
*A Long-Range Program
for
Agriculture*

Testimony of

CHESTER C. DAVIS

before the Agriculture Committee,
U. S. House of Representative

June 7, 1947

**At the invitation of the Agriculture Committee
of the U. S. House of Representatives,
Chester C. Davis appeared before
the Committee and gave this
testimony on June 7, 1947**

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Introduction

For the record, I am Chester C. Davis, President of the Federal Reserve Bank of St. Louis and Vice-Chairman of the Research and Policy Committee of the Committee for Economic Development, commonly known as CED. I am testifying on behalf of the CED Research Committee, which has been requested by your Committee to present its views on a long-range program for agriculture.

The CED Research and Policy Committee is a group of businessmen selected by the trustees of CED, and formed for the study of problems relating to attaining and maintaining a high level of productive employment in the United States. A list of the present members of the Committee is attached to this statement. We work with an Advisory Board of economists and other social scientists, and through a staff of specialists in the various fields concerned with our central problem.

From time to time, the Committee publishes monographs on specific subjects written by members of the staff after discussion with the businessmen's committee and the Advisory Board. Under the by-laws of CED the authors are free to state their own views in these monographs and the report, when published, is the sole responsibility of the author. One of these monographs is "Agriculture in an Unstable Economy," by Professor Theodore W. Schultz of the University of Chicago, published in book form by CED in 1945.

At about the same time the Research Committee, composed of businessmen, published its own policy statement on the problems of agriculture, called "Agriculture in an Expanding Economy." My testimony today will present the views of the Committee as expressed in this statement. Copies of the complete statement have been distributed to the members of your committee.

This, of course, is one of several policy statements issued by the CED Research Committee. I should like to add a word to explain the nature of these policy statements. Before it is finally drafted and approved, the Research Committee holds a number of meetings with the CED staff and the distinguished economists and experts who make up its Research Advisory Board. Usually these meetings and discussions take place while the text of the monograph or book is being studied and criticized by the trustees and the Research Committee of CED. In the case of the Policy Statements, the businessmen who make up the Research Committee are solely responsible for what is contained, while as I have said, in the case of the more extended monograph or book, its author is responsible for its contents after the businessmen of CED have done all they can to keep him on what they think is the right track.

As in the case of all CED policy statements, this statement does not purport to present the views of the members of CED's Board of Trustees or of the businessmen and others throughout the country who are affiliated with CED. Obviously, it has been impossible for them to participate in the background and discussions leading to the formulation of the statement. The statement does represent the unanimous views of the Research Committee as constituted at the time of its publication.

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The statement on agriculture was undertaken because the Committee believes that the purchasing power of the rural population—which largely controls their economic and social welfare—is of major importance to the welfare of the nation as a whole. The statement emphasizes the direct relationship between conditions in non-agricultural business and the prosperity of the farm sector of our economy. In its discussions of questions of national agricultural policy, however, the Committee recognizes its limitations, as an organization of businessmen, in attempting to supply answers to problems that need consideration by broader councils in which agricultural representatives have a leading part. The hearings now under way before your Committee represent an important step in providing such broader consideration.

Agricultural Conditions
—*Now and in Prospect*

First a word as to background. The war brought unprecedented prosperity to American agriculture. Under the pressure of war demand, agricultural output as a whole expanded a fourth, food products a third, above 1939 levels. Almost 30 million acres were added to our harvested land. Prices received by farmers more than doubled from the low point at which they stood in 1939. Costs rose too, and partly offset the rise in prices, but farmers in general enjoyed and still enjoy greatly increased net incomes. Farmers as a whole

achieved the best financial position they had occupied in over three decades. They greatly increased the dollar amount of their liquid reserves in bank deposits, savings bonds and cash. At the same time they have reduced their indebtedness considerably. An unprecedented migration away from farms has occurred, thus, partly correcting the peacetime over-supply of labor on farms which was a major cause of the low *per capita* earnings in agriculture between the two wars.

