

THE CHAIRMAN OF THE
COUNCIL OF ECONOMIC ADVISERS
WASHINGTON

October 31, 1950

Honorable Marriner S. Eccles
Governor of the Federal Reserve System
20 Street and Constitution Avenue, N. W.
Washington, D. C.

Dear Marriner:

I am enclosing a copy of my speech at the Herald
Tribune Forum, which you may want to read.

Sincerely,


Leon H. Keyserling
Chairman

Enclosure

PRODUCTION: AMERICA'S GREAT NON-SECRET WEAPON

Leon H. Keyserling, Chairman
Council of Economic Advisers

Herald Tribune Forum, New York, N. Y.
Monday Evening, October 23, 1950

In the eighteenth century, modern democracy was born. In the nineteenth, it took root in the minds and hearts of the vast majority throughout the civilized world. Within the twentieth century---within the lifetime of almost everybody in this gathering---modern democracy is being challenged for the third time.

This third challenge is more immense than any that came before. It is supported by greater natural resources and population, more armed might, more inflexible determination, and more calculating cunning.

Against this challenge, there are pitted the free peoples of the world. History has made the United States the central supporting tower in this fortress of freedom. And this time, we are striving to win, not through war, but through resisting aggression early enough to achieve peace..

The leadership which our nation has righteously assumed cannot be exercised by government alone, business alone, workers alone, or farmers alone. It is a task for the whole American people, 151 million strong, welded together by a common purpose which must rest on mutual understanding.

The American people do not need to be goaded into making this effort. We all know that it requires all-out measures, and not half-way

measures. We all know that it requires the full dedication of all our resources, and not partial dedication. We all know that we must start now, and not later on. We all know that it will be a long, hard pull, and not a short one.

There is no solid difference of opinion anywhere on any of these points. The specific issue which must still be resolved is only this: What constitutes an all-out effort? How best can we marshal and employ all our strength? Let me illustrate by analogy.

If one Olympic athlete enters a three-mile marathon and another a 100-yard dash, they both need to make an all-out effort. But if the long-distance runner races the first 100 yards in $9\frac{2}{5}$ seconds, he will end the marathon last and not first. The kind of all-out effort must be adjusted to the nature of the race.

After Pearl Harbor, the kind of all-out effort we had to make was well defined. We undertook a terrific military build-up, at full speed. Our armed forces rose to a peak of about 12 million. Our war expenditures reached a peak of about 90 billion dollars annually. Directly and indirectly, the war effort absorbed about 40 percent of our total national production. Economic policy had to be geared accordingly. It required tremendous limitations upon goods for industrial and consumer use. While this somewhat impaired our long-range economic strength, we had to do it. And we could afford to do it, during the limited period for which an all-out war was likely to last.

But only disaster would result from blindly copying now what we did after Pearl Harbor or in 1944. To do that, allowing for the country's growth, we would now be recruiting an armed force of about 15 million. We would now be planning to spend far above 100 billion dollars a year for military purposes. Any such program would probably make another world war inevitable; and if that did not happen, supporting so great a military burden for indefinite years would gradually drain our strength. Instead, we are now undertaking a substantial but gradual build-up of military strength. The goal, according to the President's most recent statements, is less than a third as high as the peak of World War II. We seek, in combination with the other free peoples of the world, to build up enough actual strength to deter aggression, and to be well-poised for still further military expansion if necessary.

No right-minded person has suggested that our military program now should be what it was after Pearl Harbor or in 1944. Correspondingly, our efforts on the economic front must be synchronized with the defense program we are now undertaking. We do need substantial controls now, to divert goods from industrial and civilian use to military use more rapidly than production can be built up. But we do not need as many or as tough controls as in 1944, because the transition to military activity is not nearly so rapid or so great. If we imposed all of these controls now, it would not simply be "too much too soon."

It would be the wrong thing at the wrong time, because it would get the military program and the economic program all out of balance.

