

May 22, 1944.

Mr. Ralph E. Flanders, President,
Federal Reserve Bank of Boston,
Boston 6, Massachusetts.

Dear Ralph:

On behalf of the Chairman who is on a trip to the West, as you know, I want to acknowledge your letter of May 19 enclosing a copy of your able address before the National Industrial Conference Board. I noted that the press accounts billed you in your previous incarnation, but I thought your contribution would shed luster on the System incidentally.

I shall look in a Washington drug store for a copy of that book you mentioned.

With best regards,

Sincerely yours,

(Signed) Elliott Thurston

ET:b

FEDERAL RESERVE BANK
OF BOSTON

RALPH E. FLANDERS
PRESIDENT

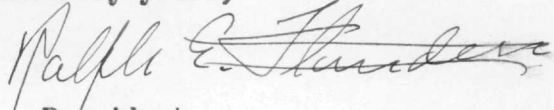
May 19, 1944.

Honorable Marriner S. Eccles,
Chairman, Board of Governors of the Federal Reserve System,
Washington 25, D. C.

Dear Marriner:

Since you probably wish to know what the Presidents of the Federal Reserve Banks are saying in public, I enclose herewith for your information copy of a talk which I gave last night at the annual meeting of The Conference Board. You will note that I was not billed as President of the Boston bank, the arrangements having been made before that was contemplated.

Sincerely yours,


President.

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OPPORTUNITIES AND PROBLEMS OF POST-WAR EMPLOYMENT

Presented before the Conference Board
May 18, 1944

This nation has astonished itself by its ability to produce the materials for winning this greatest of wars. We have truly become the arsenal of democracy. We have arrived at the point where we are able to produce and deliver at the fighting fronts of the world all that the fighting forces of the United Nations can apply in active combat. The single exception to this is the supply to the fighting front of encircled China, and that problem is in active process of solution.

A cause for even greater astonishment is our ability to do this while releasing all the men demanded by our Army and Navy for active service.

Still more astonishing has been our ability to maintain a really high standard of living for the civilian population while furnishing materials and men for war.

This has not been done without profound dislocation of individuals, families, and industries, and of our basic economic and political institutions. There was and could have been no simple way to reach this great achievement. The severity of the dislocations is a measure of the difficulty of the reconstruction which we will face in the transition back to a peace-time economy.

There is another similar significant correspondence--that between our ability to carry on the war and simultaneously to maintain a high standard of living on the one hand, and our ability, on the other hand, to devote intense thought to the postwar problem while we are still carrying on that war. There should be, in the mind of ^{any} ~~no~~ one, who is doing his duty in the war effort, ~~no~~ ^{no} feeling of guilt in a parallel preoccupation with the postwar problem.

We owe our best efforts in this direction to the honorably discharged men from the armed services who are already being returned to the civilian

population. As the war approaches its completion, these men and women will be coming back to us in swelling numbers. At the end, it will approach the proportions of a human flood. There will be then no time for improvising successful means of discharging our debt toward them. We must be preparing now for their absorption back into the civilian population, with opportunities for work, wages, and production which will match the sacrifices they have made.

The post-war problem, however, goes even deeper than this. For the good of our souls, it is wise that those of us who are in business should remind ourselves from time to time of that period which culminated in 1929. It was a period in which there was no conflict between government and business. It was a period in which there were, on the whole, no social or other restraints to the development of sound business policies. Yet it was a period which ended in disaster. If the business and political institutions which succeeded the first World War represented "normalcy," in the phrase made famous by the 1920 political campaign, we must see to it that our course is set to return to something better than normalcy. Normalcy is not good enough.

The period of the 'thirties culminated in a severe depression which, in turn, involved long-continued mass unemployment. We deceive ourselves if we believe that another long-extended period of mass unemployment will not again result in violent political changes for our nation. It is natural for us to attribute those political changes to parties and personalities. If, however, the parties and personalities had been other than they were, dangerous changes would still have taken place. We cannot have another such period of mass unemployment without complete destruction of our existing economic, social, and political institutions. The future that we face is as serious as that.

Of the numerous individuals, associations, and institutions concerning themselves with post-war planning, I am best acquainted with the Committee for

Economic Development, commonly known as the CED, which is endeavoring to make an over-all attack on the problem. Its work is divided into two sections, of which the first is the stimulation of individual industries, communities, and firms to make their own plans for the post-war period. It is highly essential that this should be done. The plans will not all be realized. Some of them will be over-ambitious; some of them will have to have their direction changed by the course of events which, as yet, it is impossible to foresee. Yet the fundamental necessity remains for the engendering of a spirit of intelligent foresight and courage in American business as a whole. Without this, we will easily fall into a spirit of defeatism which will make inevitable the situation which we dread.