To return for a moment to the war-time changes in the debt and liquid-asset position of farmers: estimates of the Department of Agriculture indicate that from January 1, 1940, to January 1, 1946, the amount of bank deposits, cash, and savings bonds owned by farmers *increased* from \$4,157 millions to \$19,019 millions, a gain of nearly \$15 millions. During the same period the farm mortgage debt to the leading lending institutions *decreased* by \$1.5 billions. The reduction in farm mortgage debt since 1930 has been \$5.5 billions. This apparent improvement in the current financial position of agriculture is not all net gain, however. No estimates are available to measure the depreciation that has taken place in the farm plant and equipment during the war years of intensive cultivation and scanty replacements.

It is highly unlikely, however, that the agricultural situation will continue to be as favorable as that of the last few years. Land and other agricultural capital, once committed to production, tend to stay in production almost without reference to the volume of demand. It is probable that post-war production will continue far in excess of the pre-war levels, in part because of increased acreage and in part as a result of rapid technological improvements in farming. Demand for agricultural products, on the other hand, is likely to drop sharply when present abnormally large foreign needs decline and storage stocks have been replenished. It will drop

even more sharply, of course, if we experience a decline in business activity in this country. The return of population to the farms, which has been under way since the war's end, will be accentuated by any decline from present high levels of non-agricultural employment.

Powerful forces will be dragging at farm commodity prices. The tendency will be toward a decline in the exchange value of farm products in terms of other goods and in market prices as well. Although the drop in farm prices and income may not be as precipitous or as great as the drop which followed World War I, and some measures may be developed to offset the forces leading to the decline, nevertheless, it is likely to cause widespread and serious difficulties in agriculture.

In general, if the country is successful in maintaining high levels of employment and high consumer purchasing power, the market will be favorable for sustained high production of many farm products, especially dairy and poultry products, meats, fruits and vegetables. There are great areas in agriculture, however, where the problems will not be solved by strong domestic market demand, and effective means for dealing with these special problems must be included in a satisfactory long-range program for agriculture.

Our wheat acreage has been expanded to produce more than can be consumed as bread grain in this country or in such foreign markets as normally may be available. Cotton and the region in which cotton dominates the farm economy present extraordinary problems—the remaking of the economy of the cotton South is undoubtedly the most important and most difficult special problem in agriculture confronting the United States. A third special problem in agriculture is found in the Plains States, where the farm population lives under peculiar hazards because of erratic weather. And finally, high peacetime markets will not automatically meet the problem

of soil conservation, to which the nation must give greater attention. America's wealth in land resources has made us negligent in its care. The committee is familiar with the startling figures that reveal the destruction of good land by erosion in the past. In spite of some improvement, the loss is still going on. No one who drives through our farming areas with his eyes open can question it.

Basic Causes of Agricultural Trouble

The farm problem is a compound of several major factors and a multitude of minor ones. An excessively large labor supply — excessive, that is, from the standpoint of returns earned by individual farm workers — an increasing rate of output per worker and a slackening in the rate of increase of demand have characterized American agriculture for many years. On the face of it these conditions point to an imbalance, with depressed conditions and low earnings per worker as the eventual result.

1. *Surplus Labor Resources*

Measured by cold economic standards, the excess of human resources engaged in agriculture probably is the most important single factor in the problem of per capita farm income. This reflects, first, the slowing down of the non-agricultural industries in the latter inter-war years. Job opportunities off the farm being limited, the normal flow of labor from farm to town dwindled. Meanwhile, the large natural increase of the farm population continued to add to the relative number of persons dependent on agricultural production for their living.

A second important element making for an excess of workers on farms is the continuous improvement in the output capacity of farm workers. American agriculture is in the midst of a tech-

nical revolution, the counterpart of the technological advance in industry.

If, after the abnormal markets caused by the war have disappeared, the changes that increase farm productivity outrun the changes that increase demand, our economy will be unbalanced again by relatively low per capita returns to agricultural producers compared with other producers. This condition will be moderated to the extent that the whole economy expands and permits the movement of workers out of agriculture or an increased volume of consumption. This tendency to depress the per capita earnings of farmers is likely to persist except during wars or business booms or while inventories are being accumulated. The flow of excess labor from the farms is a normal movement. It takes place even when farming is enjoying good times. When it is interrupted by hard times and unemployment in non-agricultural industries, the per capita income of workers in agriculture tends to fall.

2. *Factors Limiting Demand*

Demand for American farm products has been, and will continue to be, affected negatively by the fact that the rate of increase of population within the markets available to the American farmer is dropping markedly. The rate of population increase moved upward during the war, but this is not expected to continue. It is a phenomenon that has occurred temporarily during and after other wars.

