

ized robbery. Or is it being so handled as to be the means by which Government can redress faults in the distribution of total product and the adjustment of these shares to individual or group contributions, faults which tend to keep production below its possible maximum?

The agents of government must diligently study and vigorously use a democratic and statesmanlike control of the public purse to put a brake at certain strategic points where boom forces develop dangerous trends, and to stimulate employment and production and support purchasing power when and where it becomes unduly depressed. Here Government must constantly face the same dilemma that every doctor—and every parent—faces. Calm judgment must be exercised not to rush in fussily, ministering to small and temporary disturbances that would right themselves sooner and better if left to themselves. On the other hand, carelessness or ignorance must not keep Government from detecting serious symptoms promptly and initiating corrective measures with skill and decisiveness.

With this broad principle in mind, a few observations may be made as to the actual situation by which the Nation's business is confronted as the President and the Congress undertake to put into operation the policy enunciated in the Employment Act of 1946.

III. Some Aspects of the Outlook for Production and Jobs

THIS first report of the Council of Economic Advisers appears at a time which is highly ambiguous in the economic affairs of the Nation. We were not devastated by the war, but emerge with a plant, labor force, and technology whose productive capacities exceed anything known in our past. Likewise, we have funds more than adequate to full use of our physical resources. We have a postponed consumer demand, enterpriser ambitions, and purchasing power which hold the potential of some years of great activity along lines essentially similar to past periods of prosperity. This much could be accomplished without any material change in traditional patterns of business life. These conditions present the possibility, for a people who know how to use them, of great prosperity in 1947. By foresight and intelligence we believe such prosperity for the Nation could be approximately stabilized and broadly disseminated so long as world peace can be preserved.

On the other hand, even with these favorable conditions, it is easy to visualize such a mishandling of our economic affairs as might make 1947 a year of curtailed production, irregular employment, and unsatisfactory

purchasing power. The year and a half since the end of active fighting have been marked by anything but smooth transition to peaceful and economically efficient conditions of business—including the relationship of private enterprises to the agencies of government. We stand at the moment in a situation of misunderstanding and tension among the indispensable parties to our total economic life that causes many persons to forecast a business recession starting some time in 1947. We do not find many accredited business officials or professional economists who are really apprehensive that a recession once started will induce a downward spiral into deep or prolonged depression, although a chain reaction in the economic area is always conceivable. The basic economic conditions show such a strong recuperative power as to minimize such a fear—barring international tension verging on war or a persistent round of strikes.

What has been said in the preceding section of this report about mutual adjustment of wage, price, cost, and profit relations by the voluntary bargaining of the parties at interest shows clearly that we believe that the outlook for production and jobs in 1947 lies primarily in whether the responsible persons in these groups will show a willingness to face the issues and demands of a free enterprise system realistically and show intelligence and skill or flexible experimentation in arriving at workable formulas of adjustment. Something can no doubt be done during the coming year toward improving the institutions under which such negotiation is carried on and the terms of adjustment carried out. But legislative changes in our business institutions will be a minor determinant of what actually happens in 1947. The major determinant will be found in the statesmanship or the obstinacy of the men, particularly the leaders, who are the active parties in business operation.

Mere legislative acts alone will not force capitalists to invest, employers to hire, or laborers to work. What was said in the previous section also indicates that we do not believe that 1947 presents a situation in which government should undertake heroic measures of public works, consumer or producer subsidies to quicken employment or stimulate production. We suggest that the impediments to prosperity in the near future are of the sort that must be worked out, without benefit of direct Government intervention, through the practical wisdom of management and labor, farmers, and financiers.

