17

81st Congress, 1st Session | SENATE | Report No. 88

JOINT ECONOMIC REPORT

REPORT

OF THE

JOINT COMMITTEE ON THE ECONOMIC REPORT

ON THE

JANUARY 1949 ECONOMIC REPORT OF THE PRESIDENT

March 1 (legislative day, February 21), 1949.—Ordered to be printed, with illustrations

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JOINT COMMITTEE ON THE ECONOMIC REPORT

(Created pursuant to sec. 5 (a) of Public Law 304, 79th Cong.)

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March 1 (legislative day, February 21), 1949.—Ordered to be printed with illustrations

Mr. O'Mahoney, from the Joint Committee on the Economic Report, submitted the following

REPORT

[Pursuant to Public Law 304, 79th Cong.]

The Government of the United States, through an act of Congress known as the Employment Act of 1946, has assumed the responsibility of coordinating its plans, functions, and resources to maintain a high-level economy of maximum employment, production, and purchasing power. In conformity with this act, the President, at the beginning of each session of Congress in 1947, 1948, and now in 1949 has submitted an Economic Report to the Congress with his recommendations for legislative action. It is the responsibility of this committee, which was created by that law, to review the President's report and to make its own appraisal of his recommendations. This we do in this report.

Everything that the President said in his report, everything that the Council of Economic Advisers asserted in its Economic Review, and everything that this committee recommends must be appraised against the background of economic conditions as we find them, both here and abroad.

The people of the United States have accepted the difficult task of attempting to cooperate with the free peoples of the world to escape international chaos, and to create conditions in which permanent peace may be possible. It is unnecessary to review here the various steps which have been taken by our people, through the Government, in pursuit of this objective. It is sufficient for the purposes of this report to review some of the principal facts of our economic status.

We are, for example, carrying the greatest national debt that any people at any time ever assumed. This debt, which in 1941 was less than $50,000,000,000, in 1945 had reached the unprecedented pinnacle of more than $270,000,000,000. It was a war debt. It has not yet been reduced below $253,000,000,000, an amount which is more than five times greater than the national debt of 1941. Every year the economy of this country must be sufficiently productive to enable the Federal Government to raise, by taxes, at least $5,000,000,000 merely to pay the interest on this debt, and $5,000,000,000 is considerably more than the entire cost of the Federal Government in the years before 1929. The national income which prior to 1940 had never exceeded $100,000,000,000, had risen in 1948 to $224,000,000,000.

It is only by maintaining maximum employment, production, and purchasing power that the national income can be maintained at a level sufficient to produce the Government revenue necessary to service the national debt, and to enable the Government to raise the money necessary to provide national defense and international reconstruction in accordance with the existing plans to which there is no effective opposition.

Civilian employment throughout 1948 was the highest on record: a monthly average of more than 59,000,000, as compared with an average of 58,000,000 for 1947. Even though in January 1949 employment figures fell to 57,414,000, it was greater than in January 1948; and unemployment, which in January 1948 was computed as 2,065,000 had risen only to 2,664,000 in January 1949. Meanwhile, the armed forces had expanded from 1,241,000 in January 1948 to 1,468,000 in January 1949. But agricultural employment had fallen from 7,060,000 to 6,763,000.

Meanwhile, prices both to consumers and at wholesale, through 1948 and thus far in 1949, are still substantially above the levels of 1947. Recent declines in consumer prices have not reduced the cost of living appreciably, the index for January 1949 for all items being 170.9, as compared with the monthly average of 171.2 for 1948 and the monthly average of 159.2 for 1947. In other words, the cost of living thus far in 1949 is far above what it was throughout the year 1947, when it had reached its previous all-time peak.

Industrial production in January 1949, with an index of 192, was only one point below that of January 1948. It was the same as the monthly average for 1948, 5 points above the average for 1947, and and 22 points above the average for 1946.

Corporate profits, both before and after taxes, and dividends paid have all reached new high levels, by whatever standard they may be measured.

Prices received by farmers have fallen 33 points from the extraordinarily high peak they reached in July 1948, but prices paid by farmers have fallen only 3 points in that period. The parity ratio for January 1949 and of December 1948 is 108 as compared with 120 last July.

Compensation of employees was higher throughout 1948 than in either 1946 or 1947; proprietor and rental income likewise rose during 1948. So that, despite the price declines which have made recent headlines, employment, purchasing power, and industrial production are still on the top of the wave. These are some of the considerations which the Council of Economic Advisers had before it in telling the President and the Congress that inflationary pressures have not been removed from the economy. These are some of the considerations which the witnesses at the public hearings of the committee had before them when they testified that recent price declines constitute only a leveling-off process.

These, then, are the basic circumstances in which the President, in his Economic Report this year, declares the guides to economic policy to be: (1) prosperity for the whole country, rather than for any special group; (2) the preservation and development of long-range employment and production goals while at the same time resisting the dangers of continued inflation; (3) the establishment of a better balance between production and consumption, income and investment, and prices, profits and wages; (4) a better distribution of purchasing power so that those in the lower-income brackets may not be made the victims of inflation; (5) authorization for Government controls to prevent inflation so long as the country must make extraordinary expenditures for national defense and international policy; (6) a frank recognition that both anti-inflationary and anti-deflationary policies may be essential.

The Economic Responsibility of Government

With these general statements of the principles which should guide economic policy, there is substantial agreement. The problem arises in determining particular methods to be employed, the legislative policies to be adopted. It is only to be expected that there should be divergencies of view with respect to the details of any legislative program. This report, therefore, does not purport to examine in legislative detail the recommendations of the President. The recommendations here made are necessarily general in character, with full recognition that the appropriate standing committees of the Congress constitute the forum in which legislation must be worked out.

It must first be decided, however, whether or not any legislative program at all is to be enacted. It is said by some, "Let us wait and see." But is it safe to "wait and see" when, as all experience teaches, we are dealing with economic elements that are among the most explosive which mankind can handle?

When the Marshall plan succeeds and the contribution we are making to world recovery is lessened by continued progress in the rehabilitation we are seeking to promote, what will take the place of the production, the labor, the investment that is now going into that phase of our national policy?

If the success of the Marshall plan should in turn promote the success of the United Nations, as we all hope, and our expenditures for national defense are thereby lessened, what shall we substitute for the economic effort, the goods and services that now go into our military activities?

The maximum employment, production, and purchasing power which we now have, because a Government peace program has succeeded the Government war program, will eventually, when peace has been attained, have to be succeeded by a civilian economy stabilized at a high living standard. That is the task which confronts us.

Steady jobs for those able and willing to work, profits for those engaged as owners or managers in industry, trade, and commerce, and income for those who produce the agricultural commodities required by all, depend upon the maintenance of a sound economy now and the establishment of a stable, sound economy for the future.

More than that, the attainment of our international objectives depends upon the maintenance of a sound economy now; and, if we pay heed to this imperative call, it is difficult to see how we can afford to take a chance with a policy of "wait and see."

The Government, which is the only instrumentality that can balance the needs of agriculture, industry, and labor, cannot afford to be without a plan. Industry plans for the years ahead and counts among its executives some of the most efficient planners we have. Labor and agriculture likewise plan for the future. But none of these plans has any assurance of successful accomplishment unless they are geared one with another; and it is only the Government, as the representative of all groups, all classes, all callings, that can provide the framework within which each separate group and class and calling can operate.

Curiously enough, it is only in the economic field that the objection to planning is raised. A few years ago, editorial opinion throughout the country urged the Congress to plan for its more efficient functioning by streamlining its procedures. When the Reorganization Act was passed, the press applauded without dissent.

For more than 20 years the country has been hoping for, and the Congress has been trying to bring about, a reorganization of the executive branch of Government. Three Presidents have sought to streamline the executive branch under authority heretofore granted and now the Hoover Commission is busily engaged in outlining a program for another attempt. This is planning.

The act under which this committee operates was itself an attempt to lay at least the basis for an economic plan so that, if at all possible, a constructive effort could be made to avoid the crash which heretofore has always followed war booms because no plan had been prepared to provide a stable and dynamic peace economy to take the place of the war economy which had disappeared.

The first problem to be met is that of fiscal policy. After years of deficit financing the Government, in 1946, had a meager cash surplus. It was a substantial surplus in 1947 and an even greater surplus in 1948, but new and greater expenditures are projected for 1949.

Who is willing to risk a resumption of deficit financing while we are engaged in the back-breaking task of maintaining our military strength while seeking to rehabilitate the free world?

Thus we begin consideration of the President's specific recommendations.

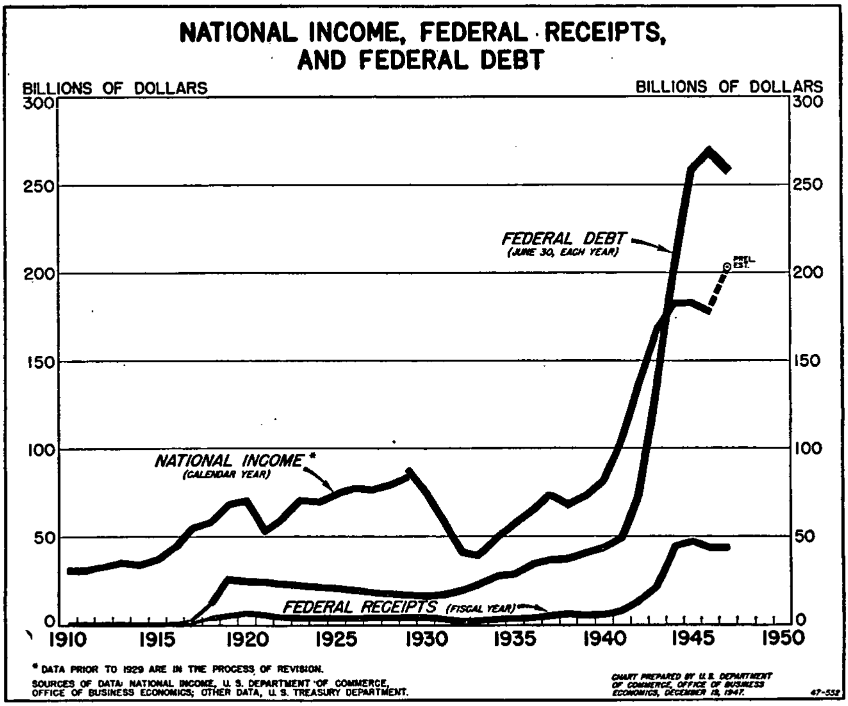
I. The Problem of Debt Management

The central pillar of our system of private property and individual enterprise is the unassailable sanctity of contractual obligations. Debts, especially when incurred by Government, should be paid in full. Democracies in particular should not go back on the plighted word to their own citizens. To take thought always to be in a position to pay all interest promptly when due and to reduce the principal in periods of prosperity is a sacred responsibility.

The first inescapable principle of successful debt management is successful maintenance of high levels of national income. Up to the outbreak of World War II, during every year of our national existence, the total income of all the people exceeded the total Federal indebtedness by wide and comfortable margins. (See chart I.) But note the situation since 1942. Even in 1948 the national debt was over $252,000,000,000, while national income was only $224,000,000,000. High-level income, high-level production, high-level employment is indispensable to national solvency.

A second factor more than clinches this categorical imperative; namely, the growing volume of private debt as shown in chart II. In 1940 Government indebtedness was only 23 percent of the total of private and public debt, but in 1948 it was 52 percent. Note that in December of 1948 the aggregate indebtedness of this country was over $485,000,000,000. The servicing and retirement of private indebted-

CHART I



ness likewise will be impossible unless national income remains high. It, too, should be paid off as much as possible in boom years. If with private debt increasing we should fail to reduce the public debt or, unfortunately, should revert again to deficit financing in the Federal fiscal operations, who is wise enough to foretell the outcome?

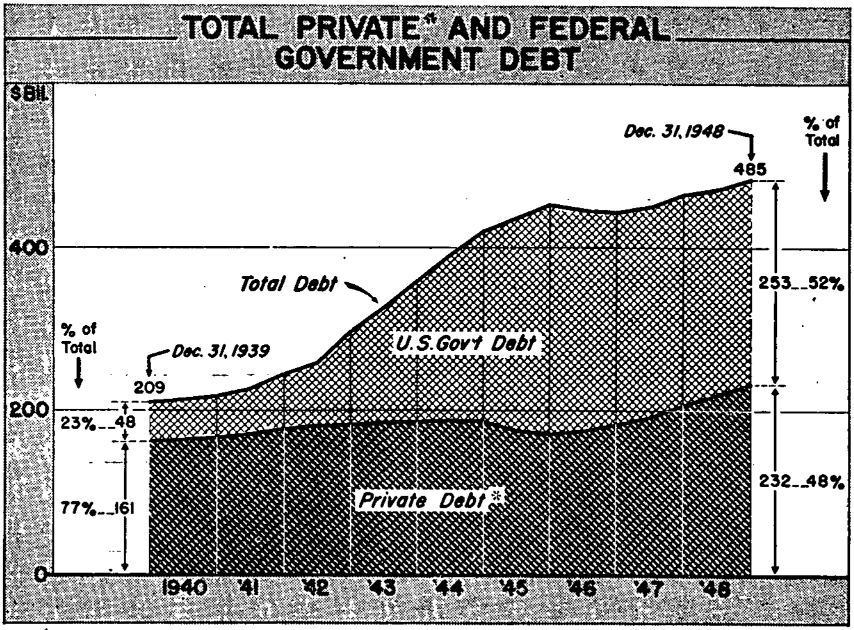
All the witnesses, whether from within Government or outside, agreed not only that 1948 was such a boom year, but that 1949 was likely to come certainly within 10 percent and more likely within 5 percent of equaling 1948 levels. (See, for complete demonstration of this proposition, appendix B of this report, Summary of Testimony, especially that on the current economic outlook.) Even if gross national product should go down as much as 10 percent in dollar volume, it would still amount to over $225,000,000,000 in 1949, which would be roughly equal to what it was in 1947. (See table I in appendix A.)

Careful consideration was given by various witnesses and by this committee to all of the recent much-publicized declines in prices, and to various severe but localized soft spots. In no case were they regarded as symptomatic of depression. Dr. Dexter M. Keezer, director of economics for the McGraw-Hill Publications, aptly summarized the consensus of the experts as follows:

> In my judgment, we will have a year of high business activity in 1949; I do not share the jitters and fears currently being expressed.

(See appendix B.)

CHART II



Most witnesses regarded the downward course of the prices of farm products and foods in the wholesale price index as a healthy readjustment from abnormally high levels. Even at the end of January of 1949 such prices were about 5 percent above the general level of the prices of all commodities. It seems premature to speak of "recession" and absurd to speak of "depression" when all the basic industries are continuing to produce at capacity—notably steel, automobiles, utilities, railway equipment, and most nonferrous metals. All that has happened has been the return in a few areas to buyers' markets, to prewar or peacetime patterns of seasonal fluctuation, to competitive mark-downs of slow-moving items, and to the reappearance of discounts from list on some types of consumer durable goods. As the National City Bank Letter of February 1949 puts it:

> What has happened is a shift of business from a forward to a current basis, made possible by increased supplies of merchandise and shortening of delivery dates * * * If not overdone it is an element not of depression, but of stability.

Furthermore, there are many commanding countervailing factors: record employment in January 1949 at record wages; considerably increased Government commitments and payments for military armament and foreign aid; enlarged programs of public works by various large States such as New York; unfilled backlogs of demand, if not shortages, in steel, power, and aluminum; large holdings of cash and Government bonds by individuals and by corporations; unemployment insurance; agricultural price supports; old-age pensions, and so on.

The current price decline was accordingly picturesquely described by some of those who testified before the committee as a "wiggle," or an "economic burp," rather than an omen of depression or even of recession. In short, 1949 is probably going to be a boom year, perhaps not as high as 1948 in dollar terms, but no lower than 1947.

If so, it is decidedly the kind of year in which this Government should at least attempt to retire at least 3 or 4 billion dollars of Federal debt. Such repayment can only come out of a surplus of receipts over expenditures. Either expenditures must be pared down more than is at present scheduled in the President's budget, or receipts must be increased.

If neither is done, there will be a cash deficit in calendar 1949. See chart III. Also table 2 in appendix A. This chart, it should be emphasized, assumes that business conditions in 1949 will be equal to 1948. Those who are sure that "things are leveling off" and, even more so, those that feel that 1949 is likely to witness a recession, are compelled in strict logic to forecast an even larger deficit than does the United States Treasury. If 1949 be a year with gross national product some 5 percent lower than in 1948, the deficit (and corresponding need for surplus of receipts over outlays) will be very sizably increased.

The first and best method of achieving a budget surplus admittedly is, and always has been, that of cutting the high level of Government expenditures wherever that is possible. This committee was a unit in support of this principle in the report which it filed on May 18, 1948.

The majority report, submitted by Senator Taft, had declared (p. 4):

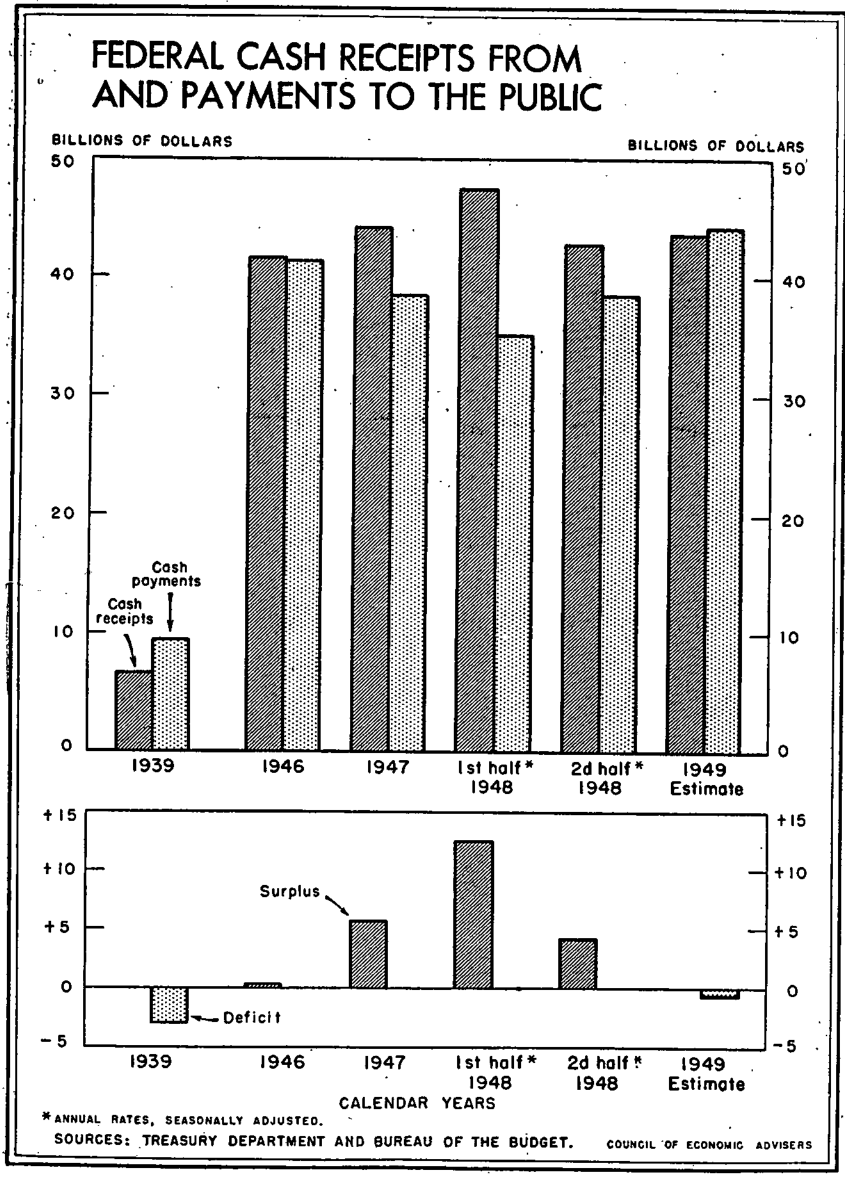
> Our first recommendation is that Government expenditures be reduced * * * We do not purport to determine the relative importance of different Government spending programs. That must be determined primarily by political judgments on the international situation and the urgency of domestic projects. We do insist, however, that every program for Government expenditure should be carefully screened and reduced to those items which are clearly essential and of real value.

All of the members of the committee in 1948, who are now members of the current majority, took a similar uncompromising point of view with respect to the reduction of Government expenditures. In the minority report of 1948 (p. 51) is to be found the following:

> In order to insure an excess of Government receipts over expenditures, all governmental units, Federal, State, and local, should scrutinize meticulously every expenditure * * * Needless to say, all Government expenditures should, without impairment of vital programs, be cut to the bone, and every person possible released to private employment.

It remains as essential today as it was then that the most rigid economy should be observed by Government in order to balance the budget and establish a surplus.