More important, while controls and production are not conflicting objectives, controls in excess of necessity would discourage maximum production for the long pull. And this emphasis upon production is even more important than during World War II, because of the indefinite duration of the problem now confronting us. This indefinite duration requires us to keep our industrial power strong and to make it stronger, so that the military load will become easier to bear later on than in the first year or two, and so that our economic power will remain intact against any possibility of some greater crisis later on despite our best efforts to avert it. The indefinite duration of the problem also warns us against cutting too heavily into the civilian economy, not because we place more emphasis on butter than on guns, but rather because civilian efficiency and morale and hope are essential supports for a heavy defense effort of uncertain length.

The central task of economic policy is to achieve and maintain the balance among military strength, industrial strength, and civilian strength which will maximize our total strength for as far into the future as we can see. Toward this end, expansion of production is relatively more important than controls, because we cannot know how long the pull will be, and in the long run producing more gives us more strength than just dividing up what we have.

To be sure, substantial controls, even beyond those already applied, will be needed, because the immediate military build-up cannot be matched by enough additional production right away. That is why the Government has already issued drastic credit controls to cut down on housing, automobiles, and other durables. That is why we must look forward to additional regulations, allocating materials in short supply and placing limitations upon non-essential use of vital goods. That is why we should also look forward to additional tax increases, far greater than the $4\frac{1}{2}$ billion dollar increase recently enacted. The burden of the enlarged defense program must be borne by all of us, whether or not we pay for it by taxes. Taxes are merely the most economical and businesslike way of carrying the burden. The inflationary consequence, when tax policy is too weak, is for everybody the worst and most dangerous way of carrying the burden. Public support should also be given unstintingly to the Treasury Savings Bond campaign. If all of these fundamental measures are used vigorously to cut down excess purchasing power and thus to prevent civilian demand from exceeding civilian supply, we may be able to get by without the general wage and price controls which are so complex and cumbersome and difficult, particularly in peacetime, although it is imperative that an efficient organization is being set up to deal with price and wage controls to the extent that these become necessary.

But preoccupation with controls should not further divert public

attention from the truth that production, and still more production, is the greatest of all the non-secret weapons in the arsenal of American democracy.

Instead of calling unreflectively for reimposition of all the controls of 1944, without testing their relevance to our current situation, let us examine the significance of production in the winning of World War II and its significance today.

In the war years from 1939 to 1944, the United States increased its total annual output--allowing for changes in the price level--by about 75 percent. If this gain had been 35 percent instead of 75, we might well have lost the war no matter what other measures we adopted.

As we now look a few years ahead, our potential for expanding production is far greater than it was at the outset of World War II. True, there are far fewer unemployed to be drawn upon. But this is more than counterbalanced, because the military build-up now contemplated will not draw even one-third as many from production into the armed forces as were drawn in during World War II. And in plant and equipment, science and invention, capable management and skilled workers, our economy is incomparably better prepared for growth over the next five years than in the five years between 1939 and 1944. All that we need is an equal sense of urgency.

If we could increase our total annual output by 75 percent within the next five years, as we did in that earlier five-year period, this

total would rise from about 280 billion dollars now to almost 500 billion. If these figures sound fantastic, it is only because America's greatest non-secret weapon has not been fully unsheathed. On sober analysis, could not a production record made during years when we were fighting a hot war all over the globe be repeated in the years immediately ahead? But in order to be conservative, let us assume that we do only a third as well in the next five years as we did between 1939 and 1944. Even this gain--about 25 percent--would lift our annual output from about 280 billion dollars now to about 350 billion by 1955. This rate of growth would be ample to support any defense effort now in contemplation, build up further our industrial equipment and productive power, and maintain standards of living at levels adequate to support the defense effort.

Now, what is most needed to draw this mighty non-secret weapon from its scabbard and bring it into full use?

First of all, economic controls should be used as aids to needed types of production, rather than to embarrass such production or in lieu of productive effort. For example, taxation high enough to combat inflation should not lead to taxation which dampens necessary production. Credit controls to cut back on non-essentials should not shut off funds for the kinds of expansion that we need. There is a superficial appeal in the idea that everything should be frozen where it is. But to win our way through, we do not want to freeze but rather to

release and accelerate the dynamic drive of our economic system.