3. *Instability of Income Due to Business Fluctuations*

In addition to the low average per capita earnings that characterized farming in the 20 years between the wars, American agriculture has been burdened by a great instability in its prices and therefore in the income obtained from the

sale of crops and livestock. Whenever business has boomed, net farm income has risen fully twice as fast as non-farm income. Then when business declined, the net income from farming has always fallen more sharply and further than the income of persons not on farms. Maintaining a stable farm income may be impossible if we do not learn how to keep industry from the production extremes that are its past history.

4. Income Instability and the Price Level

Apart from income instability stemming from changes in the agricultural supply-demand relationship, farmers have suffered from wide shifts in the general price level. Farmers who are in debt are particularly vulnerable, and since most farmers are self-employed, many of them carry comparatively large capital debts. The general level of prices is identified with the value of money. Farmers have been victims of the caprice of the general price level too often to favor anything but a stable price level at high employment. The search for ways to promote price level stability deserves high rating in any program for agricultural betterment.

5. The Problem of Farm Product Prices

Recognition of the fact that the see-sawing of total farm income is caused primarily by price changes, not by changes in volume of farm output, has led farmers to insist on efforts to stabilize farm product prices. But price stability is possible only if the relationship of demand to supply is comparatively constant. When we try to get around this by fixing prices by law at levels reached when demand was at peak, we encounter the "surplus" problem — what to do with the excess above what the market will take at such fixed prices. Experience confronts us with the fact that merely setting a price or fixing a parity formula by law does not solve the farmer's price problems.

Parity as an idea appeals to the public as fair and just. But used as a legal instrument to fix farm product prices, parity based on a relationship that existed 30 years ago has become a liability in American agricultural policy. Making it effective, by means of loans and purchase programs, continues out-grown price relationships and tends to perpetuate past production patterns; resists production changes that are in farmers' long-run interests, and builds up surpluses toward an eventual crisis and collapse; it tends to drive a wedge between internal and external prices of farm products that enter export trade, thus opening the way for two-price systems to facilitate export dumping, and other measures which in more normal times may prove hostile to a liberal foreign trade policy.

I am tempted to elaborate a little on this question of parity prices. Parity does not mean a fixed price level; it relates rather to the purchasing power or exchange value of the products of one group when traded for the products or the labor of another group. The price *level* is very important to a farmer who is in debt, but in every other sense the most important consideration is not the dollar price of a product, but what it will bring when exchanged for other goods and services.

If we think of all farmers as one trading group, and all the rest of the economy as another trading group, there are three ways to hold the exchange value of the farm output high, or to increase it. One way would be to cut down the volume of farm production. Another would be to increase the effective demand. A third way would be to increase the quantity of goods and services produced by the non-agricultural group. I believe most of us favor the second and third ways as being better for the country, better for the farmers, and better for the world.

After considering the present parity formula, the Research Committee concluded that a redefinition of parity is overdue. The needed standard of measurement cannot be expressed in rigid terms of past commodity price relationships. The policy should aim at two objectives: to create conditions favorable to the enjoyment of at least a fair minimum standard of realized income by farm families, and to guide farm production into the pattern that makes most efficient use of agricultural resources.

What Can Be Done?

The CED Research Committee feels that it is inappropriate for a committee of businessmen to attempt to prescribe in detail for all the ills of agriculture. As I stated earlier, the development of a long-range agricultural program requires consideration by broader councils. Nevertheless, it may be appropriate to discuss some general proposals that can contribute to agricultural prosperity and stability.

1. Increasing Consumption

The prerequisite to high agricultural income is a high level of production and employment in this country. General prosperity results in an increased consumption of foods, particularly of livestock products, thus promoting better use of more agricultural resources, including land and labor. In addition, when non-agricultural employment is expanding, the economy can absorb the excess labor supply in farm areas.

Thus, policies designed to achieve reasonable stability in the general price level and to keep the industrial-urban economy going at a high level of production, employment and income are of first-rank importance to farmers. CED has been

devoting its entire energies to the development of such policies. It is not possible to discuss these policies in detail today, but I shall be happy to leave with your Committee copies of all the policy recommendations thus far issued, if you wish to have them.