CHART III


FEDERAL CASH RECEIPTS FROM AND PAYMENTS TO THE PUBLIC
BILLIONS OF DOLLARS
BILLIONS OF DOLLARS
50
40
30
20
10
0
Cash payments
Cash receipts
1939
1946
1947
1st half* 1948
2d half* 1948
1949 Estimate
+15
+10
+5
0
-5
Surplus
Deficit
CALENDAR YEARS
*ANNUAL RATES, SEASONALLY ADJUSTED.
SOURCES: TREASURY DEPARTMENT AND BUREAU OF THE BUDGET.
COUNCIL OF ECONOMIC ADVISERS

We must, however, frankly face the inescapable fact that the Government, with the overwhelming support of Congress and the country, has adopted policies which require a Federal outlay far above anything ever contemplated in prewar years.

If the desirable objective of a balanced budget is to be attained, and if, because of national commitments, it cannot be attained by reduced expenditures, then obviously it must be done by increasing Federal receipts through taxation. The alternative is to run the risk of deficit finance. It may be that deficit financing cannot be avoided in times of depression, but certainly in times of prosperity, when national income is running high, every rule of sound fiscal policy dictates the need of an adequate tax program to meet the obligations of the Government and to reduce the national debt.

The President has recommended that additional tax revenues of $4,000,000,000 should be provided. No problem before Government exceeds in complexity that of taxation, and the Ways and Means Committee of the House and the Finance Committee of the Senate in this Congress, as in previous Congresses, will study the problem. Suggestions have been made to this committee that provision should be made for a flexible tax system under which rates and receipts could be made to vary with the change of economic conditions.

The difficult question, therefore, remains: Can Government expenditures be reduced by enough to insure debt retirement in a year of moderately lower national income? No one answering this question in the affirmative can escape the obligation of saying precisely what expenditures of Government he would cut and how. The inescapable fact is that more than 76 percent of the huge Federal budget of $42,000,000,000 for the coming fiscal year is being expended for wars, past, present, and future, and for foreign aid. Moreover, over 92 percent of the increase in Government expenditures since 1941 has been thus generated. (See table 3 in appendix A.) Naturally, some economies in the military budget are possible, but the totals, even with maximum efficiency, may not be large enough to pay off, at the present tax rates, the three or four billion dollars of Federal Government debt imperatively necessary at high levels of national income.

Thus one may well agree with the Hoover Commission's findings as reported in the National City Bank letter of February 1949, that:

> The military services "are far too prodigal with Government funds." They lack "a sense of cost consciousness or a general realization of the vital importance to our national security of utmost conservation of our resources." The military budget needs "a major overhaul," with adequate means for checking, auditing, and control.

Congress, however, has already tried to introduce greater economy and efficiency in the Military Establishment; that was the purpose of the law which merged the military departments. There is no evidence that any reduction of national expenditure sufficient to achieve a surplus can be accomplished by reorganization or by any of the economies which everybody advocates. The outlay is kept high because, unfortunately, the need for national defense cannot be neglected.

If adequate national security is to be provided, expenditures may have to be continued under present conditions at near present levels. This makes no allowance for additions which the Congress may again make in 1949, as it did in 1948, the addition, for example, of billions of dollars to provide lend-lease aid to various western democracies, or to reestablish a 70-group Air Force.

Those who feel that there are vast possibilities of reducing expenditures for personnel in the regular Government departments should think hard upon the fact that the interest on the Federal debt (5.450 billion dollars) alone amounts to more than three times the annual pay roll of all Federal employees (1.7 billion dollars), excluding those in the military services, the Veterans' Administration, and the Post Office.

There seems little doubt that the Hoover Commission will suggest, and the President recommend, changes making possible, in the long run, substantial economies, whether through reorganization and increased efficiency of Government departments, or through elimination or postponement of Government activities not now essential or urgent. If, however, the history of past reorganization bills in the Congress affords any comparison, the practical realization of such economies may be delayed well beyond the next fiscal year or two.

The alternative was epitomized by Mr. Donald Woodward, vice president of the Mutual Life Insurance Co., as follows:

> If the necessary expenditures in a period of prosperity and full employment, such as the present, exceed the receipts under the existing tax basis, I think we ought to increase the taxes, balance the budget, and reduce the debt.

(See Summary of Testimony, appendix B.)

Needless to say, the alternative of paying higher taxes is unpalatable. But are not the consequences of an unbalanced budget much more destructive to business confidence and national economic strength? In the thirties there was constant complaint by the business community against deficit financing. If they ardently required a balanced budget then, how much more so now when national income is nearly three times as high.

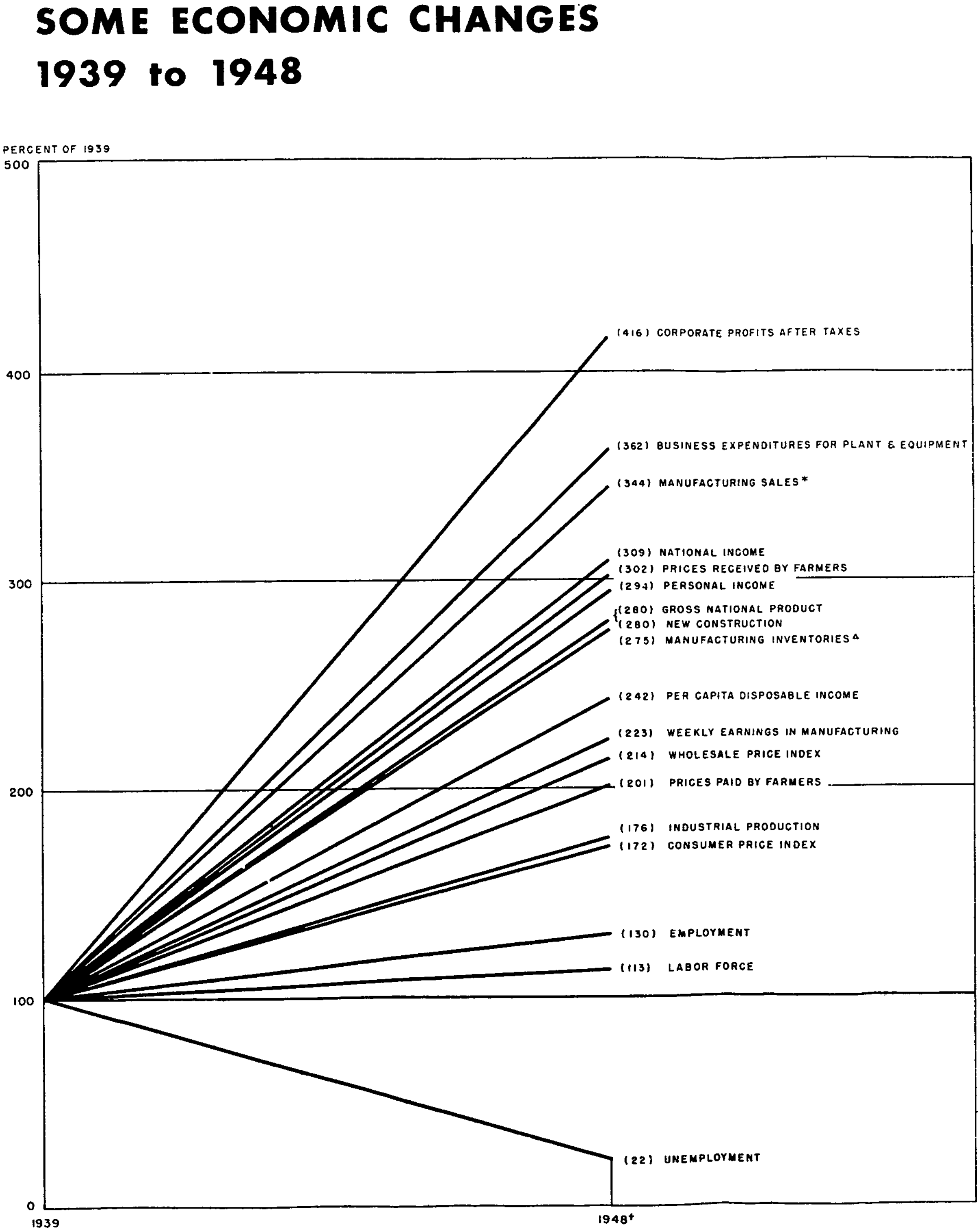
The real point of dispute perhaps is who must bear this increased taxation, and the equitable answer in a period of inflation would seem to be those who benefited most. The nub of the matter was stated by Mr. Edward Falck, the eminent consulting engineer, as follows:

> It is my conviction that a great number of people, both individuals and businesses, have been getting a free ride during the last 2 or 3 years and have been making more than normal income with less than normal exertion or effort. * * * A number of individuals in business have been making a good deal of money without the ordinary exertions that have built up this country.

In short, inflation has operated since VE-day exactly as it has in every similar postwar boom—1814, 1873, and 1920. The changes since 1939 are excellently shown in chart IV. (For the data see table 4 in appendix A.) Corporate profits *after* taxes have increased first and most, much faster and more, be it noted, than weekly earnings *before* taxes in manufacturing, or even the prices received by farmers. Inflation as usual is benefiting those with flexible incomes—farmers, laborers sufficiently well organized to lift wage rates as fast as prices, independent professional operators such as doctors, small unincorporated enterprises, and the recipients of corporate profits.

Compared with 1947, corporate profits before taxes increased from 29.8 billion to 32.2 billion dollars. After taxes they increased from 18.1 billion to 19.7 billion dollars. If adjustment is made for changes

CHART IV



* 11 MONTHS
△ END OF NOVEMBER
† PRELIMINARY

SOURCE: VARIOUS GOVERNMENT AGENCIES

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in valuation of inventory, that is, if the replacement cost of inventories used up in production is deducted as a cost of sales in both years, the rise in corporate profits before taxes in 1948 is nearly 18 percent, i. e., from 24.5 billion to 29 billion dollars. If one compares 1939 and 1948 one finds that pay rolls before taxes fell behind from 61.9 to 58.9 percent of total national income, the corresponding share of corporate profits increasing by more than one-half from 10.0 percent to 15.6 percent of total income. For detailed figures, see table 5 in appendix A.

Corporate profits after taxes of 5.005 billion dollars in 1939 amounted to 7.7 percent of the national income originating in the private sector of the economy (64.3 billions; i. e., national income, 72.5 billion dollars minus compensation of Government employees, 8.2 billion dollars). In 1948 that percentage had increased to 9.5 percent, a figure dangerously close to the excessive ratio of 10.1 percent in 1929. As need hardly be mentioned, 1929 was a year of such abnormality of economic relationships that it was followed by one of the worst depressions in recorded economic history.

Likewise closely resembling 1929 is the abnormally high ratio of profits to wages paid, and the low ratio of compensation of employees. (This includes the salaries of corporate executives.) In 1939 private employers paid out $7.50 in wages and salaries for every dollar of net profits. In 1948 they reaped a dollar of net profits after paying out only $5.87 in wages and salaries and took out a dollar of gross profits after disbursing less than $3.59 in wages and salaries. This compares with the ratios of $5.37 and $4.60, respectively, in 1929, which heralded the disaster of 1932. Fortunately there were strong props to the economy in 1948.

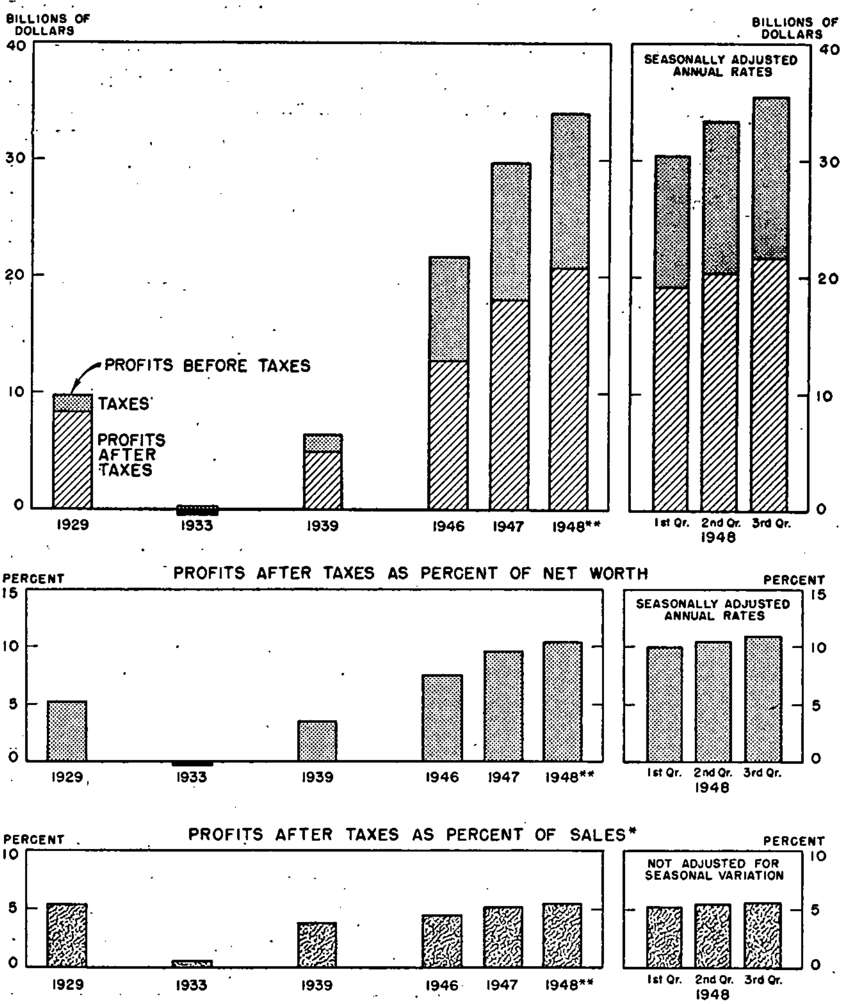
Similarly the ratio of compensation of employees in the private sector to national income originating in the private sector has been steadily growing worse, and is again approaching the low levels of the most critical of all prosperity years in modern history, 1929. It was 61.9 percent in 1939 and had gone down to 58.9 percent in 1948. It only has to go a little further down to get to the 55.9 percent level of 1929 which was so low and provided so inadequate a mass market for the goods then pouring out that more than three disastrous years of liquidation and bankruptcy followed. A moderate decrease in prices and in the cost of living, if full employment is maintained, will help to redress this lack of balance.

Continuing the comparison of corporate profits in recent years with those in 1929, note in chart V, that corporate profits after taxes when computed as a percent of net worth have more than doubled, rising from 5.1 percent in 1929 to 10.3 percent in 1948. (For actual figures, see table 6 in appendix A.) Even when computed as a percent of sales, corporate profits after taxes are somewhat higher in 1948 than they were in 1929.

On the other hand, in contrast with those who are the lucky winners on the inflation merry-go-round, there are those with relatively inflexible incomes who fail to receive such windfall gains. They consist for the most part of persons in the low-income brackets, the aged living on fixed pensions, the beneficiaries of life insurance and bond income, white-collar workers in industry and government. Note in chart VI (the accompanying table 7 is to be found in appendix A)

CHART V

CORPORATE PROFITS
All private corporations



* EXCLUDES FINANCE, INSURANCE, AND REAL ESTATE.

** ESTIMATES BASED ON INCOMPLETE DATA; PROFITS FOR 1948 INCLUDE ESTIMATE FOR 4TH QUARTER AT SAME LEVEL AS 3RD QUARTER.

SOURCES: DEPARTMENT OF COMMERCE, SECURITIES AND EXCHANGE COMMISSION, AND COUNCIL OF ECONOMIC ADVISERS.

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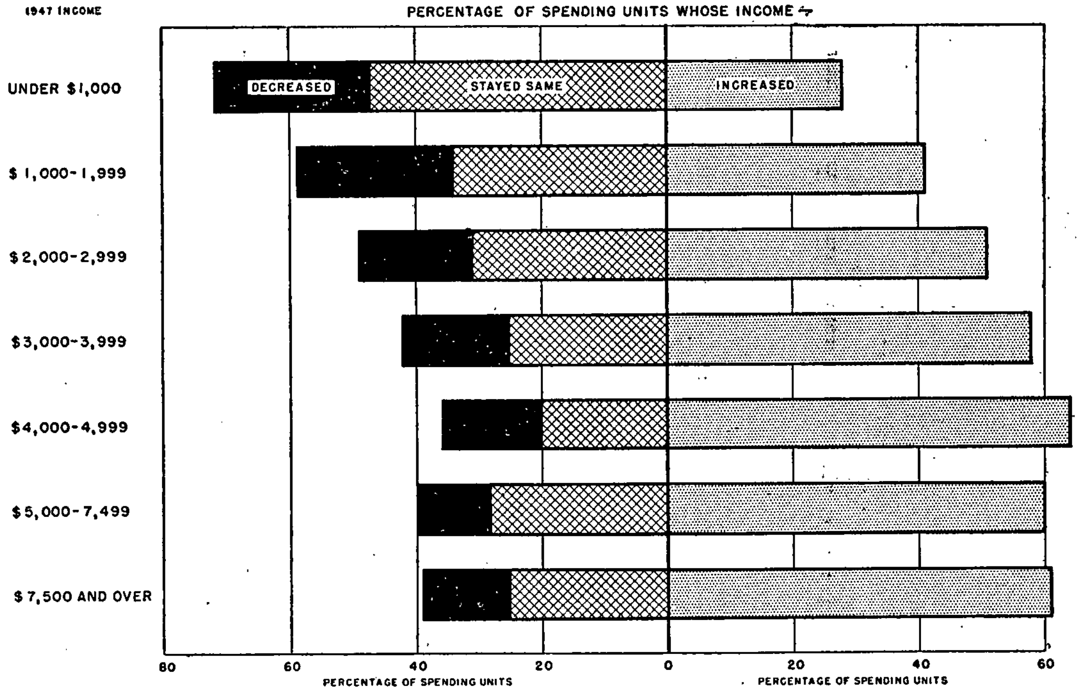
CHART VI

CHANGES IN INCOME, 1946 TO 1947



SOURCE: BOARD OF GOVERNORS OF THE FEDERAL RESERVE SYSTEM

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that more than twice as large a percentage (60 to 63 percent) of those getting over $4,000 received increases in 1947 as did those receiving less than $1,000 (the comparable figure is only 27 percent). Even for those getting between one and two thousand dollars, only 40 percent got increases. On the other hand, nearly twice as large a fraction in the lowest income brackets actually suffered decreases.

The economic evidence, in short, points unmistakably to the conclusion that if additional tax receipts are obtained from those who have been most abundantly showered with the blessings of inflation they should come from corporate profits and the upper income brackets. Even if as much as $4,000,000,000 were taken entirely from corporate profits, they would be left at a level at least as high as the profit figures in 1947 and far above those in 1946. As Dr. John D. Clark pointed out in his testimony:

> * * * corporate profits of 21.8 billion dollars before taxes and of 12.8 billion dollars after taxes in 1946 caused American corporations to institute a tremendous campaign of investment in new plant and equipment. Similarly, corporate profits of 18.1 billion dollars after taxes in 1947 was large enough to induce corporate managers greatly to expand new investment in plant and equipment in 1948.
>
> "To this statement," said Mr. Randolph Paul, the noted tax authority, "should be added the thought that corporations have less working capital needs in 1949, because they have replenished inventories. If these figures are correct I see little remaining question about the propriety of additional corporate tax of about $3,000,000,000, assuming corporate profits to remain at approximately the present level. This additional load, in my opinion, will not unduly interfere with the prospects for continued business expansion. It will leave plenty after taxes for investments and emergencies."

The policy of supporting the price of long-term Government bonds at the 2½ percent yield level is unanimously supported.

PRIVATE DEBT MANAGEMENT

The increase in private debt in 1948, except in isolated sectors of the economy, has been moderate, largely due to the voluntary self-restraint exercised by businessmen and other borrowers, the skillful operations of the Federal Reserve Board and the far-sighted statesmanship of the American banking community. As a result, the total money supply actually decreased from $170,000,000,000 in December 1947 to $168,000,000,000 in 1948. (See table 8 in Appendix A.)

This generally favorable picture, however, contains one or two areas of private debt management that may well bear watching. Note, for example, in chart VII that bank loans increased 12 percent from December of 1947 to December of 1948. These among other facts induced Mr. Thomas McCabe, Chairman of the Board of Governors of the Federal Reserve System to state:

> We are again asking for authorization to require supplemental reserves up to a maximum of 10 percent against demand deposits, and 4 percent against time deposits. Congress granted authority up to 4 percent on demand deposits, and 1½ percent on time deposits, applicable to member banks only, and expiring June 30, 1949. The present request would replace this temporary authority. * * * It is vitally important that the requirements be made applicable to all insured banks, and not exclusively to member banks of the Federal Reserve System * * *. Failure to include all insured banks would seriously impair the effectiveness of national monetary policy. * * * The pending proposal * * * would equip our monetary mechanism with authority to cope with overexpansion of the money supply.

