our industries and our people. I have already cited the high significance of the quick rebound of the economy from the minor fluctuation of 1949, a rebound which was fully manifest before the new defense program was foreseeable. By mid-1950, only a relatively small portion of our economic activity could be attributed to the shortages created during World War II, and out of our total annual output of about 310 billion dollars (measured in the prices of today) only about 20 billion dollars, or less than 7 percent, was being devoted to national defense and related international purposes. This was prosperity without war.

Since our response to the communist aggression in mid-1950, our prosperity has of course been accompanied and stimulated by high and rising defense spending. But it is erroneous to say that this spending has been the main prop for our economy, because taxes have been correspondingly increased so that the defense program thus far has been on a pay-as-we-go basis and consequently has not added the amount of inflationary stimulus which would otherwise have been the case. In this respect, the situation is very different from that during World War II, when only about half the cost of the war was being paid out of taxes. It should also be noted that defense spending draws resources away from production for civilian use; and in this sense, the increase in civilian supplies since mid-1950 has not been because of defense spending but despite it. We have not only been paying as we go for the defense program measured by taxes; we have also been paying for it as we go measured by the expansion of production.

Despite this vastly increased production, which has exceeded the expansion of the defense program, full employment has been maintained during recent months when a decreasing portion of our total national output has gone to defense spending and an increasing portion has been supported by civilian demand despite very high taxation. This trend is now continuing and, according to the accompanying appraisal by the Council of Economic

Advisers, it is likely to continue throughout 1953. Here we have a strong indication, once again, that prosperity need not depend upon war.

The reductions in defense spending in the years ahead, no matter how estimated, will be only a fraction of the reductions which we took in our stride after World War II. Meanwhile, we must continue to improve further our economic knowledge and understanding, and maintain and advance those policies which have stood so well the test of critical times. If we do this—and only if we do this—nothing can be more certain in human affairs than that the American people will increasingly enjoy the blessings of prosperity, supported not by unfavorable world conditions but rather by the essential strength and soundness of our own economy.

The Promise Ahead

The past illustrates the wisdom of adhering to the principles which have just been outlined. The future will reward us well for so doing.

The potential for further growth and improvement in the American economy, even over the short span of the next 10 years, is challenging—in production, in living standards, in correction of inequities, and in stable and more satisfying jobs. In addition, the opportunity and necessity for economic development in other countries of the free world represent a vastly important new frontier. With all of this, we need to sustain our national security lest opportunity be denied us altogether.

New frontiers of economic growth

Ten years from now, a labor force of 76 to 80 million, working more effectively with better tools but somewhat fewer hours per week, could produce annually about 475–500 billion dollars worth of goods and services—measured in today's prices. This is about 40 percent above the present level, and represents an average increase of slightly over 3 percent a year.

The consumer portion of total production could by then come to about 340–350 billion dollars. This would be about \$2,000 for every man, woman, and child in the country, or about 40 percent more than each person received in 1952. Over the next 10 years, we should be able to raise the average income of all American families correspondingly.

With a gross national product of about 475–500 billion dollars, well over 40 billion dollars could be spent for new nonfarm plant and equipment; 15 billion or better for new housing; more than 15 billion on schools, highways, hospitals, resources development projects, and other public works. Investment in American agriculture could be substantially larger than the 1952 level of 5.5 billion dollars.

Growth in certain industries, such as plastics, man-made fibers, and electronics, undoubtedly will continue to far outrun average growth. Machinery and electrical lines will have to expand steadily, along with the basic

services of transport and electric power. Better housing, more and better automobiles, and a whole range of new or improved fixtures for the home, are well within reach over the next decade. A steady improvement in the American diet will take place.

We shall run into some difficulties. Certain raw materials, especially metals, may become scarcer and more costly. The base of natural resources will wear thinner. Consumption expenditures will have to expand persistently, to provide adequate markets for business.

But with intelligent and timely adjustment of private and public policies, to serve a fully employed and active economy, we can during the next decade reach the goals set forth above.

New frontiers of economic justice

The promise ahead is more than reaching certain levels of employment, production, and income. It also involves the further improved distribution of the benefits of economic growth, and special care for those who are less fortunately situated.

Despite great progress in raising income levels and distributing these increases in a manner favorable to low and middle income groups, there are still many American families whose incomes are inadequate. In 1951, one-quarter of all families had less than \$2,000 of spendable money income; 40 percent had less than \$3,000. Some of these families have home-produced fuel and food which raise living standards. Some are aged couples, or other families with substantial assets to draw on; some are young single persons whose needs are less. But the picture does not justify complacency. The median liquid asset holding, excluding currency, for the under-\$2,000 income group is less than \$10; and about one-third have debts.

