

Speech delivered over
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WHERE NOW?

Before facing up to that question, let me mention some of the important things that have to be taken into account in trying to answer it.

To begin with, let me speak about what has happened recently and what is going on now. Back in November 1946 there were 57,000,000 people employed in our factories, in our stores and offices, and on our farms. Approximately two years later--October 1948--the number so employed reached a postwar peak of over 60,000,000 while the number looking for work, the unemployed, had dropped to a little over 1,500,000. Between the end of last year and the middle of this year the number of unemployed increased rather sharply to a little over 4,000,000. Since then, business has recovered somewhat from its midyear lull and today 59,500,000 people are working while almost 3,500,000 are looking for work. While total employment is now only 600,000 below last year's peak, the extent of the revival in business activity isn't quite so great as these figures might suggest. Every year we find more young men and women joining the labor force than we do older people leaving it--at the present time the net addition is about 600,000 people a year. If all the people who want to work are going to have jobs next year and the year after, the total number employed will have to be larger than it is now and larger than it was last year. That's a pretty big order, finding jobs to keep more than 60,000,000 people employed. It's going to require a great deal of effort on the part of everyone to keep our economic machine running smoothly and efficiently enough to provide all these jobs.

During the first part of last year--1948--everyone was aware of rising prices and expanding business. In some ways it looked good, but I think most people were uneasy about it. They felt that high prices meant that it would be harder and harder for them to make both ends meet. Then after the middle of 1948 the picture changed. Between November 1948 and July 1949, production in American factories declined about 17 per cent. In the same period, wholesale prices fell about 6 per cent; and inventories of goods on hand fell 5 per cent. At the same time a large part of bank loans to business was paid off, with the result that total borrowings from banks by businessmen declined.

This general downward movement of prices, production, and business in general gave everybody something new to worry about. We had been afraid that prices would go too high; now we began to fear they would drop too low. Before, we had been afraid of a boom; now we began to be afraid of a bust.

The decline which set in about the middle of 1948 has proved to be very moderate. This past summer there was marked recovery. The question now is whether that recovery will continue. In other words, granted we are where we are, what is going to happen next? The signs are mixed.

On the other hand, it seems clear that the country has gone a long way toward satisfying the immediate postwar needs for plant and equipment, which is our production machinery, and this means less demand than there has been for new factories, heavy machinery, and such things. On the farms bumper crops have been harvested and their effect will be to depress the prices of farm products. This is in accord with the principle of supply and demand. While prices on the average are down about 8 per cent from last year, there are still disparities, such as the price of aluminum versus copper, cotton and wool cloth versus synthetic fabrics, and lumber versus other building materials. The price of lumber, for example, is three times what it was ten years ago, while the average price of other building materials is somewhat less than twice what it was just before the war. These disparities necessitate adjustments to establish a sound balance which gives us stability. It takes time to work out these adjustments and meanwhile business is slowed down by the process.

Against these conditions, which at least for the time being tend to restrain business expansion, there are other conditions which point to sustained activity. The general public's purchases of goods and services remain steady and strong, and there is evidence of a great backlog of demand for automobiles, houses, and other durable goods. During the winter and spring of 1950, veterans will be receiving millions of dollars in refunds on their life insurance premiums, and most of this money will be spent for cars, homes, merchandise, and services. All of which means that business ought to be brisk. At the same time, the credit situation seems sound; individuals here and there may be heavily in debt, but taking the country as a whole, private indebtedness is not excessive, and there is no speculative mania such as we had in the late twenties.

The Federal Reserve System, as the central monetary and credit authority, is charged with responsibility for regulating the over-all supply, availability, and cost of money with a view to contributing to the maintenance of high levels of employment, stable values, and a rising standard of living.

From the standpoint of money and credit, which is the purchasing power in our economy, there are two factors that I think need to be watched in particular. The first is instalment credit. Since June of this year, the amount of instalment credit for the purchase of automobiles, home appliances, and so forth has increased by nearly one billion dollars. These are not things that people buy and consume as they do food and fuel and then come back for more. The purchaser of an automobile or of a washing machine is apt not to be buying again for a long time, once a purchase is made. Obviously, if everybody bought cars and appliances at the same time, there would be a long period in which nothing more could be sold. Exactly that situation will probably never occur, but it is clear that when buying has been excessively heavy it tends afterwards to grow slack. Now, instalment credit in the right amount helps to make buying steady and consequently helps to make production and employment steady. But too much instalment credit is as bad as not enough--or worse, because it concentrates buying in boom periods instead of spreading it out evenly.

The other factor is real estate credit. Here the same thing is

true. The total of home mortgages outstanding increased by 17 billion dollars during the four year period of 1946, 1947, 1948, and 1949. How long can such a rate of increase continue? Is the ability to buy being used up so fast that the construction business will soon have nothing left to live on? I don't know, but neither can I see how home buying can go on indefinitely at the present rate.

So far, I have spoken only of conditions within the United States, but it is obvious that conditions outside the United States must also be considered. We have been exporting large quantities of goods abroad ever since the war, and those exports have been an important element in American production. If, in the near future, any great change occurs in the amount of exports we send abroad or in the amount of imports we purchase, it is inevitable, of course, that American business will be affected by the change. But the change, in the long run, should be to the good. It provides a proper balance in international payments and eliminates need for our government gifts and loans.

Up to now, the aim of European countries has been to rebuild their factories and regain their markets. Our aim has been to help them, so that they can again stand on their own feet. But an essential feature of the program of European recovery is that the United States buy a larger amount of foreign products than it has in the past. This is simply another of the possible changes to which American business may have to become adjusted. Like most adjustments, it will involve practical difficulties, particularly with respect to those American products with which imports from abroad will directly compete; but actually the needed increase in imports is only a very small fraction of our total trade.

According to a statement recently made by Mr. Hoffman, Economic Cooperation Administrator, Europe needs to sell us an additional \$2-1/2 billion worth of goods to balance her payments--and this \$2-1/2 billion, he points out, amounts to only one per cent of the total value of goods and services produced (the gross national product) in this country during 1948. The adjustment needed for us to absorb these additional imports may not be painless, but it is essential. Foreign countries can not spend dollars unless they can earn dollars. If we wish to have them spend dollars by buying our products, we must be prepared to help them earn dollars by buying their products.

This need for selling goods in our markets was the reason for the recent devaluation of currencies by Great Britain and other countries. Devaluation is another name for reduced prices, for devaluation of a country's currency reduces the prices of its goods in foreign markets. The purpose of the recent devaluation, therefore, was to make foreign goods more attractive to Americans by reducing their price. The United States welcomed this reduction. Yet I should say in passing that, notwithstanding this fact, rumors have persisted that the United States was going to devalue American currency too. There are not the slightest grounds for this notion. It would be directly contrary to American policy to devalue our currency, and it would directly spoil the efforts we have been making to help other countries get on their feet and do without the costly assistance we are now giving them.

To conclude--our economy, generally speaking, appears to be in pretty good shape. However, it will bear careful watching. We face the important fact that the present balance between further inflation and deflation is a delicate one which could easily be upset. On the one hand, we may have expansion in Government expenditures and borrowing of money by the Government above taxes to meet these expenditures. On the other hand, there is always the possibility of a sizeable reduction of purchases of goods and services by businessmen and by the public at large. To steer a safe course between these two extremes will require constant vigilance, sound judgment, steady nerves, and confidence in the future.