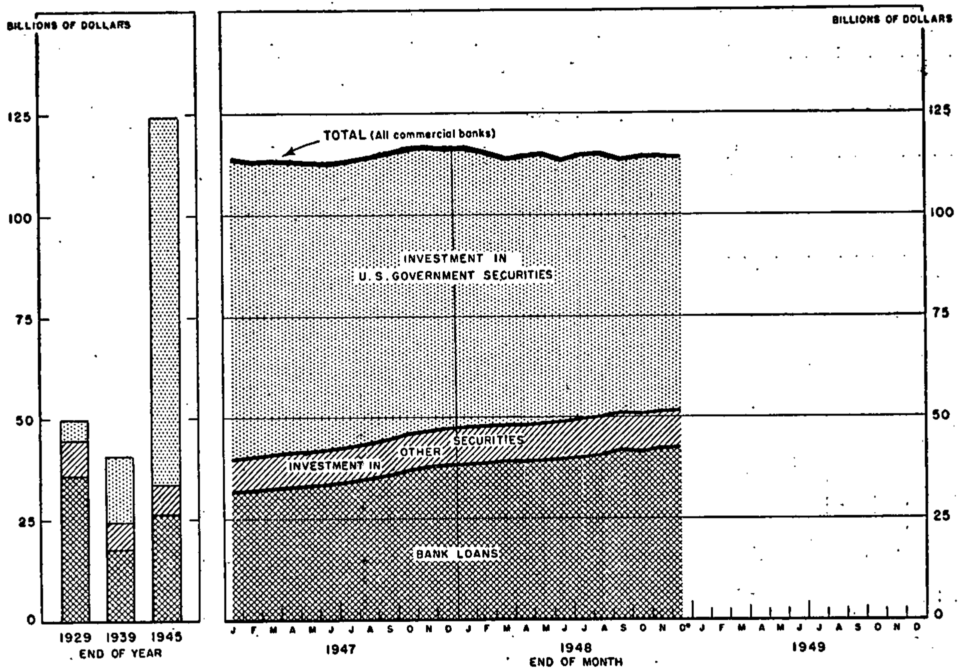
CHART VII

[Economic Indicators 29]

MONEY, BANKING, AND FEDERAL FINANCE

BANK LOANS AND INVESTMENTS

In November and December, bank loans increased at a rate only slightly less than that of the comparable period of 1947.



SOURCE: Board of Governors of the Federal Reserve System

Council of Economic Advisers

[Billions of dollars]

End of period	Total loans and investments	Bank loans	Investments: Total	Investments: U. S. Government securities	Investments: Other securities
1929	49.5	36.0	13.5	4.8	8.7
1939	40.7	17.2	23.4	16.3	7.1
1945	124.0	26.1	97.9	90.6	7.3
1946	114.0	31.1	82.9	74.8	8.1
1947	116.4	38.1	78.3	69.3	9.0
1948 [1]	114.3	42.7	71.6	62.5	9.1
1947—December	116.3	38.1	78.2	69.2	9.0
1948—January	116.6	38.2	78.4	69.4	9.0
February	115.5	38.7	76.9	67.9	9.0
March	113.6	38.9	74.7	65.5	9.3
April	114.3	38.8	75.5	66.3	9.2
May	114.5	39.4	75.1	65.9	9.2
June	113.9	39.9	74.0	64.8	9.2
July	114.8	40.1	74.6	65.3	9.3
August	115.1	40.6	74.5	65.1	9.4
September	113.6	41.7	71.9	62.5	9.4
October	114.1	41.6	72.5	63.3	9.2
November	114.2	42.3	71.9	62.8	9.1
December [1]	114.3	42.7	71.6	62.5	9.1

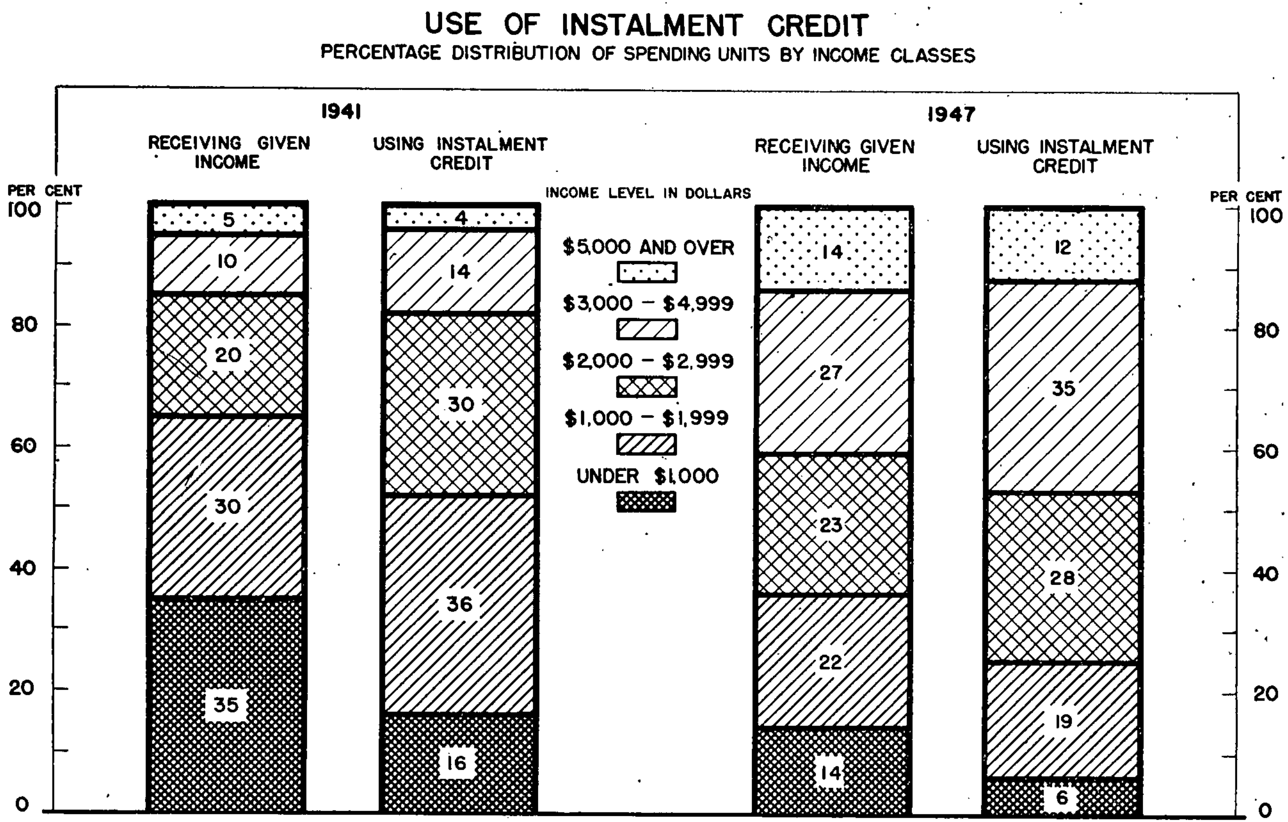
[1] Preliminary estimate.

NOTE.—Detail will not necessarily add to totals because of rounding.
Source: Board of Governors of the Federal Reserve System.

Another area giving a certain amount of concern is that of consumer credit. It too has risen steadily and steeply. (See table 9 in appendix A.) It has risen not only in absolute amounts but percentagewise, that is, relative to total disposable personal income. In short, even though net consumer income after taxes has risen markedly, consumers were carrying a heavier debt load in 1948 than in any previous year since 1942. Moreover, note in chart VIII that it is not the low-income groups but those in the upper income-brackets who have this accommodation made available to them. They, in other words, in the absence of a check on rising prices, were able to bid away merchandise from less fortunate groups who were priced out of the market, not only by means of the purchasing power of their higher incomes, but as a result of the expansion of installment credit as well.

Unwise expansion of installment credit creates an especially precarious situation in periods of great prosperity, for by drying up when incomes are declining, it compels contract debtors all the more to strain their resources to make repayment, thus doubly restricting buying power. Consequently, there was general agreement among the members of the committee that credit controls should be maintained. It was pointed out, however, that the Federal Reserve Board is an independent entity, free from the direction of the Treasury Department or, indeed, of the President himself. This problem is one that calls for intensive study. It is the plan of this committee to appoint a subcommittee to make a thorough study and report on our monetary policy, on the machinery for monetary policy formulation and execution, and in general on the problem of coordinating monetary, credit and fiscal policies with general economic policy.

Chart VIII



Board of Governors of the Federal Reserve System.

II. The Problem of Economic Preparedness

Economic preparedness, whether for war or peace, is essential. Needless to say, it depends on increased production, especially of strategic and critical industrial materials needed for military and foreign-aid programs.

During 1948, however, as is clearly shown in chart IX, production of industrial items in general remained about on the same level as in 1947. In fact, the Federal Reserve Board index of industrial output was identical (112) in August of 1948 with what it was in March of 1947, although wholesale prices, other than farm products and foods, had risen more than a sixth (from 124.7 to 145.0). (See table 10 in appendix A.) Notice that the index is still 144.7 percent of June 1946 levels in January of this year, which parenthetically indicates that practically all of the drop in general wholesale prices since last August has been due to the fall of the prices of farm products and food.

Furthermore, the rise in prices was greatest precisely in those items most vital in a program of economic preparedness. In fact, the 15-percent rise in the prices of metals and metal products was greater than in the preceding year. Iron and steel prices rose almost a fifth during the year, while nonferrous-metal prices showed a slightly larger advance. For individual metals, the price changes were very sharp, as indicated in the following table:

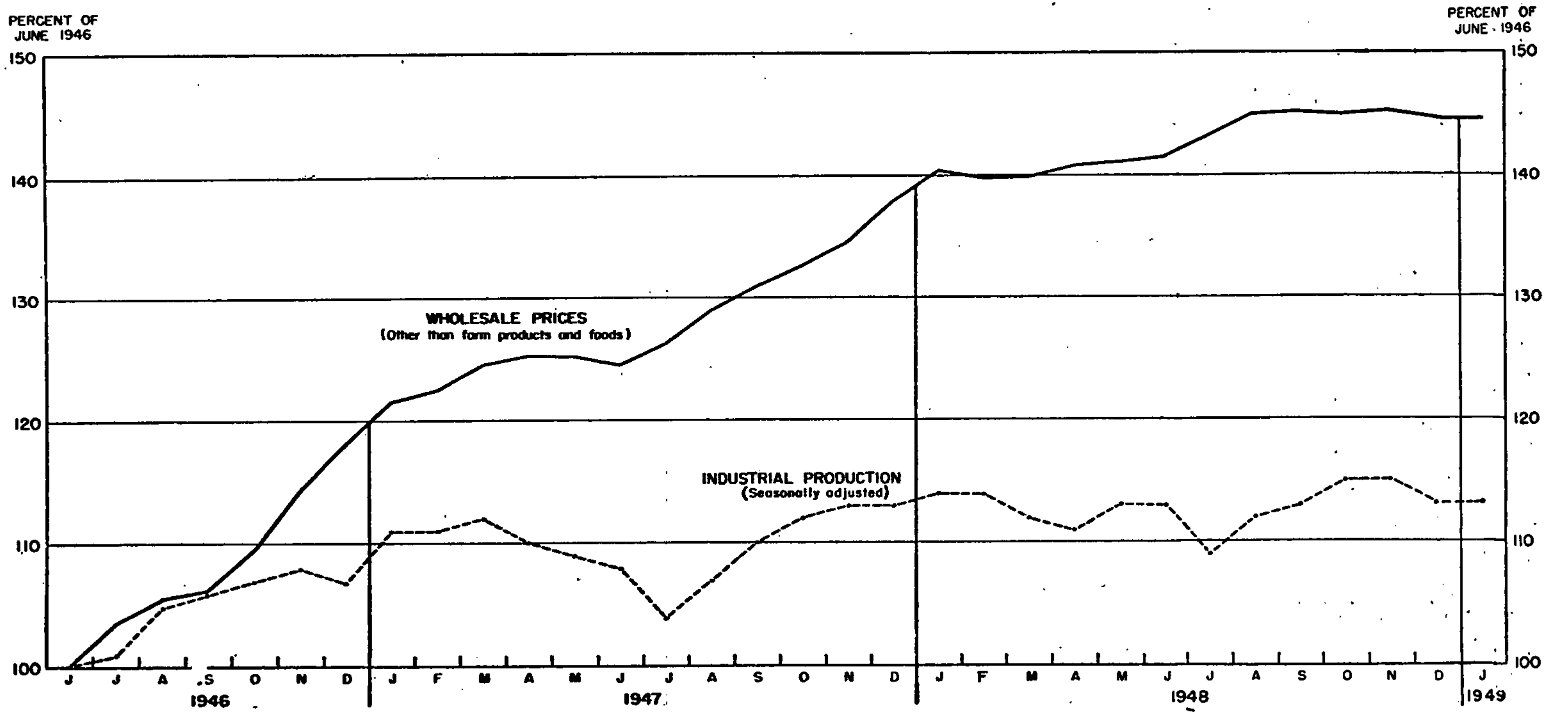
	Average price		Percent increase, December 1947 to December 1948
	December 1947	December 1948	
Lead, per pound	\$0.150	\$0.215	43.3
Zinc, per pound	.111	.182	64.0
Tin, per pound	.856	1.030	20.3
Copper, per pound	.215	.235	9.3
Aluminum, per pound	.150	.170	13.3

Many of these vital items closed the year 1948 at price levels not only strong and rising, but higher even than in 1920. (See chart X, also table 11 in appendix A). The peculiar staircaselike movement, it should be pointed out, is characteristic not of flexible competitive prices but of relatively inflexible administered prices. Moreover, these enormous price increases have not in general stimulated any perceptible increase in production. (See chart XI.) Only in the case of steel has 1948 output appreciably outdistanced production in 1947.

The general reason for such abrupt increases in price is, of course, demand and supply, i. e., excessive amounts of money in the hands of Government, business, and consumer buyers relative to the supply of goods available. From one angle the problem is one of too much money bidding for goods. Others in looking at this problem speak of shortages.

Chart IX

WHOLESALE PRICES and INDUSTRIAL PRODUCTION



First, and perhaps most important among those eagerly bidding for metals, metal products, etc. are those responsible for our national security programs. Under these should be included—

1. The National Military Establishment;
2. The stock-piling program;
3. The international aid program;
4. The Atomic Energy Commission;
5. The merchant shipbuilding program;
6. Economic readiness measures in the Federal budget for—
   - (*a*) Expansion of power generating facilities;
   - (*b*) Construction of strategic highways;
   - (*c*) Modernization of Federal airways;
   - (*d*) Exploration and development of scarce minerals;
   - (*e*) Development of certain strategic areas;
   - (*f*) Development of synthetic fuels and others of like nature.

What, it may be asked, do these programs amount to? Let us, then, examine the figures on new obligational authority and estimated expenditures for fiscal 1949, which ends June 30 next; and similarly the figures on recommended new obligational authority and estimated expenditures for fiscal 1950, or the year beginning on July 1 next, from the budget message of the President submitted to the Congress on January 10, 1949. These figures, with increments indicated, are shown in the following tabulation:

Budget authorizations and estimated expenditures for selected national security activities [1]

[Fiscal years, in millions]

	New obligational authority [2]			Estimated expenditures		
	1949	1950	Increment	1949	1950	Increment
National defense:						
National Military Establishment	[3] $13,782	[3] $14,516	$734	$11,330	$13,136	$1,806
Activities supporting defense:						
Stock piling	835	525	−310	350	525	175
Universal training [4]	0	800	800	0	600	600
All other	41	36	−5	65	7	−58
Total, national defense	[3] 14,658	[3] 15,877	1,219	11,745	14,268	2,523
International affairs and finance (mostly foreign aid and foreign relief)	8,892	6,349	−2,543	7,219	6,709	−510
Atomic Energy Commission	662	792	130	632	725	93
U. S. Maritime Commission merchant shipbuilding program	136	170	34	26	121	95
Total	24,348	23,188	−1,160	19,622	21,823	2,201

[1] Taken from an address on Jan. 20, 1949, by Dr. Ralph J. Watkins, Director of the Office of Plans and Programs, National Security Resources Board.

[2] New obligational authority includes actual and recommended net new appropriations and other authorizations (e. g. contract and loan authorizations), and excludes appropriations to liquidate prior year contract authorizations.

[3] Includes 2.9 billion dollars (largely aircraft) for 1949 program provided in fiscal year 1948 supplementals; excludes 279 million dollars being made immediately available in fiscal year 1949 to cover increased cost of completing authorized naval ship-construction program, which is included in fiscal year 1950 figures.

[4] Proposed.

Notice, first of all, that although expenditures in fiscal 1949 total 19.7 billion dollars, actual new obligational authority for 1949 is 24.3 billion dollars. In short, the delayed effects of a broader national security program have in nowise been fully experienced. Furthermore, no calculations are included for possibilities like lend-lease or for an expanded Air Force. Indeed, no part of the 2.6 billion dollars estimated to be spent in fiscal 1950 for natural resources, transportation and communication programs is here included although perhaps as much as a fifth finds national security justification.

The 22 billion dollars estimated to be spent next year are not only 6 billion dollars more than expenditures of fiscal 1948 but will constitute 52.5 percent of the total Federal budgeted expenditures. To express it another way, it represents more that one-twelfth (8.7 percent) of the total value of all goods and services produced in the boom year 1948. In short, the present and prospective national security programs, with their rising trend, must be superimposed on an economy operating at near-capacity levels. There is little slack in manpower; no slack in raw materials, because the capacity of our industrial plant to chew up raw materials has grown so much faster than the supply of raw materials; no slack in plant capacity in our basic industries of primary import to national security programs; not much slack in prices, particularly in fields primarily affected by national security programs; no slack in the Federal budget; and no slack in the Federal debt of 252 billion dollars.

Thus during 1948 the role of the Federal Government was reversed. Far from helping to control inflation, its operations, according to the Department of Commerce "were the main expansionary force in the economy. The rise in Federal purchases was the only major autonomous increase in demand." [1] (For details, see table 12 in appendix A.) The $5,000,000,000 tax reduction, the Foreign Assistance Act setting up the ECA, and the increased defense program were the main factors ending the economic hesitancy of the first quarter of 1948 and initiating the renewed rise of business activity and of prices. In 1949 the activities of Government may play a similar role.

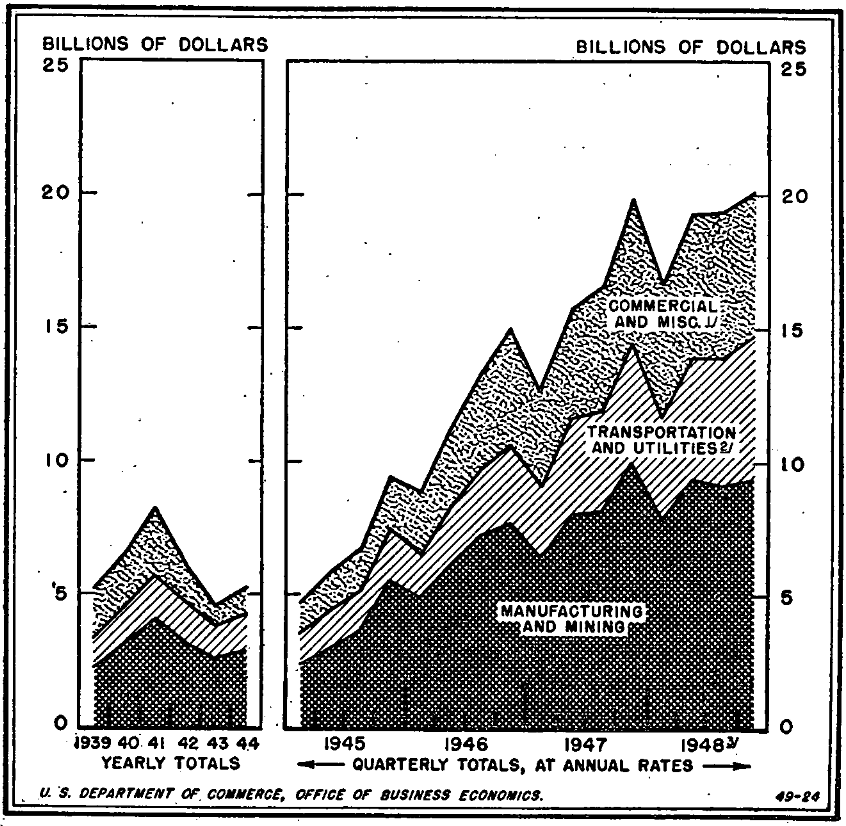
The second group of buyers putting a great deal of money on the line for metals, metal products, and capital goods are the purchasing agents for business. Never has private domestic capital investment been at higher levels, either absolutely or relatively. (See table 13 in appendix A.) While personal consumption expenditures only amounted to 70 percent of total national expenditures as compared with 75.9 percent in 1929, investment expenditures by businers reached an all-time high of 15.4 percent, rising from $30,000,000,000 in 1947 to $40,000,000,000 in 1948.