In a sense, of course the Government is, in spite of itself, forced to be a contributing factor in the maladjustments of the present time. It becomes an indirect influence in the labor situation, in fact bidding against employers by the extent of the aid it gives GI's to go back to school rather than into the labor market. Through veteran hospitals and other services and through whatever construction work is undertaken in lines deferred by Government agencies during the war it is bidding for both labor and materials which are already short as compared with the

demands of private construction. No one would for a moment suggest that the Government should not do these things wherever service people are concerned. And we are anxious also to make these outlays when they furnish protection, provide civilian health aids, and make better provision for the education of the oncoming generation. But we cannot ignore the conflicting factor they inject into the general economic picture. Government has in fact withdrawn from such activities or pared them down during 1946 to such an extent as seemed practicable, both in the interest of keeping from contributing to inflationary pressures and of getting more for each dollar spent at a later time. This deferment means that these public works added to the backlog can be made available at some subsequent time when private demand slackens.

While the prospect for high employment and production in the near term is good—barring the possibility of a brief dip—it is pretty generally recognized that the bases of this activity are somewhat artificial or at least that activity in the present lines cannot be expected to continue indefinitely. Thus the plans of private business and the thinking of the Government cannot too soon be directed toward appraising the probable duration of present sources of activity and toward foreseeing what may be done to utilize the Nation's resources after present stimuli have been removed or weakened.

The outstanding factor in the present situation is that we are working under a strong domestic urge and foreign demand to catch up on durable (producer and consumer) goods, whose production had to be postponed during the war at the same time that, because of high income and war savings, the majority of the population are eager and able to maintain a higher than prewar level of consumption also of nondurables. Added to these two more-than-ordinary supports of employment and productive enterprise is a third—the need to reconvert plant, reequip it for these particular types of production, and expand these industries to meet the accelerated rate demanded by this race to catch up after the war's interruptions. Everybody without a house or a car wants one this year. The success of '47 and '48 is gauged by our ability to make and sell 6,000,000 cars, 1,500,000 housing units, and similar numbers of electric refrigerators, washing machines, and other accessories in each of these years. But the closer we come to this standard of performance in the immediate future, the more pressing becomes the problem of sustaining employment, production, and purchasing power in the years that follow. Automobiles, as we have learned under war conditions, have a normal life expectancy of 8 to 10 years and houses last anywhere from 25 years to generations or even centuries. Hence, the very industries which feature the prosperity of the moment could, if nothing is done, be expected to drop to a replacement basis after a few years.

This might spell deep depression for some later time—but only if we fail to make the gradual shift in expenditures and resource use that wise

foreseeing and astute planning for this inevitable trend of development suggests to a sagacious people. For it would be absurd to say that there are not things to do with these resources after the present making up of war deprivations has been completed. We must recognize the real magnitude of our productive power and keep it going to produce for all the things that only the more favored have enjoyed in the past. As progress is made in catching up on the wartime postponables, we must feed into our "product mix" more of those semi-luxuries, those welfare and culture goods, which are put within the reach of our people as a whole by reason of our unparalleled productive capacity. This, as we have said before, will combat depression and even up the years of traditional recession by allowing those able, willing, and seeking to work to go on supplying themselves rather than being every few years forced to loaf amid want.

In a word, then, our view as to the outlook for production and jobs is that it should be more than ordinarily favorable for a period of some years ahead. In spite of certain conditions that might make for a dip in 1947, we believe that courageous and sensible action by those responsible for the administration of private business relations (including labor unions) can at least hold such a recession to moderate proportions if not avert it. Thereafter, it would seem that broad basic conditions suggest that it will be easy to have some years of high production, employment, and purchasing power without the display of any extraordinary economic statesmanship by leaders of industry, labor, farming, and finance. In those years, however, we should not be satisfied with a level of production and conditions of use which fail to produce favorable results for all sections of the country and all segments of the population. In those years, also, if foresight is not keen and action vigorous, the stage will be set for serious unemployment, underproduction, and want in the years that follow. It is our belief, however, that enough time is afforded in which wise policy and action on the part of labor, of management, of agriculture, and of finance, with a very carefully considered complementary role by Government, will not only raise the national prosperity to new high levels but will maintain those levels with a degree of stability which has not characterized the earlier exploratory and speculative decades of our industrial life. It is toward such a system of continuous study and collaborative guidance of the Nation's business on a basis of competitive private enterprise and economic democracy that the Employment Act of 1946 is directed. To its achievement the Council of Economic Advisers dedicates its best efforts.