Our Committee felt that better education on the importance of diet to health is necessary, as well as high consumer purchasing power, if we are to have profitable markets for the full production of our agricultural resources. The House Committee on Agriculture knows what it would mean if all our population at home were educated to want, and able to buy, a full, healthful, rich diet. You know we could keep about 10 times as many people alive on an acre in cereals, as can be fed on the livestock products from an acre, but we are not likely to do that in this country. The trend is the other way. We could use our farm resources fully, with more workers than are now employed in agriculture, if all our people could buy and consume the dairy-and-livestock diet necessary to maximum national health.

While the main dependence for maintaining good markets for farm products must always be on a high level of consumer income, the possibility of increasing consumption through special measures to improve the diet of low income families undoubtedly will be given renewed attention. The Committee certainly endorses that objective. Education in nutrition will work an important, though slow, improvement in levels of health. How greatly such food distribution and educational programs may add to the volume of food consumption is still open to debate. Improved diets often call for different foods, not simply more food. Care needs to be exercised that such programs do not become a means merely for moving surplus farm products, irrespective of their relationship to satisfactory diets.

2. *Increasing Exports*

The Committee has placed major emphasis throughout its statement upon the domestic market. The importance of foreign markets must not be lost sight of, however. The United States has highly specialized agricultural resources suited and developed to produce for export. But if our domestic prices for these crops exceed world levels, other nations in the long run can be expected to oppose our subsidizing exports in competition with countries that, primarily, are raw material producers.

For the long haul, by the elimination of trade barriers and reductions in tariffs, the over-all volume of our foreign trade, including our imports, should increase, thus enlarging export opportunities for commodities in which we have comparative production advantages. The importance of improvement in international trade both for economic progress and for peace is considered in detail in a CED policy statement on that subject, copies of which will be submitted for the use of your Committee if desired.

3. *Increasing Labor Mobility*

Various suggestions may be offered to broaden the opportunities for the surplus farm population to find employment away from the farm. A National Labor Outlook, comparable to the Agricultural Outlook developed by the U. S. Department of Agriculture and the State Agricultural Colleges, might be useful. Attention needs to be given to barriers, such as the restrictions imposed by some organized labor groups, and some federal and state regulations governing the recruitment and distribution of the labor supply, which obstruct the migration of farm people.

The need for adequate health and educational facilities in rural areas cannot be overemphasized. The process of edu-

cating youth in the country who eventually will work in the cities seems likely to continue. If the costs are to be distributed equitably and the job well done, the federal government, through grants-in-aid, will have to invest more heavily in the health and education of its rural and farm population. Vocational training programs available to rural youth should be broadened to develop skills and means of earning a livelihood in non-agricultural pursuits for the boys and girls not needed in farm production.

Greater mobility of capital in a decentralizing movement of industry into areas of labor surplus is needed also. There should be some definite and organized efforts to develop industrial and commercial activity in the very areas in which surplus population is located.

Measures that would increase the number of subsistence farms are not remedy for the under-employment problem in agriculture. Too many farm families already are barely at, or are below, a subsistence level of living for one reason or another.

4. Lessening Instability of Income

As was emphasized earlier in this statement, any price policy for agriculture worth consideration must begin with the general price level. Attention to specific price maladjustments will not avail much for greater stability of agricultural income while the general price level continues to gallop up and down.

To lessen instability caused by changes in the volume of demand, it is important that the industrial-urban economy be stabilized at a high level of production. Attainment of this goal would minimize automatically the instability of farm income associated with business fluctuations. Nothing is more important to farm income than this goal, which would provide

a setting favorable for policies and special measures aimed at stabilizing farm income and product prices.

What to do in case drastic business fluctuations occur is a natural agricultural worry. The farmer is no more willing than the next man to sit and wait. He will be searching for the best among possible alternatives to offset the effects of business fluctuations upon him. The CED Research Committee feels that it can appraise some of the proposed remedies, but that it is not its province to urge the adoption of any particular program.

The suggestion undoubtedly will be made that farm output be reduced when unemployment spreads and demand falls, and expanded when business booms, thus fitting agricultural production to business fluctuations. The strongest argument against this policy is that it would hurt the rest of the economy, by making food and other farm products more costly during depressions, without substantially helping the farmer.