Nearly one-half of such business investment went into new plant and equipment, the figure being 16 percent higher than in 1947 as compared with a 10-percent rise in gross national product. As chart XII clearly indicates, the rate of increase in 1948 tapered off, as war-accumulated backlogs were met. The largest increases in plant and equipment outlays in 1948 were in the petroleum, iron and steel, machinery other than electrical, and food groups.

[1] U. S. Department of Commerce, Survey of Current Business, February 1949, p. 3.

The survey of Business Needs of New Plants and Equipment made very recently by the McGraw-Hill Publishing Co. indicates that industry plans to spend 14.1 billion dollars in 1949 (compared with 14.8 billion dollars shown as planned for 1948 in a similar survey last year); that postwar expansion in most manufacturing lines excepting steel and petroleum refining is virtually complete; and that expansion programs of railroads, utilities, and oil companies have still 2 to 5 years

CHART XII.—Expenditures for New Plant and Equipment, by Private Nonagricultural Business



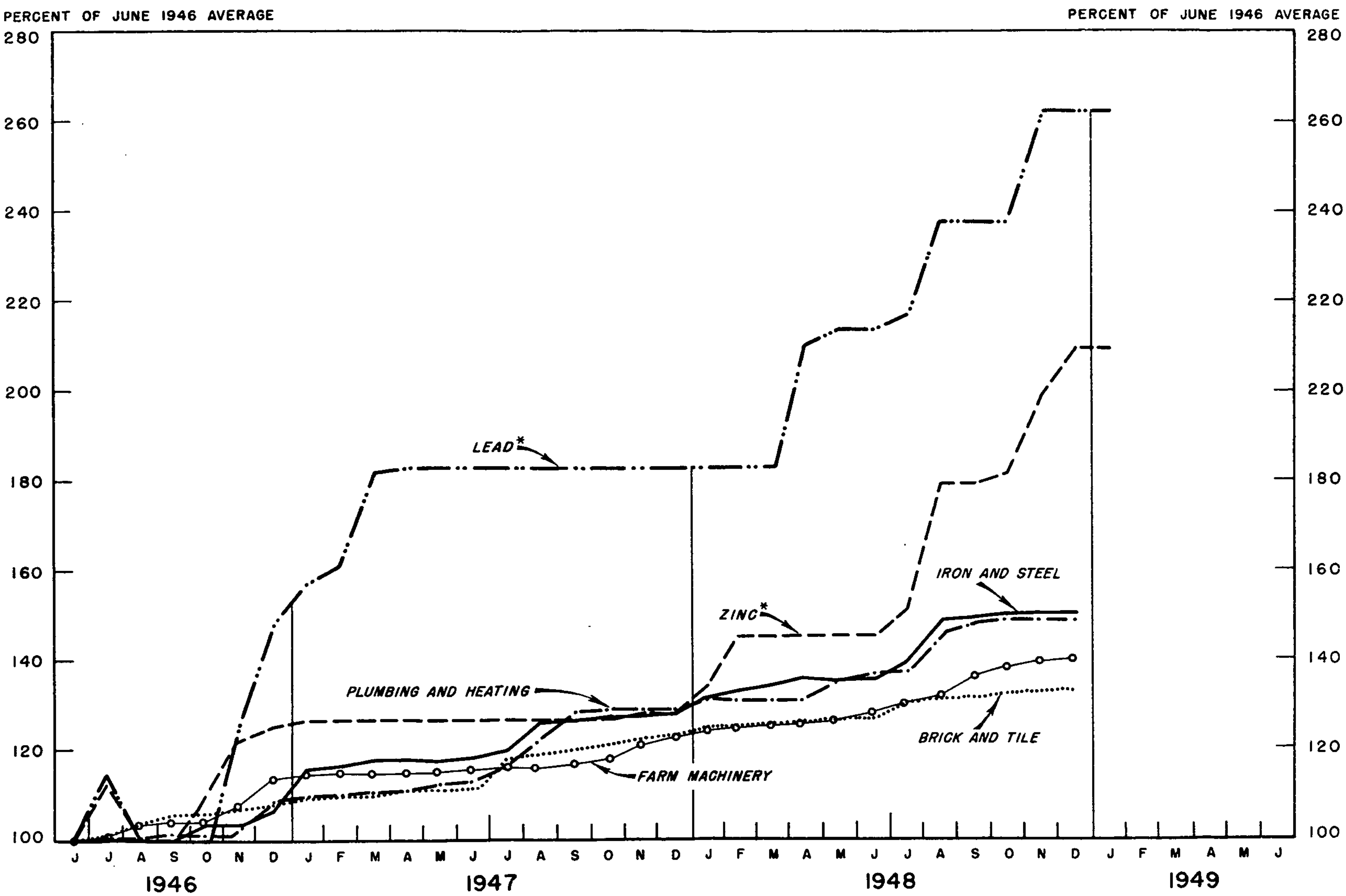
[1] Includes trade, service, finance, and communications.
[2] Includes railroad and other transportation, and electric and gas utilities.
[3] Data for the fourth quarter of 1948 are preliminary.

Sources: Data beginning with 1945, U. S. Department of Commerce, Office of Business Economics and Securities and Exchange Commission; data prior to 1945, Board of Governors of the Federal Reserve System.

to run. In short, business demand for capital goods is likely to remain high. However, excellent as this sample survey may be, there remains a serious lack of information on the general subject of the investment plans and requirements of business. This committee believes that a thoroughgoing study of the investment problems of our modern economy should be undertaken, including new developments in the role played by our great investment institutions not only in the investment markets but in industry and in the economy generally.

CHART X

PRICE ADVANCES SINCE JUNE 1946 FOR SELECTED COMMODITIES



SOURCE: DEPARTMENT OF LABOR.

*MONTHLY AVERAGE OF DAILY SPOT MARKET PRICES.

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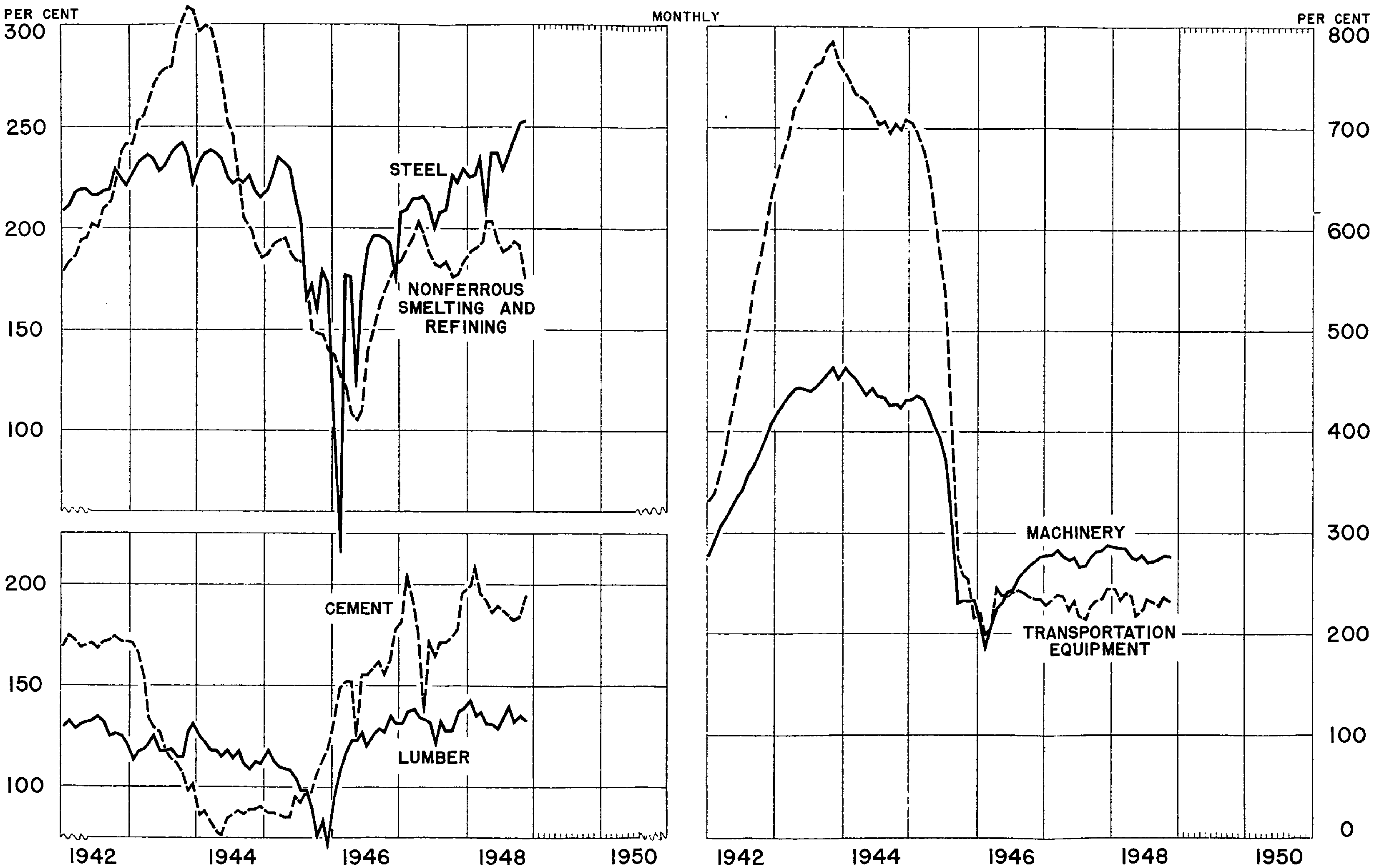
Chart XI

OUTPUT OF SELECTED DURABLE MANUFACTURES

FEDERAL RESERVE INDEXES, ADJUSTED FOR SEASONAL VARIATION, 1935-39 = 100



Latest Figures Plotted:

Steel	November	Machinery	November
Nonferrous Smelting and Refining	November	Transportation Equipment	November
Cement	November		
Lumber	November		

BOARD OF GOVERNORS OF THE FEDERAL RESERVE SYSTEM

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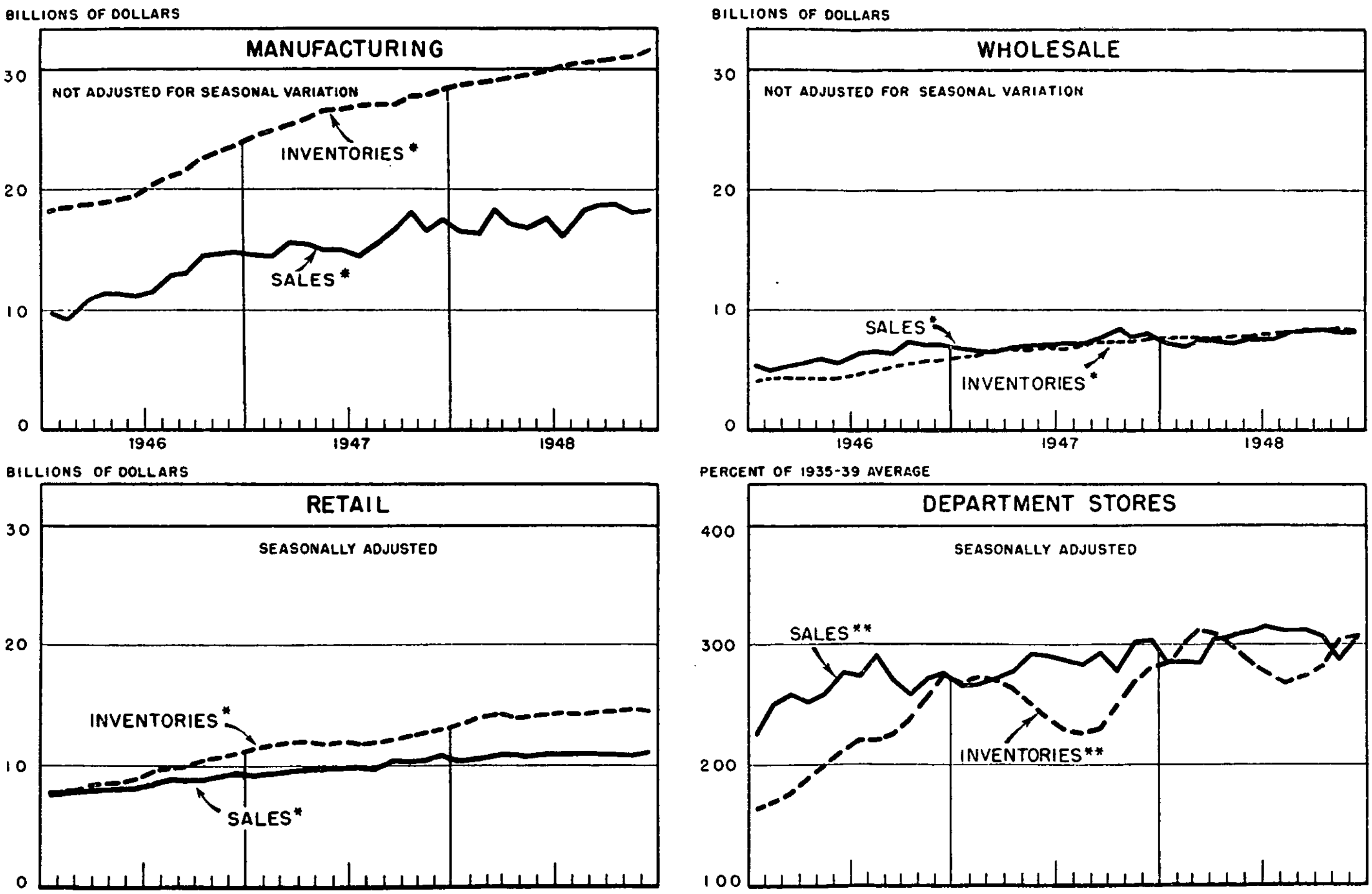
CHART XIII

INVENTORIES AND SALES

Retail sales, which had been showing less than the normal seasonal rise through the autumn, increased more than seasonally in December and exceeded the 1947 level



* SALES ARE TOTAL FOR MONTH AND INVENTORIES ARE BOOK VALUE, END OF MONTH.

** INDEXES COMPUTED FROM DATA ON RETAIL VALUE OF SALES FOR MONTH AND RETAIL BOOK VALUE OF INVENTORIES, END OF MONTH.

SOURCES: DEPARTMENT OF COMMERCE AND BOARD OF GOVERNORS OF THE FEDERAL RESERVE SYSTEM.

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Above all, regular, systematic, and prompt information should be made available concerning the investment plans and requirements of agriculture, commerce, the railroads, public utilities, and industry generally.

The story with respect to building materials and construction is substantially the same. At present the prices of building materials are much more above the average of all prices than any other group (202 in December 1948 compared with 162.2). Like the prices of metals they have dipped only slightly. The value of new construction put in place was 26 percent higher than in 1947. Indeed, that for warehouses, offices, and loft building was more than 60 percent higher; store, restaurant, and garage building 50 percent; and private nonfarm residential construction expenditures one-third higher.

Furthermore, during 1948 inventories, as is clearly shown on chart XIII, were expanded faster than sales by all major groups—manufacturers, wholesalers, and retailers. The increase in book value amounted to 6 billion dollars, so that the grand total amounted to the frightening total of 54.9 billion dollars as of December of 1948. The larger the volume the larger the losses in case of a sudden price drop. Most spectacular was the increase in the last quarter of 1948 in the stocks of manufacturers' finished goods, suggesting that anticipated rates of activity may have failed to materialize, resulting in involuntary accumulation. Furthermore, for both durable and nondurable goods, retail inventories increased more than sales during 1948, with building materials, lumber, and hardware, in particular, piling up. In short, inventories can no longer be said to be deficient either in size or composition.

Period	Manufacturing [1]		Wholesale [1]		Retail [2]		Department stores	
	Inventories [3]	Sales [4]	Inventories [3]	Sales [4]	Inventories [3]	Sales [4]	Inventories	Sales
	Millions of dollars						1935-39=100, seasonally adjusted [5]	
1946—March	18,773	10,712	4,309	5,338	8,023	7,796	177	255
June	19,468	11,132	4,337	5,575	8,917	8,164	210	275
September	21,500	13,055	5,172	6,321	9,995	8,876	226	272
December	23,432	14,634	5,823	7,118	11,049	9,258	274	276
1947—September	27,055	16,597	7,233	7,763	12,073	10,264	232	294
October	27,397	18,082	7,342	8,716	12,435	10,292	252	279
November	27,627	16,554	7,467	8,013	12,621	10,426	273	302
December	28,020	17,523	7,545	8,262	12,953	10,620	285	303
1948—January	28,501	16,552	7,850	7,692	13,384	10,464	289	286
February	28,768	16,225	7,885	7,121	13,751	10,463	306	286
March	29,064	18,117	7,869	7,726	14,040	10,658	313	285
April	29,161	17,229	7,777	7,652	13,907	10,891	309	306
May	29,437	16,777	7,801	7,389	13,951	10,620	297	310
June	29,727	17,871	7,953	7,766	14,065	10,862	284	312
July	30,236	16,403	7,930	7,796	14,080	10,857	273	316
August	30,429	18,169	8,100	8,161	14,145	10,893	268	311
September [6]	30,710	18,781	8,243	8,286	14,531	10,968	275	312
October [6]	30,848	18,807	8,382	8,376	14,576	10,894	282	306
November [6]	31,200	18,000	8,501	8,242	14,779	10,771	304	287
December [6]	31,700	18,300	8,286	8,191	14,562	11,074	306	309

[1] Not adjusted for seasonal variation.
[2] Adjusted for seasonal variation.
[3] Book value, end of month.
[4] Total for month.
[5] Indexes computed from data on retail value of sales for month and retail book value of inventories, end of month.
[6] Preliminary estimate.

Sources: Department of Commerce and Board of Governors of the Federal Reserve System.

In contrast to the splurge in buying by Government and by business, consumers in 1948 exercised growing restraint. In most cases, the nearer businesses were to the consumer, the more "soft spots" they found as, for example, in textiles, radios, jewelry, cabaret entertainment, home furnishings, refrigerators, washing machines, vacuum cleaners, and men's apparel. The outstanding upward buying trend of 1947 maintained itself only for motor vehicles, a draft on metals and vital materials made worse by the increase in instalment credit. In 1948 the ratio of sales to disposable personal income went down for the first time since the end of the war.

Except for automobiles, no consumer item is now at current prices in short supply. There may be a lack of consumer buying power but not of goods. The problems of shortages of materials and basic plant capacity exist only for items wanted by Government and by business: steel ferro-alloys, nonferrous metals, coking coal, electric power, plate and pipe for long-distance gas pipe lines, nitrogenous materials, and power-generating equipment.

By further increases in prices either governmental budgets or business capital investment plans might be priced out of the market. The buyer with the longest purse is, however, not necessarily the one whose need most satisfies the requirements of economic preparedness. How, for example, get aluminum into conduit cable so that basic productivity can be increased rather than pots and pans?

One of the useful devices in the tool kit of economic preparedness is that of mandatory allocation of selected critical materials, reinforced by suggested limitation and conservation arrangements. The voluntary agreements program under Public Law 395, Eightieth Congress may not suffice. Such agreements are subject to a basic weakness in that they operate on only one end of the scale of demand; that is, the introduction of each new preferred program results in setting aside an increased part of a limited supply, thus intensifying the scramble among nonpreferred consumers for the remaining supply. The principal advantage of mandatory allocation powers would be the impetus they would give to voluntary arrangements, whereby, for example, vital metals and metal products might flow into utility construction programs, public as well as private.

Another useful device to keep products from being diverted to uses not contributing to economic preparedness is, of course, extension of control over exports and strengthening the machinery for enforcement as has already been provided for in the bill passed by the Senate and the House of Representatives and signed by the President.

A third device that would keep price rises beyond the all-time high of last December from further emasculating the buying power and tax mileage of our defense and foreign-aid dollar is that of stand-by authority to request cooling-off periods for price increases. It is interesting to note that most of the business witnesses vigorously opposed not only selective price control on the grounds of "regimentation" and so on, but also objected to the restoration of taxes on corporate profits on the grounds that not only farm prices, but all prices were definitely levelling off and on the way down. If so, December 1948 would be the high-water mark of the flood tide of inflation and of academic rather than practical validity. And stand-by powers of price control, authorized under no circumstances to set maximum prices lower than those of December 1948, would, far from involving any degree of regimentation, never come into use.

Very profitable advantage could readily be, and may already have been, taken of public necessity for economic preparedness. The people at this critical juncture deserve to be protected. Stand-by controls, sparingly used—when absolutely necessary, will merely, by being available, exert a restraining influence on short-sighted speculative and profiteering elements in business and labor that are now so enamored of immediate gains as to injure the long-run welfare and profits of everybody, including themselves.

