

BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM

Office Correspondence

Date February 24, 1944

To Chairman Eccles

Subject: Leon Henderson's Analysis of

From Kenneth B. Williams *KBW*

the Baruch Report.

Leon Henderson devoted most of his last broadcast to a discussion of the Baruch report. His comments were about fundamentals, instead of technical procedures, and I think they are helpful to a proper appraisal of the report. Henderson's more important statements are quoted below:

"Anxiety about post-war employment has been intensified by the universally-accepted realization that production and employment will have to be thirty-five to fifty percent higher in the post-war years than has ever been attained in the peak years before the war. This scares everybody. It was evident too that our Allies Russia and Great Britain, particularly the latter, were making plans for the future because they felt they could not risk being weak in the immediate post-war years.

"The Baruch-Hancock report treats of two main phases. The first deals with untangling business from the meshes of government war contracts and the second phase deals with national policies, philosophies, and economic reliances by which a high volume of peacetime production can be attained. In my opinion the part dealing with contract termination is much more able and more substantial than that devoted to economic policies of the future.

"Ever since 1929 there has been a basic conflict of philosophies about the dynamics of high employment. Roughly there are two schools of thought. One school believes prosperity can come only by paramount attention to the needs of producers. Another school insists that prosperity comes by insuring that the consumer's purchasing power is adequate to create demand for full employment. Still another group, not a school, of which I expect I am one, believes in a combination of attention to vigorous producer-business needs plus insurance of continued flow of consumer purchasing power. The conflict is sometimes falsely represented to be a fight between free enterprise and planning, which to my mind is so much nonsense.

"Mr. Baruch and Mr. Hancock make no such distinction but overwhelmingly they have chosen the producer approach. There is no sign in the report that they ever considered the consumer's purchasing power approach. There is no sign either that they studied alternative programs, such as that advanced by the National Resources

Planning Board or the proposals of labor's post-war planning groups. It seems evident to me that most of the recommendations and observations about the domestic economy came from ideas which these two strong men, Baruch and Hancock, had been developing in very busy and important years of their experience with war, finance, and business. The report is a brave and courageous one and is being praised by all journalists today for its reliance on the free enterprise system for the future.

"Throughout the report the various recommendations are intended to fortify and strengthen American business institutions for the post-war period. It urges more reliance on industry committees and exemption from the Anti-Trust Act to permit joint actions by business men which would be illegal otherwise.

"The report however emphasizes the importance of the small competitive enterpriser and the necessity for avoiding monopoly. It suggests means to channel surpluses of all kinds through existing businesses and thus bypass speculators and promoters. It hints that the OPA ought to listen to the WPB about raising prices to insure production.

"The two authors are very firmly opposed to government operation of plants, which means they have rejected the pressure on the Attorney General to find legal methods of operating some government-owned plants as yardsticks.

"One of the best examples that shows the authors were thinking almost exclusively of producers is to be found in the tax recommendation. Baruch and Hancock argue that post-war taxes ought to be reduced to encourage launching of new enterprises and expansion of existing ones. Nothing is said about increasing consumers' purchasing power by means of lowering taxes for small income families.

"The report from a standpoint of economic philosophy is important for significant items which are left out. While every effort is made to create strong producing units, there is no mention of specific proposals to make labor strong in the post-war period. There is a complete absence of comment on the suggestion which labor is continually making that it ought to participate in the high councils of government decision. There are no labor committees and there is no place provided for labor on the industry committees. There is no mention of severance pay or expanded social security and unemployment compensation.

"It is interesting to compare the Baruch-Hancock report with the proposals which the Conservatives in England are considering. Churchill has said there will be a substantial area for state socialism in the future,--that is government ownership of production facilities. The Conservatives have accepted the necessity for something like the Beveridge Plan for social security and guaranteed

work weeks. They favor monopoly, cartels, and subsidies for foreign trade. They favor tremendous public works programs, but public works play a very small part in the Baruch-Hancock program.

"I think it important to recognize that if the conservative approach suggested by Baruch and Hancock is accepted it will be consistent with the swing to the Right which the country has been experiencing for some time. If the country should go Republican in the next elections the changes in policy that would have to be made would be at minimum. In my opinion the report is a substantial and timely contribution because it will force America to make choices that cannot be escaped. I have a feeling that Baruch and Hancock have under-estimated the difficulty of providing employment quickly for all who will need it in the post-war years."