These dynamic qualities are not in any one place. They are all over the country, in factories and on farms, in mines and in business offices, in private organizations and at every level of public responsibility. The Government can provide some specific spurs to this native dynamism: for example, by carefully chosen financial backing and tax incentives where necessary. The Government can also remove some of the road blocks: for example, by improved information concerning over-all requirements. But perhaps the greatest single aid would be for the Government to extend its leadership in setting some over-all targets or goals--by stating in broad outline what we as a nation can accomplish when we all pull together.

A few years back, I advocated common agreement on a national prosperity budget, as a symbol and beacon to all of what the United States could register by way of peacetime progress. I now feel that our national effort to help make the free world secure should be translated increasingly into a concrete program, understandable both at home and abroad. This program might reveal and periodically revise, as specifically as feasible, the relative magnitudes of the tasks before us--the military task, the civilian task, the industrial task, the international task. It might highlight a few of the core components of these tasks, such as the need not only for weapons but also for steel and freight cars and power. It might also uncover the bright prospect

for fulfilling these tasks, if our native endowments are fully used.

What might be the benefits of this progressively affirmative approach?

First, this affirmative approach, with accent upon production, would confront the dictators with the weapons we use best. Although we need substantial controls, we cannot by controls devote as large a portion of our national product as the Russians do to military purposes, because we are not willing to degrade the living standards of our people or make them slaves to a war machine. But we can out-produce the Russians sufficiently to maintain the precious values of our system, and at the same time checkmate their aggressive military strength.

Second, this affirmative approach, with the accent upon production, would provide a framework for understanding and cooperation among management, labor, agriculture, and government. By enabling each segment of the economy to see the job as a whole, and better to appreciate the reasons underlying public policy, it would become easier for each to do its part.

Third, an affirmative program would help us to commiserate less about what we must do without, and focus more on what we can do. We should be prepared to make some sacrifices, but sacrifice is a negative concept which cannot take the place of positive service. Business will have to sacrifice some of the profits which might be permissible in

happier times; but it is even more important that business render more service by utilizing technology toward greater production. Labor will have to sacrifice some of the gains which would be desirable in peacetime; but it is even more important that labor render more service by working longer and improving its productivity. Farmers should not expect all the supports which were customary in peacetime; but it is even more important that farmers render more service by producing more and more of the fibers and foods which an expanding economy and an expanding defense effort require. Government must postpone some of the programs which it had hoped to be able to complete; but it is even more important that Government render more service by executing vigorously the programs--both economic and military--which are essential to our salvation

Fourth, this affirmative projection of what we can do, and how we propose to do it, can fire the American people with a resolution based not on despair but rather on hope, not on fear but rather on courage. The road ahead of us reminds me somewhat of a dark passage, far less pleasant than the sunshine of established peace, in some respects chilly and foreboding. I think that the American people are willing to undertake this passage. But they want to sense that the passage is not endless and that the destination is clear and rewarding. They must feel that the task which they are attempting is do-able and not impossible; and that in the defense effort they need not abandon all the other

aspirations around which their lives center.

Fifth, a full and open portrayal of what we can accomplish, matched by determination to reach our goals, will powerfully affect the rest of the world. The men in the Kremlin may continue to look lightly upon the military strength of a democracy in peacetime. But they know full well the implications of our industrial and economic power. And when they see that a nation already producing almost half of the industrial goods of the world is girding itself to produce 25 to 75 percent more within the next five years, then even these men in the Kremlin may hesitate to commit their more limited resources to the furtherance of aggressive designs.

And sixth, our friends abroad--the free peoples of the world--could find nothing so heartening as a practical demonstration that we have not only the intent but also the means to carry out our great intentions. They too must do their part--both in military and economic matters--but in evaluating what that part should be, let us always remember how small have been our trials, and how large our resources, compared to theirs.

In the case of the American people, the problem of guns and butter is only secondary. The supreme problem for us is the problem of guns and peace--the problem of building up our defenses for peace and not for war. This problem is above all a test of our moral fiber. Instead of bemoaning the hardness of the times, we should recognize the greatness

of the times. Instead of shrinking from the difficulties ahead, we should rise to the challenge ahead. Instead of talking about sacrifices, we should dedicate ourselves to service. If we act in this vein, nothing within sight is beyond our reach.

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