Even if the traffic officer never makes an arrest, the certainty that, when necessary, he can and will, curbs the small number of reckless operators who endanger the lives and property of motorists all along the highway. In price control, a Gresham's law of human behavior makes the worst operator drive the better out of circulation. If a few industries or unions get away scot free with excessive inflationary prices, profits or wages, the others who can do likewise, but don't, are penalized for economic statesmanship.

A fourth device serving to aid the economic preparedness program is obviously that of reducing the supplies of funds in the hands of all bidders. A more rigorous control and greater efficiency in Government purchasing is vital at all times. It is materials not dollars that go into planes.

Furthermore, the fact is well known that one way to relieve the pressure on prices is to take by taxes a portion of such "hot money eager to be spent." This applies not only to consumers and consumer goods, but to business and capital goods. Since production of such capital goods is running at capacity, a decrease in the unprecedented volume of funds in the hands of business might well serve not only to keep down the prices of vital and strategic materials, but by lowering such prices to greatly diminish business worries about the inadequacy of present accounting replacement charges. Every point decline in the index of basic materials prices by so much makes present additions to replacement reserves more adequate. Indeed, if prices go down enough, business economists might be zealous to make equally strenuous efforts to inform Congress and the country that profits are being *under*stated by the amount which replacement and depreciation reserves exceed that necessary to buy new low-priced equipment of equivalent productive capacity.

Finally, since consumer credit is utilized in buying items such as automobiles, making a heavy draft on vital metals and equipment, and since mortgage money goes for homes, consuming equally vital building, plumbing and heating materials and equipment, moderate restrictions keeping the availability of such funds within bounds serve to strengthen economic preparedness.

Specific commodity controls, especially those exercised by monopolistic groups, are in general out of place in a competitive price system and contrary to the normal market procedures of a peacetime economy. But the hard question we face is whether we can attain our national program objectives without some selective controls; or whether we do so only at the cost of inflation in certain markets and the consequent disruption of price relationships.

It should be emphasized that this report does not recommend all-inclusive controls, but only the imposition of price ceilings for such commodities as, on the evidence now before us, seem still to be under inflationary pressure. If legislation should be enacted which sets the highest level to which prices rose in the year 1948 as the level which must be reached before selective controls can be applied, business planning will be able to operate in an environment of confidence and assurance against further disruptive spiraling of costs.

Whether this nation desires it or not, it has been propelled into a position of world leadership. It is incumbent upon us to discharge the obligations of this leadership through positive programs aimed at maintaining intact the heritage of free societies and through affirmative policies designed to enlarge economic and political freedom here and abroad. These programs and policies, fitted within the framework of our free institutions and conforming to the logic of our system of fundamental freedoms, can achieve maximum success only if Government, business, labor, agriculture, and the professions alike recognize that our basic strength lies in the increasing productivity of our labor, in the more efficient utilization of our farms, factories, and resources, in short, in always strengthening our economic and moral potentialities.

III. The Problem of Protecting the Victims of Inflation

The fact has already been pointed out (see chart VI above) that inflation has its millions of victims as well as its lucky beneficiaries. While great attention is often paid to increases in average hourly earnings or average yearly incomes, these averages are in millions of specific instances grossly misleading.

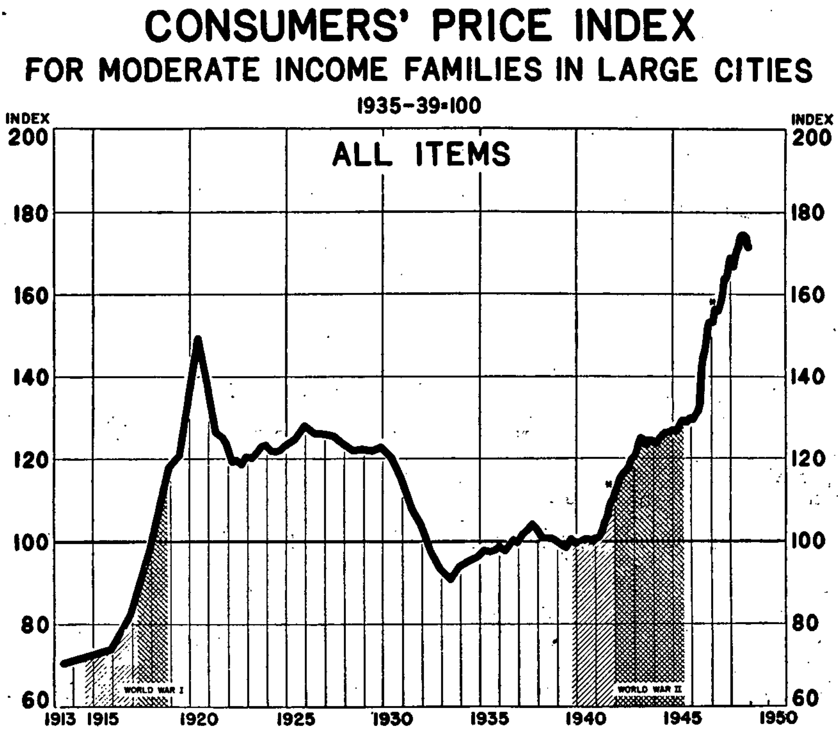
As Senator Flanders has observed:

> Masses of figures, for the most part dealing with averages, conceal human problems which are most easily revealed by going direct to the people. To be specific, average wages may be better with relation to some average cost of living now than was the case in 1939, even though conditions have deteriorated somewhat from the peak of real wages in 1946. It became clear, however, that we could not indulge in complacency in spite of this generally favorable situation. Within those average incomes and average costs of living were to be found many millions of people who had been left behind in the war and postwar advances in incomes, and whose conditions were materially worse than they had been at any time, even worse for many of them than they had been during the depths of the depression.
>
> Who were these people who had been left behind in spite of so great and general statistical advances? Among them, of course, were all of those who were trying to live in their older years on the savings of a lifetime. All who had been depending on pensions and retirement annuities were severely cramped. There are millions of wage earners, organized and unorganized, who have been left behind as the incomes of their more fortunate and aggressive fellow workmen had been increased. All of those who were connected with religious and charitable institutions were in serious straits. * * * Almost all employees of Federal, State, and local governments have lagged behind * * * there is a human necessity to recognize the difficulties in which these great groups, numbering in the aggregate many millions, find themselves.

It is greatly to be regretted that so little is known in a statistical way about this group. Another Nation-wide survey of urban and rural incomes and consumer purchases is urgently needed, similar to the classical study covering 1935–36 made by the Bureau of Labor Statistics in the Department of Labor and the Bureau of Home Economics in the Department of Agriculture.

Thus far the relief afforded these 16,000,000 or more families getting less than $2,000 a year has been infinitesimal. The "rave" press notices given the faint drop in the cost-of-living since August of 1948 seem like sardonic mockery to them. The consumer's price index is still 72 percent above 1939 levels, nearly 20 percent higher than at the peak of inflation in 1920. See chart XIV. Pinched almost beyond endurance by inflation, the low-income consumer is acutely aware that the prices he paid rose 18 percent in less than 12 months after July, 1946, the steepest rise on record, and that by the summer of 1948 they had advanced over 30 percent. The 2 percent drop since then, while affording a chink of hope, in no way merits confidence that the menace of inflation has been lifted.

CHART XIV



United States Department of Labor
Bureau of Labor Statistics.

*Estimates of World War II and postwar understatement by the index were not included. See Monthly Labor Review for March 1947.

In the absence of complete information one has to be content with small sample surveys such as that summarized in the table below:

Changes in average family income, 1941 to 1947

Family units ranked from lowest to highest income [1]	Money income after tax, 1947 dollars [2]		Amount of increase
	1941	1947	
Lowest fifth	$562	$796	$234
Second fifth	1,444	1,933	489
Third fifth	2,421	2,992	571
Fourth fifth	3,523	4,226	703
Highest fifth	7,245	8,574	1,329

[1] Includes single-person families.
[2] Liability for Federal personal income tax in 1947.

Source: Economic Report of the President, January 1948, appendix B.

Since there are some 43 to 44 million family units in the United States the level of living of at least 10 to 15 million must be relatively low. Not only are their incomes low but their reserves are virtually nil. In a study of liquid assets made under the auspices of the Federal Reserve Board, the fact emerged that 27 percent of the spending units hold no liquid assets at all and another 15 percent hold less than $200. (See table 14 in appendix A.)

The palliatives here are obvious. The benefits under present old age and survivor's insurance must be substantially increased. Moreover, public assistance should be available to persons who are destitute no matter what the cause of their destitution, rather than to those who are needy because they are aged, blind, or dependent children, which are the limits at the present time. If this is done, there will be established in prosperous times the framework of a planned, logical, well-administered system that can carry a heavy load if extensive unemployment of long duration should ever again develop. If such is not done, we face the certainty that the experience in the last depression will be repeated in any future slump—a series of improvised, shifting, uncoordinated programs.

Another measure made necessary by the enormous increase in the cost of living is to raise the minimum wage. Secretary Tobin pointed out that:

> Only 6½ percent of the wage earners in manufacturing industry, for example, were earning less than 75 cents an hour in November 1948. At least three times this proportion were earning less than 40 cents an hour at the time the Fair Labor Standards Act was enacted. In the same month of November 1948 approximately 21 percent of manufacturing wage earners were estimated to be getting less than $1 an hour.

A reasonable increase, possibly adjusted geographically and in accordance with the cost of living, together with a judicious extension of coverage under the Fair Labor Standards Act, would considerably help those most seriously afflicted by post-OPA inflation.

In view of the present shortage of housing the removal of rent controls at this time would work great hardship, particularly in the cities, on wage earners, salaried employees, and those on fixed income.

THE PROBLEM OF PROMOTING BALANCED ECONOMIC GROWTH

The economy has now experienced "full employment" or near-capacity operations for about 7 years. The first four were abnormal war years; the last three only slightly less abnormal postwar years. They have witnessed frenetic efforts by consumers and business enterprises to make up the tremendous war-accumulated shortages of durable consumers goods, of housing, and of plant and capital equipment. Both business and the public had on hand an wholly unprecedented volume of liquid savings. In addition, the economy is in the midst of a gigantic technological revolution. It has tried to digest in a few years the electronic, chemical, atomic energy, and other technological developments accumulated not only during the war period but, to no small extent, since 1929. Finally, it has felt itself compelled, on the one hand, to finance almost single-handed the economic recovery of practically all of western Europe and, on the other, to maintain high levels of expenditures for rehabilitation of veterans and for economic and military preparedness.

The $64 question was asked by Senator Taft from the round-table of experts: "What kind of new consumer expenditures or capital expenditures can replace these that result from the accumulated war deficit?" If 1948 be considered a super-boom year of overemployment, what level of national income should this committee set for itself in discharging its obligations under the Employment Act of 1946? Should it be as much as 20 percent below 1948 or no more than 5 percent? Should goals of balanced economic growth be set representing steady increases in physical per capita production of 3 percent a year?

Indeed, it seems altogether clear that in 1949 the simple concepts of inflation or deflation are not adequate tools for analyzing the economic outlook. The fact that gross national product and national income have been rising year by year, quarter by quarter, does not prove that they will continue to rise. The increase in these two factors in 1927, 1928, and 1929 certainly did not indicate that they would increase in 1930 and subsequent years.

In a similar way, however, the fact that some drop has taken place does not indicate that deflationary factors have become dominant and that this is the beginning of a recession or depression. On the contrary, time is much better spent in making an analysis of the structure and composition of production and demand, investment and capacity, in order to detect possible maladjustments that may lead to a serious downturn.

How define what are "maladjustments" in the economy? What standards can one employ for defining economic health? Simply getting back to relationships between consumption and investment, or between prices in various categories, or price and wages, etc., in past periods is not enough.

To make comparisons with former boom years, say 1929, may involve utilizing as yardsticks the very proportions which caused the great depression. Relationships in periods of underemployment, on the other hand, are not applicable to periods of high employment. Almost unavoidably one is driven from the deceptively solid basis of facts to the admittedly hazardous task of projection into the future.

Neither is it safe to rely wholly on the profits barometer to determine either the amounts or the types of development of natural resources that best promote conservation and balanced economic growth. In pursuit of profits, precious natural resources, timber, gas, and oil, have been wasted. The soil has been mined. The "eyes" have been gouged out of scarce mineral deposits. In short, the policies and plans of profit-makers have proved highly fallible as guides to getting the right amount and kind of investment in the right resources at the right time.

Nor can it be assumed that the sum total of decisions to invest made by profit-makers in all industries automatically adds up to the right proportion of gross national product automatically going into private capital investment, as opposed to consumption. In the past, such totals have proved to be the most unstable element in the economy, varying, for example, from 15.8 billion dollars in 1929 to only 886 million dollars in 1932. To a very large extent this extreme variability in the sum total of businessmen's decisions to invest has been the cause of recurrent booms and depressions.

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Fallible as the profits and price mechanism may be to guide investment decisions, it is, however, by far the most important, if not the sole guide that the business community can safely follow. For it is a truism that the system of free private competitive enterprise cannot function unless prices cover costs plus a margin of profit sufficient for survival, security, and growth. On the other hand, it likewise requires a vigorous, sustained total demand sufficient to take total output off the market at prices covering such costs and profits. There must be a balanced relationship between savings and investment, wages and profits, costs and prices.

Even with the aids to business provided in the Employment Act of 1946, the fundamental dilemma on which individual businessmen find their price-and-profit policy impaled is this: Must business be prepared to weather a recurrence of the old "boom and bust," or is it safe now to gamble on the maintenance of a steady and high level of activity? Much as public policy may seek to sustain high levels of prosperity, dare the individual company bank on it?

If business continues to have ups and downs like those in the past, profits in 1948. though at record levels, may well be needed to provide a reserve to meet losses in years of depression. Yet such high profits may result from a wage-cost-price relationship completely inimical to the maintenance of full-employment levels of consumption expenditures. Even the fact that most of the profits are being reinvested provides no guaranty of sustained prosperity. Such high investment depends ultimately on the volume of consumer demand, proximately on a continued abundance of profitable investment outlets, an abundance due at present, in no small measure, to the accumulated backlog of the war.

Once that backlog has been filled, there must emerge a compensating increase in consumer requirements, for if the process of building plants is continued there ultimately must come, and in the past postwar periods always has come, a period of mal-investment such as that after the Civil War when railroads became streaks of rust in the wilderness. After World War I, and especially in the early thirties, there was a similar hue and cry in numerous industries about excess capacity, speculative real-estate developments, and over investment. The spurt of capital formation in boom years exceeds the normal rate of growth. There comes a time when additional plant and equipment cannot be added in an industry without bankrupting the owners of existing properties or precipitating a struggle for consumer patronage ending either in cut-throat competition or cartel agreements in restraint of trade. In short, the high-profit economy of boom years inevitably in the past drove headlong into a depression during which the country caught up with, or grew up to, the capacity that had been provided.

The circle is a vicious one. Prosperity profits are needed to weather depression losses. Yet they undermine the very type of high-volume, high-wage, low-profit-margin economy needed to sustain high-level employment. For in a high-level or full-employment economy the ratio of consumption to national income is higher than it is at the peak of prosperity in a "boom and bust" economy. Competition in a sustained full-employment economy is bound to reduce prices and raise factor costs so that boom levels of profits are lowered. Thus, the relationships of 1920 and 1929 proved to be highly unstable. The fact that private investment versus national income and wage-profit relationships in 1948 approximate those of 1920 or 1929 is, consequently, not reassuring.

If large profits were the sole prerequisite and efficient guaranty of the continuance of prosperity, no boom in the past would ever have ended. The fact that business as a whole considers the present swollen amounts of profits necessary may be a measure of the magnitude of the depression which they feel lies ahead.

At the top of a boom individual businessmen always feel a sense of exhilaration and "comfortable profits." They ask only that "nobody rock the boat." Riding the crest, making profits with a minimum of effort, they little realize that they are being borne along on rapids that will carry them headlong over the falls. A policy of drift, of "not rocking the boat," at such a time brings closer the very catastrophe which they abhor. The predicament of the individual business is not made easier by the fact that well-meaning observers in their exhortations often differ diametrically concerning the policies and the programs best serving to sustain and promote balanced economic growth.

If the individual businessman could feel perfectly sure that business activity would be maintained at a high level, he jointly with all others might dare to risk lowering his profit margin, raising his break-even point to a higher percentage of capacity, and lowering prices to consumers. But even if such a guaranty were iron-clad, he would be superaltruistic or even foolish to pursue such a policy all by himself or in advance of his competitors.

Without such guaranty, and without any demonstrated experience showing that the laudable aims of the Employment Act of 1946 can in fact be consistently achieved, the individual business, no matter how large, cannot afford thus to risk the solvency and competitive position of his company.

Yet the very policies which enable his enterprise best to weather a depression—that is, the amassing of reserves, charging as prices "what the traffic will bear," resisting wage increases except where pressured through by militant unionism, lobbying for tax reduction even if it means a deficit in Government finance—these very policies, both historically and conceptually, inevitably bring on the catastrophe feared. Such is the dilemma of the profits-wages, prices-costs, investment-consumption relationship in the modern economy.

This is the dilemma that the Council of Economic Advisers had in mind when (after noting that the current lack of balance has not resulted in unemployment precisely because of war backlogs, etc.) it warns:

> "* * * the proportion of resources currently being devoted to productive facilities as a whole is somewhat higher than the level that will be required on a sustained basis over the next few years to meet maximum production objectives in a self-sustaining and steadily growing economy. Additions to capital equipment in the past were accomplished in spurts, and periods in which they exceeded long-run requirements were followed by periods in which they fell far short. These violent fluctuations in private capital outlays have been a major factor in generating booms and depressions.
>
> In an economy of steady growth moving from postwar to peacetime conditions, the output of consumer goods and services should increase not only in absolute amounts but also in ratio to total production. In 1948, consumers were receiving about 70 percent of gross output, compared with 76 percent in 1929 and 75 percent in 1939. Even allowing for the contingency that Government expenditures and net exports may hereafter account for a larger portion of the Nation's economic

budget than in previous periods of high employment, it is felt that final consumers should absorb at least 75 percent of all goods and services within a few years. Coupling this with the growth of the economy as a whole, the result would increase total consumption per year by about 4 percent and per capita consumption by about 3 percent above present levels.

This higher consumption pattern must be brought about by a substantially equivalent increase in total consumer income. It will require improvements in the distribution of that income not only to avoid areas of want in a land of plenty, but also to avoid higher saving than is necessary to permit the expansion of investment needed for stable growth.[2]

The fact that grave doubts may exist whether or not the proportion of total investment can long remain as high as it was in 1948 in no way implies that there may not exist bottlenecks of under-investment in particular industries. The question of getting the right amount of investment in the right industries has no connection with gloomy or rosy forecasts of deflation and inflation, but depends on reasonable production goals and objectives, both for individual industries and for the economy as a whole, which insure full and balanced utilization of natural and human resources. The appearance of soft spots or so-called surpluses at present, even if they are not the result of over-pricing or endemic allergy to lowering prices with sufficient rapidity, may not only coexist with, but even be due to, bottlenecks or shortages in capacity elsewhere.

Power

Abundant testimony, both before this committee and elsewhere, has documented the acute shortage of electric power facing the Nation today, a shortage that not only prevents adequate production of basic metals, but jeopardizes directly thereby the security of the Nation. The facts are clearly shown in chart XV (see for actual figures table 15 in appendix A). In the words of Secretary of the Interior Krug:

> * * * the power shortage seriously imperils national security and economic well-being. For example, aluminum, needed for both civilian and defense requirements, is at least 30 percent short of demand, and today the industry operates at only about one-half of World War II capacity. The aluminum industry depends largely upon hydropower, 70 percent of which is provided by the Federal Government.

The failure to utilize the water power available in the Pacific Northwest to the utmost seems particularly serious. As Dr. Paul Raver, Administrator of the Bonneville Power Administration, stated:

> In the Northwest it is almost criminal to burn oil or other usable materials to make power when you have an inexhaustible supply continually running away to the sea. We ought to get out of that situation not only for the benefit of the Northwest, but for the benefit of the Nation, as quickly as we possibly can.