The other half of the work of the CED relates to a study of the required economic, social, and political institutions which will permit the functioning of individual enterprise and give it the best chances of success in the task of maintaining high employment, production, and consumption at the war's end. The scope of these studies is indicated by the list of problems which we now consider to be necessary of some solution. Most of these studies are already under way; some of them are already published or will be published within the next few weeks or months.

Among the studies for the transition period are the following:

- Lessons from World War I and its Aftermath.
- Liquidation of War Production: Cancellation of War Contracts and disposal of Government-owned Plants and Surpluses.
- Demobilization of Wartime Controls.
- Manpower Demobilization and Reemployment.
- Provision for Unemployed Workers During the Transition Period.
- Financing the Transition of Business from War to Peace.
- Monetary and Banking Policies in the Post-war Transition Period.

Other studies relative both to the transition and the long run are:

Post-war Tax Reform to Encourage Employment and Production.
 Incentives for Business Expansion.
 Agriculture After the war.
 International Economic Relations in the Post-war World.

In addition to this, we have under consideration a group of studies of long run significance, among which are:

A Survey of Small Business to Discover the Sources of
 its Competitive Advantages and Disadvantages.
 A Study of the Ways and Means to Combat Depressions.
 Monopoly - A Review and Appraisal.
 Billion Dollar Questions.

The latter is one which we hope to bring out soon, posing all the provocative issues which we have to face.

In facing the problem of large-scale employment, production, and consumption, we have, of necessity, set our sights high. Our aim is for employment on a forty hour basis of from 50 to 55 million people, with a net national output of 130 to 140 billions of ¹⁹⁴⁰ dollars per year of goods and services. This aim is admittedly high. To set it materially lower is to agree that we will have a considerable volume of unemployment or underemployment, and our purpose is to find means of avoiding that calamity.

Where is this employment to be found? Obviously, a large share of it will have to be provided in industry, and the market to be filled must ^{largely} come from a general high standard of living for the people of our country as a whole. Some of the markets will come from foreign trade, and some of the resulting consumption will come from the exchange of goods in foreign trade.

We must be careful that we do not lead anyone to assume that industry ought to or can carry the whole burden of employment in the post-war world. The service occupations in any prosperous nation will become of ever growing importance ~~in a highly developed economy.~~ Much of our great expansion of employment will be found in this field, and much of the desired consumption of our

people will be in the form of services. A profitable agriculture, as well, is an essential to the health of the community as a whole.

So far as industry is concerned, the greatest bars to the needed expansion are to be found in two factors, one psychological, the other political. As to the psychological factor, there has developed in the last ~~generation~~ ^{decade} a spirit of defeatism in American industry. This is not so much to be found in the great corporations as in the medium-sized and smaller ones. The political-economic factor has been the impact of taxation on industrial expansion, again far more severe for the medium-sized and small concerns than for the big ones. The two impediments are interrelated, but are not completely complementary. There are other hindrances besides taxes; there are other causes of defeatism besides taxes. The field work of the CED is directed at the removal of some of the other psychological deterrents. The research work of the CED is devoted to other economic and political deterrents in addition to that of the tax structure.

Yet the effect of taxes on our needed post-war business expansion is still the largest single factor. Few people stop to think of the revolutionary change that has been wrought in the field of business risk and expansion by ~~the requirements of the~~ existing fiscal policy of our government. A generation ago and more, business risk and enterprise, business losses and successes, were all an active part of the American economic scene. During that period, when private enterprise was playing its historic role in the expansion of the prosperity of the citizens of our country, the profits of risk and enterprise were available practically one hundred per cent to the investor and entrepreneur. Heavy personal taxes have made it impossible for the individual investor to play the role that he did a generation ago. Heavy business taxes have made it impossible for the business concern to expand ^{production and employment} out of its own savings as it was doing a generation ago. The formulation of new tax policies which will

permit the revival of personal enterprise and of business expansion is a prime requirement for the expansion of employment, production, and consumption in the post-war world.

I do not know so much about the rest of the country as I do about New England, but from personal knowledge of my own region, I can state that it is fairly boiling with new ideas, new projects, new inventions which, in the old days, would have found financial backing. Under present conditions, no investor would wisely support these things in the way that was natural to his fathers and grandfathers. Worst of all, the whole financial organization of the region has built itself about the new situation. Doors are closed which used to be open. Ears and eyes are deaf and blind which used to be keen. This must not continue.

A prosperous agriculture is a primary essential for a prosperous America. But to be prosperous in the decades ahead of us, it is my belief that radical transformations must be made. A general high standard of living will make new types of markets for American agriculture. It will replace the vanishing foreign markets for such staples as wheat and cotton with growing markets for a highly processed output, such as meat and dairy products.