The problem of low income families is no longer caused by general unemployment, or generally substandard wages, or very low prices for farm products. The problem centers in families with special disabilities: racial minority families, broken families, families with sickness, families where there is lack of sufficient training and education for the principal wage earner, and farm families on substandard farms. Unskilled and service workers had an average family income of only \$2,320 in 1951. We must press forward to reduce these disabilities, and to care for them when they are unavoidable.

It is feasible within a decade to raise all the families whose incomes are now below \$4,000 annually to that level (measured in present-day prices), plus providing all the new families with this much income, in a full employment economy. We should set this as a target for a basic American standard of living for all within a decade. In fact, this would require less than half the total gain in personal incomes that we can achieve, leaving more than half for raising still further the incomes of families already above this basic standard.

In the mid-1930's, it was no exaggeration to speak of one-third of a Nation ill-fed, ill-clad, and ill-housed. Since then, the one-third has been reduced to one-fifth, or maybe less, on the old standards.

But as our power to produce increases, our standards and goals rightly increase also. The job ahead of us remains large. About one-fourth of our nonfarm dwelling units and a much higher percentage of our farm housing are substandard. Many families still suffer from malnutrition. The amounts spent in recent years for schools and hospitals have been far less, as a percent of total national production, than was spent in 1939. Living conditions in large sections of our cities are distressing, calling for vast slum clearance and redevelopment effort.

Despite much progress in social security since the real beginning of the program in 1935, important gaps remain. Farmers are not covered by old-age insurance. Some 5 million wage and salary workers are still outside the unemployment insurance program. Welfare assistance is not adequate to meet the requirements of many disabled people, uninsured old people, and their dependents. About half of our families find difficulty in meeting the cost of essential medical care.

Standards of adequacy change with the times. What is enough in a 250-billion-dollar economy is not enough in a 350-billion-dollar economy, and will be still less than enough in a 400- or 500-billion-dollar economy. For example, old-age insurance has not only been insufficiently adjusted for changes in the price level; it has not been brought into line with the fact that the economy of today and tomorrow can afford a higher standard of living among the old than the economy of yesterday. In our long-range programs, we should provide for growth as the whole economy grows. This will have economic as well as social benefits. For if the millions of our people who are beyond working age should be unable to join in the demand for more and better products, the total market would not be adequate to support our expanding productive power. What we do in these fields should not be regarded as measures necessary to save a weak economy from disaster. Instead, we should scale these efforts to what a strong and expanding economy can and should accomplish.

New frontiers of world development

The international responsibilities of the United States are carried out in part through its political and moral influence, and in part through the use of its vast economic strength. The deployment of much of its economic force abroad, in the form of military and economic aid, may appear to be at the expense of lifting living standards at home.

If there be any conflict between these two purposes, it does not permit the choice of one course to the exclusion of the other. Should the United States reduce sharply or prematurely the military and economic aid which is doing so much to strengthen the free world, this country might be forced to abandon the domestic gains which it plans for the future. For if commu-

nism should gain abroad, we would have to become an armed fortress at terrific cost. The prerequisite of a free, strong, and prosperous America is full participation in the effort to create strength and prosperity throughout the free world.

In short, the free world cannot be permanently peaceful until the free world makes further progress toward full and more productive employment—toward release from the burden of the underemployment of its potential resources. Prosperity, like peace, is indivisible, and in our pursuit of a full employment policy at home we must never lose sight of this supremely important truth.

Hence our concern with the economic development of other free countries. This is especially true of the economically less developed countries and areas of the free world, where the provision of capital equipment and managerial and labor skills is a prerequisite to speeded up economic growth and improved living standards. As the momentum of industrial and agricultural growth gathers in these less developed areas, incomes will increase, and they will buy and sell more in other markets. As the level of world trade increases, the benefits to us will involve increased supplies of many raw materials, including critically needed strategic metals. We must import to live; and we must import more if we want to export at high and rising levels. We must work with other free nations to remove trade restrictions, and to make more effective the sound policy of reciprocal trade. We must not reduce aid so quickly as to undermine the improving foundations for trade.

America is now confronted with the challenge to make its fair contribution toward world peace and security. Happy will be the day when we can rise to the nobler challenge of participating more fully in the advancement of world prosperity. This may be our most significant contribution to human betterment in the second half of the twentieth century.

HARRY S. TRUMAN

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