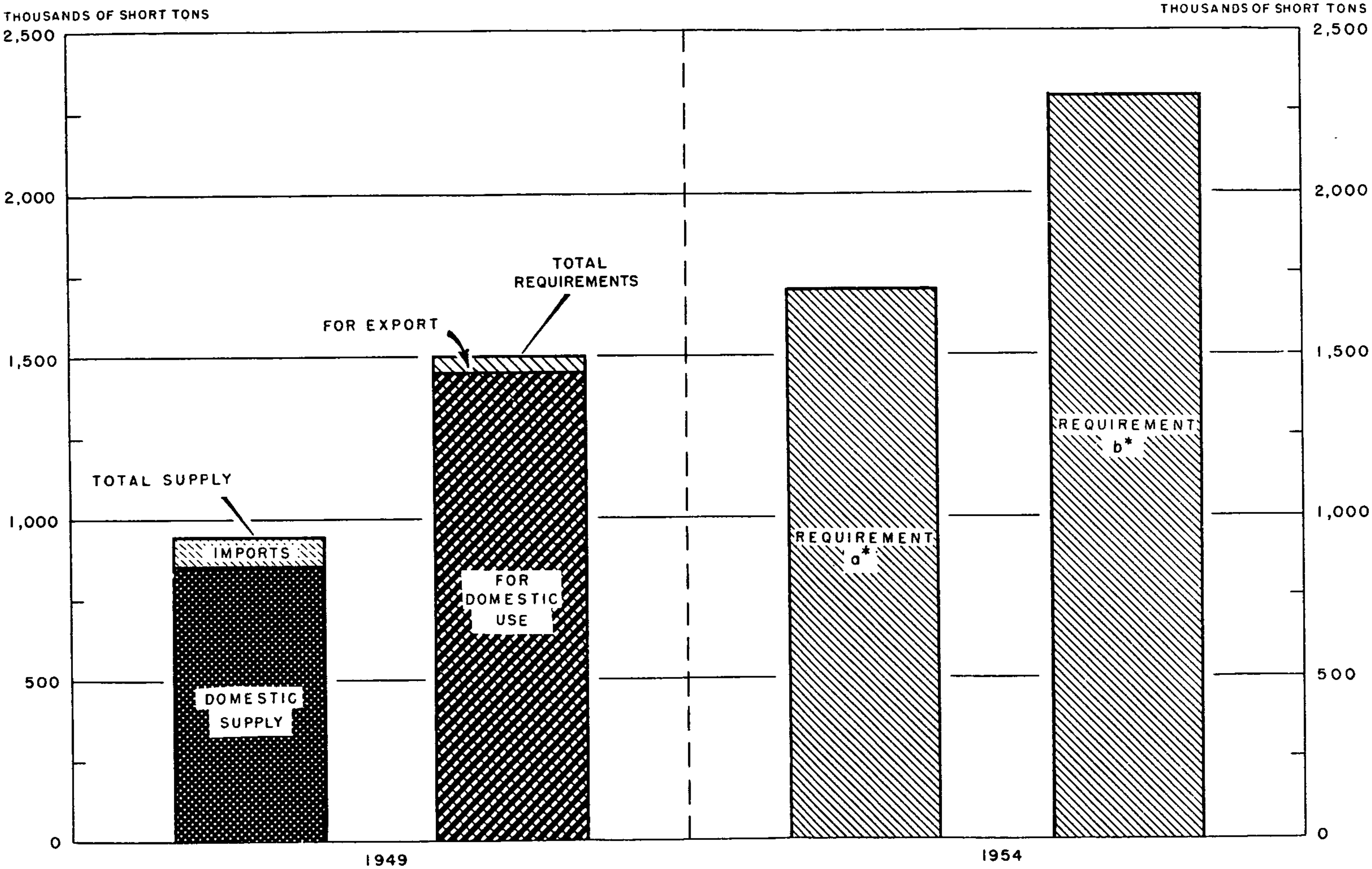
With respect to the utilization of this power for key industries, Dr. Raver continued:

> * * * those basic industries that are waiting to expand with Northwest hydropower will be held back unless they can find an alternative source of energy. Frankly, I do not see where that alternative source of energy is to come from on the basis of the shortages all over the Nation. Some of them, like aluminum, phosphate, zinc, lead, and perhaps copper, are unlikely to expand significantly until this power-supply situation is remedied, particularly in the Northwest, where cheap hydro appeals to the metallurgical and chemical industries. The whole country, as well as the Northwest, will feel the effects of the Northwest shortage for a number of years.

[2] The Economic Report of the President, January 1949, p. 61.

CHART XV

ALUMINUM SUPPLY FOR 1949 AND REQUIREMENTS FOR 1949 AND 1954



*REQUIREMENT "a" AND REQUIREMENT "b" DERIVED FROM BONNEVILLE POWER ADMINISTRATION MARKET ESTIMATES FOR 1960. REQUIREMENT "b" MAKES GREATER ALLOWANCE FOR INCREASED USE OF ALUMINUM FOR BUILDING PRODUCTS, TRANSPORTATION, POWER TRANSMISSION, AND OTHER PRODUCTS.

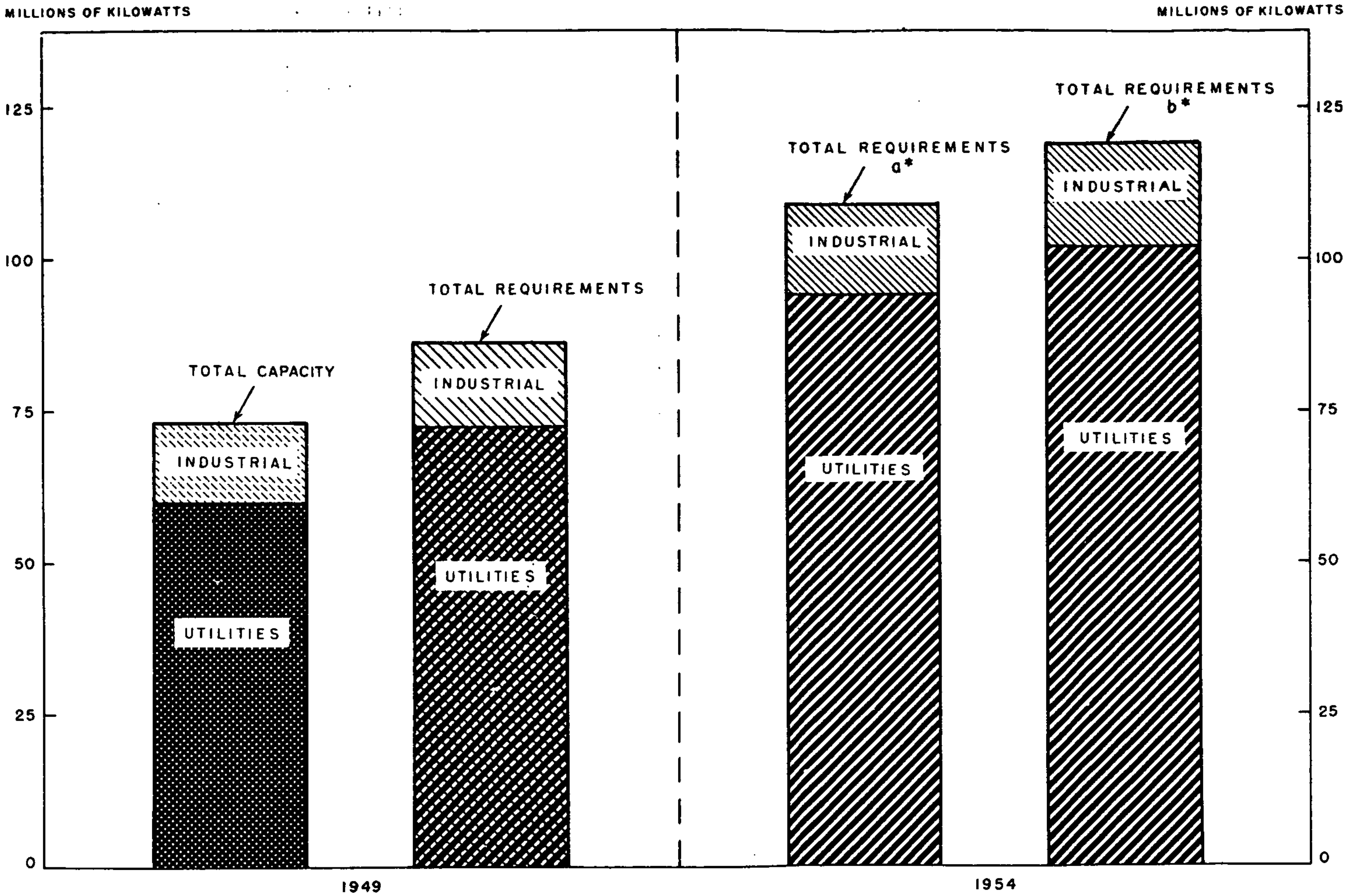
SOURCE: DEPARTMENT OF THE INTERIOR

COUNCIL OF ECONOMIC ADVISERS

90240 O - 49 (Face p. 32) No. 1

CHART XVI

ELECTRIC POWER CAPACITY FOR 1949 AND CAPACITY REQUIREMENTS FOR 1949 AND 1954



* REQUIREMENTS "a" BASED ON AVERAGE ANNUAL INCREASE OF ABOUT 6 MILLION KILOWATTS IN UTILITIES' REQUIREMENTS. REQUIREMENTS "b" ALLOWS FOR 20 PERCENT ADDITIONAL INCREASE TO TAKE ACCOUNT MORE FULLY OF LARGER HOME, FARM, AND INDUSTRIAL USE

SOURCE DEPARTMENT OF THE INTERIOR

COUNCIL OF ECONOMIC ADVISORS

90240 O - 49 (Face p. 32) No. 2

Though the Pacific Northwest be the area with the most acute shortage of electric power, during 1948 power shortages in varying degrees and for varying periods of time occurred in New York State, Pittsburgh, Cleveland, Chicago, St. Louis, the Tennessee Valley, countless rural areas, and California, besides the Pacific Northwest. Electric power requirements of the Nation for 1949 (86.6 million kilowatts) exceeded electric power capacity (73.2 million kilowatts) by 13.4 million kilowatts, according to the Department of the Interior. By 1954 the requirements have been estimated to increase to between 109 and 119 million kilowatts. (See chart XVI.)

The shortage of power in rural areas deserves particular attention. Nearly 20,000 miles of poles for Rural Electrification Administration projects are standing useless because of a lack of distribution and transmission lines. In some locations the program of REA is practically at a standstill because aluminum conductor is not available and conductor made of other material is too expensive to be feasible under the REA policy of making only sound loans.

In sum, in the words of Secretary Krug:

> We have approximately 77,000,000 kilowatts of undeveloped water power now wasting annually into the oceans, about two-thirds of this in States west of the Mississippi and about one-third is in the Eastern States. Controversy over the development of Federal hydro projects has obscured this tragic waste of undeveloped water power. Certainly in the next 15 years, at least 25,000,000 kilowatts of this hydro ought to be developed. This is the kind of target which the country needs to sustain an expanding economy operating at maximum employment, maximum production, and maximum purchasing power.

St Lawrence waterway project

The St. Lawrence waterway project has a long history of recommendations by Democratic and Republican Presidents and other leading public citizens and interested private groups. It illustrates how public works afford a market for the products of industry and a stimulus for new production.

River Valley projects

To be most beneficial to the economy, hydroelectric projects should be coordinated with other important problems of river and river-valley development, including specifically navigation, flood control, irrigation, soil conservation, and industrial development. The history of the development of the Tennessee Valley Authority, the Bonneville Power Administration, and the Bureau of Reclamation, suggesting that a careful study be made of the type of economic development and coordination best adapted to the needs and climate of opinion of the people living in each valley, applies especially to the great Missouri and the Columbia River Basins.

Other natural resources

In addition to setting goals for development of power, aluminum, and other natural resources, our national security and welfare requires positive measures now to make secure adequate oil supplies for the future. The Federal Government should undertake its responsibility for promotion of rapid exploration of the reserves remaining on the public lands and the Continental Shelf. It should foster the early development of a synthetic liquid-fuels industry. Better legislation is needed to insure the wise cutting of timber, the economic utilization and protection of public range lands, and, in general, the swift improvement of conservation practices in some of the States. In addition, the Government must, in the interests of national security, press forward with its basic programs promoting exploration for strategic minerals such as manganese. Needless to say, basic research with respect to atomic energy and other resources must be vigorously fostered.

Agriculture

In order to fit a prosperous and equitably treated agriculture consistently into an economy seeking to operate continuously at maximum levels, agricultural price supports must be kept as floor prices; not as a means of price fixing, nor to guarantee a profit, but to provide a barrier against the sort of devastating price declines which in the past have made agricultural depression the forerunner of business and industrial depression. The real question is not whether farmers can or will continue to produce abundantly, but whether they will be severely penalized for doing so.

The main issues are: (1) Should Congress decide to support farm prices in 1950 at a flat 90 percent of so-called parity, or at some flexible rate based on size and character of crops? (2) How can Congress deal most wisely with those farm products of which so large a proportion has in recent years been shipped abroad? The demand there will assuredly drop drastically in the future, and perhaps in the near future. Should the problem be met by crop restrictions, or by dumping such products abroad by international commodity agreements, or by other measures? The impacts are likely to be serious not only on our international trade policy, but on the use we make of our farms, notably those producing wheat, cotton, dried fruits, and vegetable oils. (3) How can agriculture be best protected against serious industrial collapse? Farmers are prosperous when workers' pay envelopes are full. But, unless under the Employment Act of 1946 techniques are found for maintaining high-level urban and worker buying power, the farmer may again find himself, as in the thirties, reduced to peasant levels of income. Even in 1948 the per capita income of persons living on farms was more than a third lower than those of persons not on the farm, $909 as contrasted with $1,569. (See table 16 in appendix A.)

Those with even an elementary knowledge of agricultural economics have long known that farmers can do little when prices go down except to work harder and produce more. On the other hand, many industrial concerns flexibly and instantaneously adjust production and throw their workers on the unemployment rolls, often without experiencing any significant decline in the price of the articles they sell.

If agricultural prices continue downward, as indeed well they might, the problem of surpluses will again be serious. If the attempt be made to meet it solely by price supports, the drain on the Federal exchequer will run into billions of dollars annually. Even in 1948, with net income of farm proprietors at an all-time high of 18.2 billion dollars and farm prices still 8 percent above parity, the loans made to farmers by the Commodity Credit Corporation to support the prices of cotton, wheat, corn, peanuts, tobacco, flaxseed, potatoes, and eggs, amounted, during the last 6 months alone, to more than 1.5 billion dollars. This does not count some $300,000,000 committed under purchase agreements, nor direct Government purchases.

The need to put into operation a flexible, well-integrated, and varied farm program is urgent. In addition to flexible price supports intelligently adapted to postwar conditions, consideration should be given as parts of a coordinated program to such measures as the provision of adequate storage facilities, more adequate credit accommodations, crop insurance, food-stamp or allotment plans for orderly marketing of bumper crops, protection of diets of children and low-income families by devices assuring levels of consumption consistent with real food needs, guided redistribution of farm population, rural electrification, and Federal aid for improved rural medical, hospital, education, and research facilities.

Promoting capital investment

The hazards of setting goals for the development of natural resources and for basic industries were explained above. The fact is remarkable that, despite the high level of capital investment in 1948, business witnesses unanimously stressed the need for further capital expansion to make up for undermaintenance and backlogs accumulated, said several of them, since 1929. Yet, nearly all denied that such shortages existed in steel capacity.

In the words of Mr. Bradford Smith, economist for the United States Steel Corp. (for corroborative data, see table 17 in appendix A, which gives figures by companies showing expansion during the last 3 years):

> Since the war, the principal problem of steel producers has not been the adequacy of mechanical capacity; it has, instead, been the problem of getting existing capacity into operation and keeping it going in the face of the manpower, materials, and supplies shortages and the strikes with which most other industries have also struggled. The difference between actual and capacity production, if it could have been attained, amounts, for the years 1946–48, inclusive, to over 30,000,000 tons. Concern over mechanical capacity has been misguided. It is production that fills consumers' needs.

In similar vein, Mr. Wilfred Sykes, president of the Inland Steel Co., of Chicago, when testifying before the Steel Subcommittee of the Senate Small Business Commitee on June 19, 1947, gave forceful assurance that the then current steel capacity, even without improved facilities and processes, would be adequate for all potential demand. He pointed out that during the years between 1920 and 1940 the domestic demand per capita ranged between a low of 236 pounds of steel in 1932 to a high of 978 pounds in 1929. Assuming a demand of 978 pounds per capita and 10 percent for export purposes, which is also a peak level, Mr. Sykes said, maximum steel consumption in 1950 would be 76,373,000 tons of ingots, in 1955, it would be 78,464,000 tons, and in 1975 it would be approximately 90,000,000. All of these figures, be it noted, are not only less than the current amount of steel actually being produced but less than the present capacity now actually in operation yet insufficient to fill all demands. (See table 18 in appendix A.)

In short, Mr. Sykes' assurances, like those of steel producers during the war (that there was no cause to worry about lack of steel capacity), may not provide a firm foundation for sound policy. On the contrary, there is considerable evidence that the per capita need for steel grows steadily as our demand for durable-goods increases. (See chart XVII.) Secretary Krug reflected this when he said:

> All of these unsatisfied demands for steel for machinery and equipment reflect the dynamics of an economy operating at full employment and full production.

levels. The inadequacy of steel for these as well as other purposes imposes an artificial limitation upon continuing economic growth. Unless our industrial momentum is maintained, we must expect a slowing down of economic activity, and the slowing down will be disproportionate to the shortage of steel for the industries affected because of its cumulative effect. This is the real significance of the current steel shortages. The unsatisfied demands are not postponable demands. They must be met if we are to have a balanced and expanding economy.

Appearing before the Senate Small Business Committee, Dr. Louis Bean, economist, Office of the Secretary, Department of Agriculture, presented an analysis indicating that between 100 and 110 million tons of steel capacity would be necessary to afford adequate underpinning for sustained prosperity and full employment through 1950. According to Dr. Bean:

A rising volume of steel production required to sustain full employment appears also when the production record is put on a per capita basis. By 1900, the steel industry had expanded to the point where its production was equivalent to about one-half ton per person employed throughout the United States. By 1912–13, steel production was equal to nearly 1 ton per job. If we take this rising trend in steel production per job opportunity in prosperity years at 1.8 tons for the years 1947–50, a total employment in civilian jobs of 58,000,000 would require over 100,000,000 tons of steel compared with the annual rate of output of 85,000,000 tons during the first part of 1947.

There is, of course, no assurance that those not practically engaged in the industry see the forest any better than those inside it. Goals projected on the basis of making maximum profits during booms and busts may be lower than those required for purposes of economic preparedness or for high-level sustained production and employment. Only continued and close study can provide the beginnings of an answer to questions such as these on which, at present, so little is known.

In the meantime, as Dr. John D. Clark, of the Council of Economic Advisers, has testified no concrete proposals are even being entertained for Government production of extra capacity in steel or any other industry. What the President has asked, he emphasizes, is that:

* * * a study be made both of the areas of shortage and of the manner in which the shortages can be overcome. Their general character may be described, however. There may be subsidies for high-cost producers of commodities, such as minerals, which are produced under conditions where plant capacity is not important. There may be special provisions in the tax laws for accelerated depreciation or even for tax abatement. There may be loans, or guaranties of loans, where credit is not available and capital hard to secure. Government procurement policies may be manipulated, and I use this invidious term in order to make distinct the point that all of these plans require the most careful study because in them are many pitfalls of discrimination and favoritism.

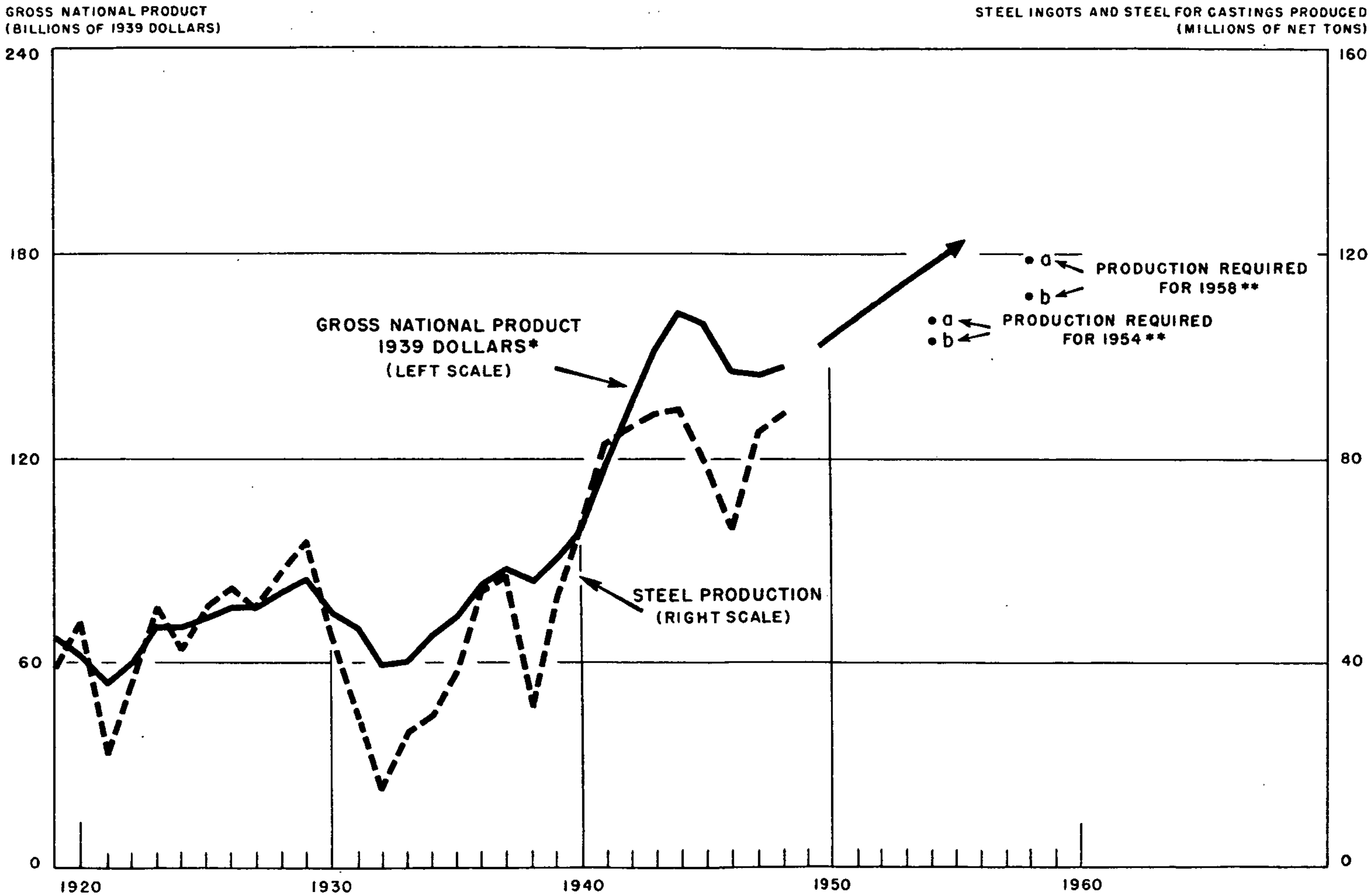
The enlargement of productive capacity is so essential to continued maximum employment and production that neither the concealed dangers in any given plan nor the required scope of Government intervention should prevent action which will be effective. The President feels, as strongly as I am sure many of us feel, that it is within our ability to adopt policies which will lead private enterprise to expand its productive capacity as may be needed over the long run.