Another alternative likely to be offered is the use in periods of economic depression of a system of price guarantees. If this road is taken there is reason to fear the tendency to shove supports up and up to higher levels that, continued, could have very undesirable consequences. A system of rigid, legislated prices extended indefinitely into the future can do a great deal of harm to the farmers themselves, distorting their production decisions both as to the kind and the quantity of crops or livestock they produce. Price guarantees, fixed at levels higher than the over-all supply-demand situation warrants, tend to hold more producers in a given field than would otherwise stay there.

The country is now involved with far-flung price guarantees, and others probably will be urged to achieve necessary

regional adjustments. This suggests that consideration should be given to fixing the guarantees on a sliding scale, with the guaranteed price declining from period to period as its adjustment purpose is effected. Price supports may have a legitimate peacetime role in minimizing losses and hardship after the war, but they should not be allowed to freeze production patterns.

Experience with fixed prices has been sufficiently discouraging to prompt search for other ways to support and stabilize farm income. One proposal offered is that the government under certain conditions pay directly to the farmer the difference between the unit price guaranteed and the price obtainable in the market. Those who advocate the direct supplementary payments argue that the country as a whole, including the farmers, would be better off by permitting the price flexibility necessary to move farm products fully into consumption, avoiding the building up of unmanageable surpluses in government hands. The payments would safeguard the farmer without disturbing full-volume production and trade. Where the purpose is to aid a depressed sector of agriculture in making a transition (such as now confronts the cotton South) the adjustment payments would be made to participating farm families for specific performance. Here we are dealing with a problem that neither is cyclical nor transitional, but essentially long-run in its characteristics. The adjustments in themselves will be long-period ones. If payments for this purpose are provided, they should be geared to the adjustment deemed necessary for a better economic balance in the area in question.

A system of compensatory payments has been proposed to counteract the adverse effects of acute industrial depressions upon the income from farming. A particular argument offered in its favor is that since such payments would be made

only in the trough of the business cycle they would be counter-cyclical in their general effect; they would help to maintain industrial markets and to keep a depression from dropping as low as it might otherwise do. As in the case of the transition period payments discussed above, compensatory payments would have to be made in a fashion that would not distort agricultural production or the trade of farm products.

The use that can be made of direct payments in meeting future agricultural problems should have careful, objective study. Such payments cannot be substitutes for the various forms of effective action that can be taken properly to support and stabilize market prices for particular commodities. In some cases, however, they offer important advantages over rigid price-setting in that they would protect farmer income while leaving market prices free to command as great consumption as possible, and to indicate the probable direction of demand.

5. *Lessening Production Risks*

Many things need to be done to lessen risks due to fluctuations in agricultural yield. Some of them require government aid, others do not.

The most promising general line of action probably lies in further improvements in farm practice and technology. Over the long run, individual farmers can be assisted to do much more than they are doing to reduce the instability in their output. The farm family that produces much of what it needs for living is less vulnerable than the single cash-crop farmer who buys all his living at the store, provided, of course, the diversification of effort does not sacrifice the advantages of specialized production.

Farming on contours, terraces, lateral runways, and the like — practices that hold needed water where it falls — in

most cases will pay their own way in lower costs and greater production stability. Pasture development and management is a promising field in mixed farming areas.

All programs aimed either to guide or stabilize farm production should hold to conservation of the soil as a primary purpose. Technical assistance and financial aid will continue to be required by most farmers. Farm tenure arrangements, taxation, and other devices that now widen the gap between the earnings of our farm land and the long-range social costs should be overhauled. Many of the remedies lie in the hands of the states and localities.

Much land now being farmed is too poor to yield its operators a satisfactory living. Great areas have been homesteaded for general farming where the risks are too great for safe use except as range. Much sub-marginal hill land should be reforested. This field offers a wide opportunity for action by the federal government, by the state involved, and by private enterprise.

A system of crop insurance for areas of high climatic risk is recommended by many persons well acquainted with the problems of these areas. The main purpose of crop insurance is to minimize the effect of year-to-year fluctuation in weather upon the individual farmer's income. If the cost of insurance were to be borne by the general public, in the long run, it would result in rising land values and rents with little real gain to the individual farm family. The cost should be borne by the parcel of land concerned, and reflected in its value.