We must, furthermore, come to an internal balance between industry and agriculture. There are limits to the amount of food which a family can enjoy. There are no such close limits to their desires for goods and services. Prosperous industry can work toward the assistance of agriculture in two different ways. It can withdraw from the soil any excess of labor power not there needed, and it can furnish a profitable market for the products of the soil. In decreasing the narrower and increasing the market, it will raise the percentage of participation in the national consumption which the farmer enjoys. Neither the industrial group nor the agricultural group will prosper at the expense of the other. They will prosper together in the attaining of an increased production.

This problem has been recognized and undertaken on a regional basis in the State of Mississippi by a movement known as BAWI--I do not undertake to pronounce it as a word. The initials stand for "Balance Agriculture With Industry." This was a state-subsidized movement to bring industry into an agricultural area, and was thus a specialized approach to the general problem. Its history is recorded in a pamphlet recently published by the Federal Reserve Bank of Atlanta. Something can be done on this regional basis, but the problem must be undertaken on broader lines and on a national scale.

This new balance between agriculture and industry should permit and foster a high regard by the farmer for his occupation. There are some regions in which this regard is already high. The State of Iowa and adjacent regions are a case in point. No one can visit the campus of Iowa State College at Ames without feeling that he is at the fountainhead of a sentiment as to the dignity and worth of living on the soil which flows over the whole adjoining region.

This sentiment requires for its nourishment a high economic status for the farmer. To the extent that his material condition can be improved elsewhere, the needed nourishment will be provided. The sentiment will not necessarily flower spontaneously. Its generation under favorable conditions

must become a part of the education of the young, if the farm is to perform its economic function. Especially must this be true if it is to regain and retain its old-time place as the nursery of leadership in American life.

Some favorable symptoms have appeared. In my own country for instance, the boys in training camps and overseas are writing back to the folks at home expressing the desire to return to the farm rather than to go out to make places for themselves in the cities. Not too much dependence can be place on this. It may be in part the natural homesickness of the boy living a life whose every condition and whose every move is determined for him from above - a life in which there is no privacy and little private initiative. ~~Furthermore,~~ ^{Even} though the sentiment be more enduring, it cannot be expected to persist unless our economic structure is such as to give it a solid foundation.

As to foreign trade, it is my belief that a dependence may be placed upon it that is at once too broad and too shallow. The solidly based elements of our foreign trade lie in the exports of mass produced durable goods for personal, household and business use, and highly developed manufacturing equipment. In these things we can give more value per dollar than any competing nation. We must maintain that position. It is doubtful whether the old staple exports of wheat and cotton can maintain their place, nor is it clear that they should. As explained previously, our farms should be devoted to more highly processed products.

These exports in which we are fitted to compete can be in such large volume that they will suffice to pay for all of our needed imports (of which there are many) and for certain specialties as well, which other peoples can produce more skillfully or more artistically than we can. Some of these imports may at times have the appearance of displacing our own workmen, but that issue will not be raised if our own internal economy pro-

vides its proper share of profitable productive employment. If that is accomplished, most of the political pressure against lower duties and increased foreign trade will lose its force. There is no other way to reduce the pressure for the restraint of ^{imports} ~~foreign trade~~.

These observations relate to the normal conditions of a prosperous post-war world. There ^{will be} ~~are certain~~ extraordinary conditions during the period of rehabilitation which will call for a certain amount of outright gift and a certain amount of capital assistance. As time goes on and the resources of the occupied regions are seen more clearly, these two elements tend to diminish in magnitude from the figures which filled our imagination a year or two ago. The capital expenditures at any rate, although outside the routine of regular investment, should in the long run be of such nature that they pay for themselves and become safe though slow investments.

We are looking then for a post-war world of high employment, high production and high consumption. A very large percentage, however, of the monetary return from this production will have to be diverted through Governmental channels. The Federal budget in time to come, under whatever party administered and with whatever strictness of control and expenditure, cannot escape being far higher than the post-war citizen would have deemed it possible for our economy to endure.

There will be new requirements ^{total} ~~for~~ an expanded peace ~~army~~ army and navy. There will be unknown requirements for bonuses, education, re-establishment, etc., of returned soldiers. There will in particular be that six billion odd dollars of interest on the national debt. Some statisticians have decided on 23 to 25 billion dollars annually as the minimum ^{budget}; others with more carefully sharpened pencils believe we can squeeze by with 18 billion. No responsible investigator cares to figure the amount to be much less.

These figures mean that as producers we shall spend a greatly increased percentage of our time working for those whom we ordinarily think of as non-producers, just as we work to support the policemen, the firemen, and the school system in our local governments. Of course these are not really non-producers, for in them we buy safety, protection and education. It is an area, however, in which we have looked with less scrutiny on the value we get for our dollar than is the case when we do our purchasing at the market or the department store. While these socially produced goods and services must not be neglected they must not get too large by default.