Housing

Housing is another industry in which private investment seems to fail at least in part to meet the basic needs of the economy. For years there has been a large segment of the American people to whose incomes the housing product has never been adjusted. Millions of families have steadily been priced out of the market for adequate housing. Moreover, instead of being one of the important stabilizing elements in our national economy, home building has actually fluctu-

CHART XVII

STEEL PRODUCTION AND GROSS NATIONAL PRODUCT (1939 DOLLARS)



* CURRENT DOLLAR ESTIMATES DIVIDED BY CONSUMERS' PRICE INDEX, 1939=100, ADJUSTED FOR UNDERSTATEMENT DURING CONTROL PERIOD.

** ESTIMATES FOR STEEL PRODUCTION REQUIRED FOR FULL EMPLOYMENT IN 1954 AND 1958 BASED ON GNP OF ABOUT $175 BILLION AND $200 BILLION (1939 DOLLARS) RESPECTIVELY IN THOSE TWO YEARS. ESTIMATES "a" ASSUME THE SAME RATIO BETWEEN STEEL USE AND GNP AS IN 1948. ESTIMATES "b" ALLOW FOR A SHIFT IN USE PATTERNS FOR STEEL.

SOURCES: DEPARTMENT OF COMMERCE, DEPARTMENT OF LABOR, COUNCIL OF ECONOMIC ADVISERS, AND OTHER SOURCES.

COUNCIL OF ECONOMIC ADVISERS

ated more violently than any other major segment of economic activity, thus contributing significantly to the instability of the economy as a whole. Provision should be made for a flexible public-housing program to increase or decrease the construction of new units, varying at least in part with conditions prevailing in the construction industry and in the economy generally.

The unenacted portions of the comprehensive housing bill, with the quota of low-rent housing increased to provide for 800,000 units within 6 years, would appear one of the necessary and reasonable remedies for a generally acknowledged shortage of housing. Our veterans in particular ought not to be made to wait longer. Although construction costs are still high, they did begin to drop slightly in November and December of last year.

Inasmuch as the production of pressure pipe, soil pipe, cast-iron boilers, cast-iron radiation, plumbing and drainage equipment, and warm-air furnaces was greatly assisted in 1948 by voluntary allocation programs under Public Law 395, and it is quite apparent that this type of assistance will continue to be needed for some time for the more critical items, authority to channel building materials into home building should be temporarily continued.

Furthermore, it is high time that substantial Federal aid be granted to the States and localities to enable more rapid progress in clearing slums and in assembling land for balanced redevelopment. American boys and girls cannot grow to full and effective productivity in an environment of overcrowded slums. Slums breed juvenile delinquency, crime, disease, social evils. Study after study has shown in city after city that such slums always fail to pay their way. The taxes collected fall far short of paying for the disproportionate expenditures the city has to make for protection, relief, jails, police surveillance, and crime losses. Why continue to subsidize the slum? Since private enterprise always has been, and seems likely to be, unable to provide low-cost rental housing other than such disease- and crime-breeding slums, why continue to pour public treasure down such ratholes when an intelligent program of slum clearance and public housing would make available good housing with adequate play space in redeveloped areas?

Other grants-in-aid

In addition, there are now pending before the Congress Presidential recommendations for other grants-in-aid to local governments, particularly for education and general relief, amounting to an estimated expenditure of $365,000,000 in the next fiscal year. Total grants-in-aid expenditures are estimated at 2.5 billion dollars for the same period. These Federal grants-in-aid can be of great importance in a program of economic stabilization.

Experience has taught us that, in a depression, State and local governments are often compelled to curtail their programs drastically and to increase tax rates. Both types of action have contributed in the past to aggravating depressions. During the last depression, special emergency programs involving vast expenditures were hastily improvised to counteract such developments, but their stabilization effectiveness was reduced by the delay incident to conception and enactment.

It appears desirable that, at least as a first line of defense, some of our regular grants-in-aid programs should provide a certain degree of flexibility. This could be accomplished by provisions in suitable grants-in-aid legislation that would permit an increase in the Federal share during times of adverse economic conditions and a decrease in times of favorable economic conditions. The ability to make these adjustments promptly is an important stabilization tool, and in keeping with the objectives of the Employment Act of 1946. It might operate with noticeably beneficial results in the case of aid to slum-clearance and urban-redevelopment programs.

In conclusion, the fact should be noted that in opposition to the general run of industry witnesses who felt that nothing should be done by Government to stimulate adequate productive capacity in various industries, one witness, Mr. Murray Lincoln, president of the Cooperative League of the United States, fully endorsed the proposal that, to the extent that facts reveal the need, legislation should provide additional authority to deal more effectively with inadequacy of capacity and supply. He stated:

> I am all for trying out the suggestion of President Truman that the Government try out a pilot plant to manufacture steel or any other material in short supply, and especially potash and phosphorous. How else are we little guys going to know whether the price of steel or other raw materials is fair or just?
>
> I propose that the Government shall extend the REA principle by making loans, at the cost of money to the Government, to any properly organized group of people who desire to serve themselves with goods or services that are not adequately supplied by our present business enterprises * * * I say we ought to do it with steel, with housing, with hospitals, with medical care, with fertilizer, and with any other commodity that is reported to be in scarce supply.

Improvement of human productivity

Most vital of all national capital is the human stuff which alone gives economic and political systems and activity their meaning. Labor constitutes not only the fundamental wealth, but the military strength of nations. Its skills, vitality, vocational aptitudes, civic spirit, political intelligence, and courage, represent the one most important and indispensable element necessary for survival and prosperity.

No more basic and meaningful index of the performance of the American economy exists than figures showing the percentage of the labor force reasonably well employed, or those indicating per capita real income, or those showing real weekly earnings of labor.

Out of a total civilian labor force of 61,442,000 persons able and willing to work in 1948 (1,307,000 were in military service), 59,378,000 had jobs and only 3.3 percent were unemployed. (For annual data back to 1929, see table 19 in appendix A.) This compares with a figure of 24.7 percent unemployed in 1933, and 9.7 percent in 1941.

Per capita real income was actually $1,299 last year. When converted to prewar—that is, 1939—dollars, per capita real income in 1948 was $754. While this still remains lower than the $808 figure for 1944 (war wages, overtime, etc.), it shows a small increase over 1947. (For details, see table 20 in appendix A.)

So far as hours and earnings of workers are concerned, those in manufacturing industries are the ones most readily available, the ones most often used to compare the status of workers under a system of free enterprise with that of workers under other regimes elsewhere, and the ones most representative of mass income. In 1948 American workers in manufacturing enjoyed an average wage of $53.13 a week and worked exactly 40 hours. From June of 1946 to December of 1948 their average weekly money wages had increased 27 percent as against a 28.6-percent rise in the Consumers' Price Index. Nevertheless in 1948 their real weekly earnings were 29.3 percent above 1940, which though not as high as the 52.9 percent above in 1944 when they worked 45.2 hours a week, were somewhat better than in 1947. (See chart XVIII; also consult table 21 in appendix A.)

The peculiarities of arithmetic averages makes it necessary to remember that no more than 3 out of 5 manufacturing laborers got as much as $53.13 a week. The all-important fact should never be lost to mind that these masses of workers earning less than $2,700 a year constitute the mass market for American business that keeps mass production and mass distribution in operation. (See chart XIX.) It is, therefore, vital to the economy to sustain and increase the productivity of its labor force.

It is such economic considerations that dictate early consideration of plans to make possible adequate medical care and hospitalization for every American family regardless of race or economic status. In addition, all citizens should have equal opportunity to obtain that degree of training which their industry or capacity makes possible. In an atomic age even a wealthy country like the United States can no longer afford the luxury of constricting both educational and employment opportunity for any members of the rising generation.

In conclusion, not only should the coverage under old-age and unemployment-insurance systems be widened, and the benefits readjusted in accordance with present levels of cost of living, but the entire social-security system should be placed on a more nearly sound actuarial basis. Social security rates on business and on labor should be raised as soon as possible. Finally, there is needed, as part of an integrated program of coverage of workers against paralyzing risks, a system of insurance against loss of income through temporary or permanent disability.

FREEING THE ECONOMY FROM RESTRICTIVE POLICIES

Combat monopoly

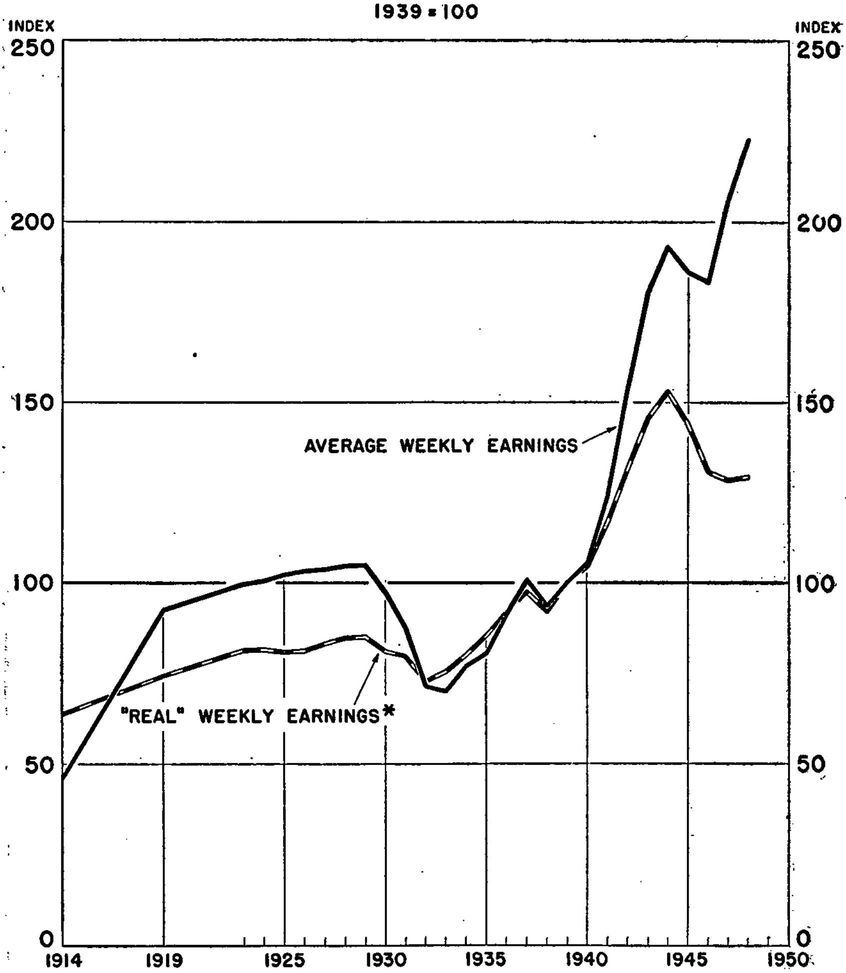
In the Minority Report of the Joint Economic Committee to the Congress in 1948, certain observations were made on the question of private barriers to maximum economic productivity. These observations have such increased significance in 1949 that they merit renewed consideration. It was pointed out:

> A free economy in the American tradition is one in which the individual is not regimented by either private or public power. The principal obstacle to the maintenance of such an economy arises from the failure to understand that when the Government does not adopt a positive program, but is content merely to drift, the inevitable result is, first, regimentation of the people by the concentration of economic power in private hands; and, second, the seizure by dictatorial government of the powers of regimentation thus built up in private hands.
>
> The first step in the preservation of the traditional free, competitive American economy is to prevent depression, and the second step is to prevent the concentration of economic power in private hands. Neither of these objectives can be attained except by positive Government action.

CHART XVIII

AVERAGE WEEKLY EARNINGS AND "REAL" WEEKLY EARNINGS IN MANUFACTURING

1939 = 100



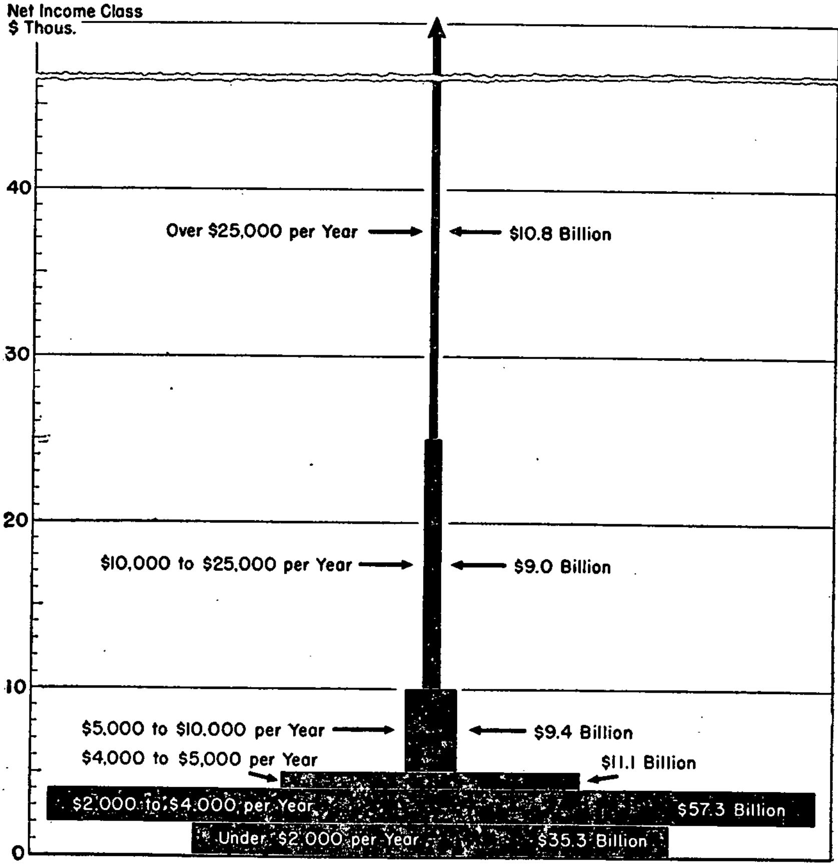
United States Department of Labor
Bureau of Labor Statistics

*Monthly earnings adjusted for changes in cost of living.

CHART XIX

MASS MARKET FOR AMERICAN BUSINESS

Distribution of Net Income of Taxable Income Recipients[†]



Area of black for each segment is proportional part of total net income of taxable recipients which equals $132.9 billion[†] as estimated by the U.S. Treasury Department, based on total personal income level of $200 billion. Committee on Finance, Hearings on H.R. 4790, March 1, 1948.

[†]Under income tax law prior to amendments under Revenue Act of 1948.

If the Government does not solve these problems in the American tradition of opportunity and equality for all, then the unsolved problems will inevitably catch up and bring on a crisis. In the throes of such a crisis we shall be obliged to go far beyond the comparatively minor steps required to do the job when the danger first shows itself.

In this respect the experience of the thirties provides a significant lesson. The failure of the Government to deal promptly and forthrightly to mitigate or resolve the crisis that evolved in 1929 or 1930 necessitated much more governmental intervention 3 years later.

The greatest danger that the country now confronts is that any Government action is mistaken to be, or misrepresented to be, a plan to establish arbitrary Government power. That is not the case. Communism in the area behind the iron curtain, socialism in Britain or in France, and fascism in Spain, Argentina, or elsewhere, are all the result of the failure of government to take in time the necessary steps to preserve a free, private-enterprise system against the destructive advance of private monopoly.

Unfortunately, many of those who desire to preserve what they conceive to be the vested interests of economic concentration already achieved, seek to prevent economic reform through the only agency by which it can be accomplished—namely, the Government of the United States—by misrepresenting it to be an attempt to set up socialism.

Yet monopolistic restrictions and the concentration of unbridled economic power in private hands are not only major enemies of economic productivity, but have destroyed, and will continue to destroy, human freedom and democracy.

Central economic power as exercised by those who control the modern instruments of commerce has been the cause of the development of arbitrary central political power in the modern world. Mussolini, Hitler, and Stalin, all three, have been the direct product of the concentration of economic power. The modern monopolies become the collectivist pattern for a collectivist state. The fight for freedom begins with the fight against monopoly.

The diversity of price movements in late 1948 has again raised the problem of high, inflexible prices (e. g., metals, metal products, building materials, etc.) versus falling, flexible prices (farm products, food, etc.). The resulting disparity, dispersion and disequilibrium has been characterized by Mr. Leon Keyserling of the Council of Economic Advisers as—

> * * * a situation where we were having continued price increases, continued high margins of profits in certain industrial sectors of the economy which represented an administered price or a partly monopolistic situation that seemed to be draining excessively from the economy. Partly in consequence we are having what is beginning to be an excessive lowering of the fair take from the economy on the part of the farmer, the basic producer. In addition, we are having the same problem on the distributive side, namely, the margin between what the farmer gets and what the consumer pays, which was increasing. Very many important prices are too high, are rising too fast, and should be restrained rather than kept up. * * * we need a rounded and balanced stabilization program, * * * [including some] elements of restraint, but also some elements of support. We have a mixed economy.

The Council likewise noted that—

> * * * The smallest manufacturing corporations, with assets of $250,000 or less, are reporting average profit ratios well below their 1947 levels, while the largest manufacturing corporations, with assets above $100,000,000 are running well ahead. The intermediate groups are showing profit ratios somewhat below their 1947 levels.

The significance of the reemergence of these familiar behavior patterns in the American economy can hardly be underemphasized. If successful goals of high-level employment are to be developed, prices must be continually low enough to stimulate maximum consumption. This means that in basic industries such as steel, power, and oil, the normal practice of increasing profits at times by not "spoiling or flooding the market," while a private virtue, may be something less than a public benefit.

As Mr. Paul J. Raver, of the Bonneville Power Administration, phrased the problem in his testimony:

A margin of extra capacity provides a powerful impulse to market development through new products and lower prices. In truly competitive industries, there necessarily is a margin of extra capacity because no producer can control the market, and each tries to get as large a share as possible. This situation was more prevalent in the nineteenth century in this country than now. A number of our basic industries are now largely controlled by a small group of producers who determine the size of their industry. In some cases, they are aided by the lack of availability to competitors of new ore bodies and other sources of raw materials. Their motives were demonstrated in World War II when they were reluctant to expand for fear of excessive capacity at the end of the war. Generally, businessmen would prefer to keep capacity below effective demand so that they can enjoy a sellers' market. As national policy, this country has relied on the antitrust laws and competition to prevent businessmen from accomplishing this purpose. It should be clear that with the growth of concentrated control in certain industries and the following of policies of certain industrial leaders, the country has lost some of the protection of a freer competitive system. Instead of relying upon competition of many businessmen, we now rely on the less-expansion-minded leadership of less competitive industries.

This situation raises the question whether the national interest is adequately protected by the decisions of industrial leaders whose main obligation is to their stockholders and whose instincts work toward achievement of a sellers' market, avoidance of excessive capacity, and avoidance of price competition. In industries where these conditions exist, it seems proper for government to promote production or expanded capacity through measures such as the President has proposed.

The alternatives are few. Where competition truly exists, we can rely on it to provide expanding capacity. Where it does not exist, business leaders ought to be willing to have the Government share with them decisions on expansion in order to protect the public interest by providing, through margins of extra capacity, the continuous pressure needed to build new markets, new products, and to reduce prices.