There is much to be said both for and against a broad permanent program for the storage of feed grain as an aid to stabilizing livestock production. Favoring storages is the fact that feed crop fluctuations translate themselves into ups and downs in livestock production. However, the danger that

such storage programs may be used as a device to raise feed grain prices and thus to build up increasingly large supplies of grain which overhang the market, is very real. This danger could be met by conservative storage practices that leaned to the side of generous current consumption.

Neither crop insurance nor "ever normal granary" programs can be operated without the aid of government. Nor is it possible to bring safe farming practices within the reach of two million or more low-income farm families without a comprehensive public program of technical assistance and education.

Now just a few observations in conclusion: the immediate postwar years offer a real opportunity to establish necessary, forward-looking policies for agriculture. The years of the depression and the disturbances of World War II should have taught us something. The problems confronting American agriculture will not be solved quickly. They are too intimately a part of the unstable industrial-urban sector of the economy. Much will be gained, however, if we know more clearly what the forces are, what we want to do, and what in fact we are doing.

We have to try to see farming in the right perspective in our complex modern life. It is impossible to consider agriculture by itself, the way you can fence off and cultivate an eighty-acre field. All of our interests are interwoven in a tight, complicated, fast-moving economy. In the long run, conditions under which farmers raise and market their crops will be greatly influenced if not controlled by developments entirely outside of agriculture. Decisions in foreign capitols, in the houses of Congress, in board rooms of great corporations, or in labor union halls will help determine whether farmers suffer or prosper in the years ahead.

If I could be granted the fulfillment of one wish for the

growth and prosperity of agriculture, it would be this: let non-agricultural industries and labor find the way to keep working at full efficiency and capacity, turning out goods and services that can be absorbed by this country at a high standard of living — in better homes, equipment, electrification, refrigeration, sanitation, clothing, *ad infinitum*. With steady work and efficient production, prices could go down without cutting profits or wages. Real wages would increase, for the laborer is like the farmer; it isn't the number of dollars, but what he can buy with his product or his labor, that counts.

Under such conditions, the farmer could produce abundantly and still trade on good terms for what the other man makes; he could prosper at lower price levels. I think that really is the way out.

You can see generally what I think is ahead of us. I expect to see prices of farm products work lower as the early post-war demand falls off. I expect this tendency to develop and continue in spite of any laws now on the books or enacted later, though we can all be glad that we have legislation aimed to support farm prices for a limited period while farmers get their affairs in order. Farm prices may show a tendency to break before other prices do, because wages and controlled or managed prices are "sticky." That is why I hope volume will rise and prices fall in non-agricultural lines as soon as possible. Too much lag would be dangerous.

The increasing productivity per worker in farming which marks this country's agriculture has resulted because farmers, year by year, have commanded more and more capital per worker in the form of machines and land. As one pair of hands gets more and better tools to work with, their owner manages more land and works it better; his unit costs go down, and the farm yields higher returns and a better living per worker. This trend is going to continue; it is inevitable. It means better

homes and a better life for those who remain on the farm. It also raises the question whether the growth of decentralized industry throughout rural America will be rapid enough to absorb the workers who, in spite of all that is done to expand markets and consumption, will be released from the farms as mechanization proceeds.

Along with some of you, I've gone the full cycle from the last war to this watching the evolution of farm policy aimed to provide remedies for farm problems as they unfold. I am not afraid of the new or the untried, or of government action. But I know there is no magic. There is no substitute for efficient production, which can be secured by the intelligent use of plenty of capital per man in the form of land, tools, buildings, lime, fertilizers, and livestock. Nothing can take the place of good management of our soil and water resources.

It will be better to seek high returns per worker through large-volume, low-cost production, than to try to get the same high return by means of high prices for scarce, limited production. But the rest of the economy must play the game under the same set of rules. This calls for genuine teamwork of agriculture and labor and business management based, on the principle that we have to produce something before we can divide it, and that we have to divide fairly if we are to keep on producing as we should.

The need is great for policies serving American agriculture that will be effective, consistent and integrated with our other national policies. The Research Committee of CED does not envy you gentlemen your job, but it hopes and believes that your Committee will make a notable contribution in this direction.

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