The argument has been made as to service on the debt that an enormous annual interest payment does no harm since "we owe it to ourselves". Unfortunately neither you nor I nor anyone else except the mythical average citizen balances his tax contribution to debt interest against his interest receipts as a bond-holder. The fact that six billions of dollars, more or less, will be redistributed by what are essentially arbitrary means instead of by the processes of production and trade means, that unplanned for dislocations in our economy will be set up. This fact will make the establishment of a stable economy more difficult in the world to come than was the case in the world that was.

This thought returns us to the problem of Government organization and operation in the world to come. The list of research problems which I read earlier indicates the complications involved in liquidating controls and leads to the suspicion that it will be impossible and perhaps undesirable to go completely back to the degree of freedom from Federal control which we enjoyed a generation ago. We wish to and must go back as far as we can without losing volume and stability in our employment and production. Some degrees

of control we must retain, some new elements we must invent and apply. Among these elements are those which ~~relate to influences~~^{needed} for keeping the economic machine more nearly in balance than we succeeded in doing in the 20's. We may reasonably hope, however, to liquidate a great percentage of the control which developed out of the depression and which proliferated during the war.

But with the necessity for more control than we had before comes the requirement for some fundamental changes in our Government. The balance contemplated by the Constitution between legislative, administrative and judicial powers may not be fitted to perform the highly technical operations which the present and the future require. It is not possible to depend completely on legislation to define and control functions which must be adjusted to sudden changes in balance of our economic structure. More dependence must be placed on technicians. The problem of giving power to technicians without taking the downhill road to the totalitarian state is a problem which we must face and solve. In general the answer would seem to lie along the broad lines of administrative bodies set up by legislation with purposes and areas of policy defined by legislation, with each political administration given its due fraction of personnel to appoint or reappoint and its due power of influence on legislation for altering policies or activities. The details must be left to technical competence. The Congress and the Administration must themselves gain the self discipline to allow technical competence freedom for the carrying out of broad policies which they themselves determine. Blocs of self interest must likewise develop self discipline for their own larger interests. This is a large order but it is the price of progress and stability.

Among the blocs of self interest which we will meet, aside from the ancient and now enfeebled bloc of business interest, will be the self interest of social security. We must be prepared for a more inclusive degree of social security in the world we are coming into. This is a corollary which arises immediately out of a depression in which our industrial economy relapsed into conditions in which the individual was helpless. We cannot and should not escape the results which our failure brought upon us.

But increased social security brings its own problems, particularly of a moral nature. People as a whole may negatively and unfortunately rest on social security as their main dependence, thereby losing initiative and ambition, and hoping to pick the fruits of industry and enterprise from trees in the garden of idleness. The road to this event is ~~a broad, downhill road.~~ ^{and it leads}

On the other hand there is the possibility that this broader support of social security may be made the foundation of a new spirit of enterprise. With the basic elements of food, clothing and shelter assured, why should not the young people of the future be more willing to risk their time and energies and their resources on new and doubtful undertakings than they have been in the recent past? This road is narrow and it is up hill, but is full of interest and excitement. How can we direct the young toward it?

I recently purchased in a New York drugstore, on a sudden impulse, one of the most remarkable books of our time. It was a Margaret Mead "Omnibus". I was attracted to it because I had been interested in some of her earlier works. As many of you know she is an anthropologist of renown connected with the Museum of Natural History here in New York City. The significant thing in this book to me was a series of compari-

sons between social organizations and ideals and the personal morals and ideals of a group of tribes in New Guinea, in the region in which the recent fighting has occurred. These tribes were closely related in blood and in their physical surroundings, yet their institutions and personalities ranged from the effeminate through the idealistic to the blood thirsty, with strange exchanges of male and female temperaments and characteristics between the sexes.

In examining the causes of these strange differences Mrs. Mead came to the conclusion that it was all done by the kind of education imposed by the young. It was done by "indoctrination". We may draw from her experience conclusions which are both terrifying and hopeful. Terrifying because they demonstrate in a small scale what has been done on a large scale in Italy and Germany - hopeful because they held out possibilities of a general advance in the well-being of the next generation, if only we can agree on realistically idealistic courses of thought and action for their upbringing.

The home, the school and the church must work as one. The realistic ideals, purposes and attitudes must be generally agreed upon by the mentors of the coming generation. From this will spring the self discipline which we have been speaking of. From this will spring the solution of the problems of democracy in an ever more complicated and technical age. Without this we take the broad and downward path toward

liberalism and ultimate totalitarian subjection of all classes of society.

MAI SS YAM

RALPH E. FLANDERS

Board of Governors
of the
Federal Reserve System