The vital need for adequate statistical information

The basic question here raised is, of course, one of fact: In what areas does competition work effectively? How has the situation changed in the 10 years that have elapsed since the Temporary National Economic Committee made its inquiry? Such a study is primary and fundamental. For it is obviously basic to the workings of the machinery of the Employment Act of 1946, that there be developed an adequate body of statistical information. Enlightened business and Government policy can be pursued most effectively only when policy makers have at hand objective data with respect to economic developments. Although doubts may well be raised as to the ability of economists to predict future economic trends, it is doubly unfortunate if the policy of either business or Government has to be formulated without a full and accurate picture of historical and current economic trends in employment, production, and purchasing power.

The President's annual and midyear Economic Reports contain a summary of the important economic data now available to the Federal Government, thus making the Reports a useful source of statistical information. However, the Joint Committee has recognized the need for similar information on a more frequent basis and a year ago commenced the monthly publication of Economic Indicators, a set of charts and statistical tables prepared for the Committee by the Council of Economic Advisers. This publication, containing the most current data on prices, employment, production and business activity, purchasing power, and money, banking, and Federal finance, is made available to members of Congress and the public generally.

Because of the importance of the Consumers' Price Index in business and Government policy decisions, particularly in recent years, the Joint Committee's staff has just prepared a report on the United States Bureau of Labor Statistics Consumers' Price Index. This factual study presents an up-to-date summary of the purpose of the Index, its methods of preparation, and its uses.

A year ago the committee staff reviewed the whole field of economic statistics in terms of the adequacy of present information needed by the Joint Committee on the Economic Report and the Council of Economic Advisers in carrying out their respective responsibilities under the Employment Act of 1946. The resulting report indicated 12 areas in which more complete Federal statistics are needed. As a follow-up to this report, the committee staff, together with the staffs of the Bureau of the Budget and the Council of Economic Advisers, prepared a statement showing rather concisely the present work being done and the plans of the Federal Government for filling these gaps. (See appendix D.)

The need for such data is even greater today, when economic trends are "mixed." Few of the major statistical projects listed in the committee staff's report of last year have been undertaken, although some work has been done to improve the information in these fields. In particular, there is a great need for continuing data on unit costs.

It is unfortunate that more progress has not been made in achieving a coordinated statistical program geared to filling the needs of both business and Government. The committee points particularly to the first area mentioned by the staff report of a year ago; namely, periodic surveys of consumer purchasing power and demand to show (*a*) the distribution of income and savings available for expenditures by geographic areas and among various consumer groups and income brackets, and (*b*) current and prospective patterns of consumption and expenditures. The President's Economic Report suggests the growing disparity between those gaining from inflation and those suffering from inflation, but statistical evidence is not only a year old, but the coverage is limited. The committee urges immediate action in this particular area, since major policy proposals of the President must, at present, be based in some respects on little more than hunches as to distribution of income and availability of consumer purchasing power and demand.

The Council of Economic Advisers has neatly epitomized the basic questions here raised in its observation that—

> If the Government uses the fiscal and other powers at its disposal to moderate the swings in general business activity, effective competition should keep cost-price margins down to the levels of reasonable necessity and adjust capacities to the expectation of greater stability. The extent to which this effective competition in large-scale industry is forthcoming will do much to determine what kind and degree of Government action will be needed to promote economic stability and growth.

But at present, one may well ask where is there adequate evidence being collected on the extent to which "effective competition in large-scale industry is forthcoming?" How can monopoly or restraints on competition be measured? In what industries is competition now insufficiently effective? What standards are there for measuring whether competition is effective? If business fails to keep competition effective, what remedies will prove efficacious? To what extent do large concentrations of power limit productive capacity, keep prices up, and prevent consumer income and expenditures from being increased sufficiently both absolutely and relatively to preserve high-level national income and employment? Will this increase result automatically through the interplay of prices and costs in the market place? Or will a depression appear when the gap between potential output and effective demand of consumers and business becomes unmanageable as has happened in the past? Or can affirmative policies, as envisaged in the Employment Act, close or bridge this gap before it becomes a chasm? Such are the challenges and responsibilities faced by this committee, this Congress, the President, and the country.

Majority members approving report: [1]

JOSEPH C. O'MAHONEY,
Chairman.
FRANCIS J. MYERS,
JOHN SPARKMAN,
PAUL DOUGLAS,
EDWARD J. HART,
Vice Chairman.
WRIGHT PATMAN,
FRANK BUCHANAN.

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[1] Representative Huberd did not vote on the adoption of the report.

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OBJECTIONS TO MAJORITY REPORT OF THE JOINT COMMITTEE ON THE PRESIDENT'S ECONOMIC REPORT

Aside from questions of tone and viewpoint which are to be expected, we find much in the report with which we can agree and a few important points on which we must register dissent.

The insistence on the danger of inflation and the assumption that we are having or may have both inflation and deflation simultaneously seems a bit ingenuous. Is it not a rationalization of the desire to have the powers of allocation and price control granted the administration even though they may not be necessary at the moment or at any immediate time in the future? Perhaps the strongest objection to the report is its assumption that the granting of these powers of control is as routine and unimportant a matter as, for instance, providing an appropriation for combating the hoof-and-mouth disease?

We cannot take this view. The establishment of stand-by controls is so serious a thing that it should be left for national emergencies such as would warrant the President's calling the Congress into extraordinary session. To grant them in an offhand manner is to accept the principles of a managed economy in a totalitarian state. The gradual breaking down of such controls in the latter years of the war, the growth of maladjustments and injustices, the expansion of black and gray markets, all should be warnings that such powers are not to be casually asked for or lightly granted.

The practice of voluntary allocations of scarce materials which has been found useful in the case of steel should be extended. This rather than administrative allocation should be applied to meeting the demand for aluminum transmission cables, for instance.

While subscribing completely to the idea that we should balance the budget and have something left to apply to reducing the national debt in 1950, it seems to us that the possibilities of doing this by expense reduction rather than entirely by tax increases should be most strongly commended. In this connection we must not onlv criticize and correct the wastefulness of the armed services, we must also vigorously examine the Hoover Commission reports and see what can be done for the entire category of Government operations. Furthermore, the administration's program of social benefits which, on the face of it, adds up to expenditures of a staggering total must, we would feel, be approached sympathetically, but experimentally and cautiously.

Finally, in view of the overwhelming importance of the budget this year, we should concentrate on reducing and controlling it and leave final tax legislation until the budget has definitely been determined. It is proper that this procedure should be recommended in the report.

RALPH E. FLANDERS.
CHRISTIAN A. HERTER.

APPENDIXES

Appendix A

Table 1.—*Gross national product; current and 1939 dollars*

[Billions of dollars]

Year	Current dollars	1939 dollars [1]
1929	103.8	84.3
1933	55.8	60.0
1939	90.4	90.4
1946 [2]	209.3	145.6
1947 [2]	231.6	144.4
1948 [2]	252.7	146.7

[1] Current dollar estimates deflated by consumers' price index, 1939=100, adjusted for understatement from December 1941 to February 1947.
[2] Deflated gross national product is not an exact measure of output in war and postwar years because of the shift in composition and quality of production. Estimates for 1948 are based on incomplete data.

Sources: Department of Commerce and Department of Labor.

Table 2.—*Federal cash receipts from and payments to the public*

[Billions of dollars; annual rates, seasonally adjusted]

Calendar year	Federal cash receipts	Federal cash payments	Surplus (+) or deficit (−)
1939	6.6	9.5	−2.9
1946	41.5	41.3	+.2
1947	44.3	38.6	+5.7
1948—First half	47.6	35.1	+12.5
Second half [1]	42.3	38.7	+3.6
1949 estimate [2]	43.7	44.3	−.6

[1] Based on incomplete data.
[2] Based on present and proposed legislation.

Note.—Detail will not necessarily add to totals because of rounding.
Sources: Treasury Department and Bureau of the Budget.

Table 3.—*Budget expenditures by major programs*

[In millions of dollars]

	1939	1948	1949	1950
National defense	$1,074	$10,924	$11,745	$14,268
Veterans' services, benefits	559	6,567	6,799	5,496
Interest on public debt	941	5,188	5,325	5,450
International affairs	19	4,782	7,219	6,709
Social welfare, etc	3,996	1,853	1,963	2,358
Transportation, communication	512	1,267	1,757	1,586
General government	556	1,504	1,187	1,224
Agriculture	1,198	575	1,805	1,662
Natural resources	214	1,091	1,616	1,861
Housing facilities	[1] 154	82	349	388
Finance, commerce, industry	52	88	102	107
Labor	11	183	184	187
Education and research	44	75	85	414
Reserve for contingencies			45	150
Adjustment	[1] 63	−388		
Total expenditures	8,959	33,791	40,180	41,858

[1] Excess of credits, deduct.

Source: National City Bank Letter, February 1949.

TABLE 4.—*Some economic changes, 1939–48*

Economic series	Reported data: Unit or base	Reported data: 1939	Reported data: 1948 [1]	1948 as percent of 1939
Corporate profits after taxes	Billions of dollars	5.0	20.8	416
Business expenditures for plant and equipment	Millions of dollars	5,200	18,840	362
Manufacturing sales [2]	do	5,112	17,603	344
National income	do	72.5	224.0	309
Prices received by farmers (index) [3]	August 1909 to July 1914=100.	95	287	302
Personal income	Billions of dollars	72.6	213.6	294
Gross national product	do	90.4	252.7	280
New construction	do	6,307	17,666	280
Manufacturing inventories [4]	do	11,516	31,700	275
Per capita disposable income	Dollars	536	1,299	242
Weekly earnings in manufacturing [3]	do	23.86	53.13	223
Wholesale price index [3]	1926=100	77.1	164.9	214
Prices paid by farmers (index) [3]	1910–14=100	124	249	201
Industrial production (index) [3]	1935–39=100	109	192	176
Consumers' price index [3]	1935–39=100	99.4	171.4	172
Employment (civilian) [3]	Thousands	45,750	59,378	130
Labor force, including armed forces [3]	do	55,600	62,748	113
Unemployment [3]	do	9,480	2,064	22

[1] Estimates based on incomplete data.
[2] Monthly averages. Average for 1948 based on 11 months' data.
[3] Average of monthly data.
[4] Data are for end of period. The 1948 estimate is for the end of November.

NOTE.—The actual data are the total for the period unless otherwise noted. The data are listed in descending order or percentage change from 1939 to 1948.

Source: Various Government agencies.

TABLE 5.—*Percentage distribution of private national income, 1929–48* [1]

Item	1929	1930	1931	1932	1933	1934	1935	1936	1937	1938
Total private national income	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0
Compensation of employees	55.9	59.6	64.2	70.8	70.6	66.2	61.3	61.6	61.1	62.1
Proprietors' and rental income [2]	23.8	22.4	21.8	20.0	20.7	20.2	23.9	22.0	23.1	23.5
Business and professional	10.0	10.0	9.8	8.6	8.4	9.9	9.8	10.6	9.9	10.6
Farm	6.8	5.6	5.3	4.6	6.5	5.4	9.6	6.7	8.4	7.4
Rental income of persons	7.0	6.8	6.7	6.7	5.8	4.9	4.5	4.7	4.7	5.5
Corporate profits and inventory valuation adjustment	12.4	9.3	3.0	−5.4	−5.7	2.6	5.9	8.6	9.2	7.2
Inventory valuation adjustment	.6	4.6	4.5	2.8	−6.1	−1.5	−.4	−1.3	.0	1.6
Corporate profits before tax	11.8	4.7	−1.4	−8.2	.5	4.0	6.3	9.9	9.3	5.6
Corporate profits tax liability	1.7	1.2	.9	1.0	1.5	1.7	1.9	2.5	2.3	1.7
Corporate profits after tax	10.1	3.5	−2.4	−9.2	−1.0	2.3	4.4	7.4	7.0	3.8
Dividends	7.0	7.8	7.6	6.9	5.9	6.0	5.7	7.9	7.0	5.3
Undistributed profits	3.1	−4.3	−9.9	−16.1	−7.0	−3.8	−1.2	−.5	.0	−1.5
Net interest	7.9	8.8	11.0	14.6	14.4	11.0	8.9	7.8	6.6	7.2

Item	1939	1940	1941	1942	1943	1944	1945	1946	1947	1948
Total private national income	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0
Compensation of employees	61.9	59.8	58.1	57.3	58.4	59.0	59.7	60.9	59.6	58.9
Proprietors' and rental income [2]	22.7	22.1	22.1	23.2	22.6	22.8	24.7	26.4	24.8	24.6
Business and professional	10.4	10.5	10.1	10.0	9.9	10.3	11.5	12.9	12.5	12.2
Farm	6.9	6.7	7.3	8.8	8.3	8.0	8.4	9.2	8.4	8.8
Rental income of persons	5.3	4.9	4.6	4.4	4.3	4.5	4.8	4.2	3.8	3.6
Corporate profits and inventory valuation adjustment	8.9	12.5	15.5	16.3	16.6	16.1	13.6	10.6	13.3	14.1
Inventory valuation adjustment	−1.1	−.2	−2.8	−1.1	−.6	−.2	−.4	−3.2	−2.7	−1.4
Corporate profits before tax	10.0	12.7	18.3	17.4	17.2	16.3	14.0	13.8	16.0	15.6
Corporate profits tax liability	2.3	3.9	8.3	9.6	9.9	9.0	8.0	5.7	6.3	6.1
Corporate profits after tax	7.7	8.8	9.9	7.8	7.3	7.2	6.0	8.1	9.7	9.5
Dividends	5.8	5.5	4.7	3.5	3.1	3.1	3.2	3.5	3.7	3.8
Undistributed profits	1.9	3.3	5.2	4.2	4.1	4.1	2.8	4.6	6.0	5.7
Net interest	6.5	5.6	4.4	3.2	2.4	2.1	2.1	2.2	2.3	2.4

[1] National income excluding compensation of Government employees.
[2] Including inventory valuation adjustment.

Source: U. S. Department of Commerce, Office of Business Economics. Survey of Current Business. February 1949, p. 9.

Concerning the interpretation of these figures the Department of Commerce states:

"The distribution of national income by major income shares showed little change as compared with 1947. In fact, the outstanding feature of table 3, which shows the percentage distribution of private national income since 1929, is the marked stability of relative shares when years having approximately the same position in the business cycle are compared.

"In view of the frequent use that is made of percentage distributions of national income by income shares, attention should be drawn to some of the major limitations of the data. They cannot be used to draw safe inferences as to changes in the effective distribution of income as it is relevant to economic welfare, for several reasons. For instance, they show the distribution of income by major types of income share rather than by type of recipient. Only the latter break-down would be strictly germane for studying changes in economic welfare. Moreover, the statistics do not show the size distribution of income. Thus, wages and salaries include the compensation of unskilled labor as well as of corporation executives. Furthermore, income is measured before direct taxes, and the impact of taxes on the distribution of income is not shown. Similarly, a counterpart, as it were, to the neglect of taxes, the benefits derived from government services by various groups of the population are not shown. There are other qualifications which might be mentioned.

"Comparisons of percentage shares are also used to draw inferences about changes in the working of the economic mechanism—e. g., its tendency to generate changing proportions of the various types of receipts, expenditures, and saving. For this purpose also the comparisons can be used only as a starting point, and the changes which they indicate suggest problems requiring further investigation rather than answers that have clear-cut significance" (Ibid, p. 8).

TABLE 6.—*Corporate profits: All private corporations*

Period	Corporate profits		Corporate profits after taxes as percent of net worth	Corporate profits after taxes as percent of sales [1]
	Before taxes (billions of dollars)	After taxes (billions of dollars)		
1929	9.8	8.4	5.1	5.4
1933	.2	-.4	-.3	.5
1939	6.5	5.0	3.5	3.9
1946	21.8	12.8	7.2	4.6
1947	29.8	18.1	9.6	5.2
1948 [2]	34.0	20.8	10.3	5.5
	Annual rates, seasonally adjusted			Not adjusted for seasonal variation
1948—First quarter	31.4	19.2	10.0	5.2
Second quarter	33.4	20.4	10.4	5.4
Third quarter	35.5	21.7	10.9	5.6

[1] Excludes finance, insurance, and real estate.
[2] Estimates based on incomplete data; profits for 1948 include estimates for fourth quarter at same level as third quarter.

Sources: Department of Commerce and Council of Economic Advisers.

TABLE 7.—*Changes in income, 1946–47, as reported by spending units in various income groups*

1947 annual money income before taxes	Percentage of all spending units [1]				
	All units	Change in annual money income before taxes, 1946–47			
		Decreased	Stayed same	Increased	Not ascertained
Under $1,000	100	24	45	27	4
$1,000–1,999	100	24	33	40	3
$2,000–2,999	100	18	30	50	2
$3,000–3,999	100	17	24	57	2
$4,000–4,999	100	16	19	63	2
$5,000–7,499	100	12	28	60	(2)
$7,500 and over	100	14	24	60	2
All units	100	19	30	49	2

[1] A spending unit consists of related persons living in one dwelling who pool their income for major items of expense.
[2] Less than ½ of 1 percent.

Source: Board of Governors of the Federal Reserve System (1948 Survey of Consumer Finances).

TABLE 8.—*Money supply (excluding U. S. Government deposits)*

[Billions of dollars]

End of period	Total money supply	Time deposits [1]	Demand deposits adjusted [2]	Currency outside banks
1929	54.6	28.2	22.8	3.6
1933	41.5	21.7	15.0	4.8
1939	63.3	27.1	29.8	6.4
1946	164.0	54.0	83.3	26.7
1946—January	151.9	49.0	76.8	26.1
June	157.8	51.8	79.5	26.5
December	164.0	54.0	83.3	26.7
1947—June	164.1	55.7	82.1	26.3
December	170.0	56.4	87.1	26.5
1948—June	165.7	57.4	82.7	25.6
December	168.0	57.4	84.7	25.9

[1] Includes deposits in commercial banks, mutual savings banks, and Postal Savings System.
[2] Includes demand deposits, other than interbank and U. S. Government, less cash items in process of collection.

NOTE.—Detail will not necessarily add to totals because of rounding.

Source: Board of Governors of the Federal Reserve System.

TABLE 9.—*Consumer credit outstanding, 1929–48*

[Billions of dollars]

End of period	Total consumer credit outstanding	Installment credit [1]	Charge accounts	Other consumer credit [2]
1929	7.6	3.2	1.7	2.7
1939	8.0	4.4	1.5	2.0
1941	9.9	5.9	1.8	2.2
1943	5.3	1.9	1.5	1.9
1945	6.6	2.3	2.0	2.3
1946	10.1	3.9	3.1	3.1
1947	13.4	6.2	3.6	3.6
1948 [3]	16.0	8.2	3.9	3.9
1947—December	13.4	6.2	3.6	3.6
1948—January	13.1	6.2	3.2	3.7
February	13.1	6.3	3.1	3.7
March	13.5	6.6	3.3	3.7
April	13.8	6.8	3.2	3.7
May	14.0	7.0	3.2	3.7
June	14.3	7.2	3.4	3.8
July	14.4	7.4	3.2	3.8
August	14.5	7.6	3.1	3.8
September	14.8	7.8	3.2	3.8
October	15.1	7.8	3.5	3.8
November	15.3	7.9	3.6	3.9
December [3]	16.0	8.2	3.9	3.9

[1] Includes automobile and other sale credit and repair and modernization loans insured by Federal Housing Administration.
[2] Includes single-payment loans of commercial banks and pawnbrokers and service credit.
[3] Preliminary estimate.

NOTE.—Detail will not necessarily add to totals because of rounding.

Source: Board of Governors of the Federal Reserve System.

TABLE 10—*Wholesale prices and industrial production*

[June 1946=100]

Month	Index of wholesale prices other than farm products and foods [1]	Index of industrial production [2]	Month	Index of wholesale prices other than farm products and foods [1]	Index of industrial production [2]
1946—June	100.0	100	1947—Continued		
July	103.7	101	November	134.6	113
August	105.7	105	December	137.8	113
September	106.3	106	1948—January	140.4	114
October	109.7	107	February	139.8	114
November	114.3	108	March	139.9	112
December	118.1	107	April	140.8	111
1947—January	121.6	111	May	141.2	113
February	122.5	111	June	141.6	113
March	124.7	112	July	143.1	109
April	125.4	110	August	145.0	112
May	125.3	109	September	145.2	113
June	124.6	108	October	145.0	115
July	126.4	104	November	145.2	115
August	129.0	107	December	144.7	113
September	131.0	110	1949—January	144.7	113
October	132.7	112			

[1] Converted from the reported base, 1926=100.
[2] Converted from the reported base, 1935–39=100; seasonally adjusted.

Sources: Department of Labor and Board of Governors of the Federal Reserve System.

TABLE 11.—*Price advances since June 1946 for selected commodities*

[June 1946=100]

Month	Lead [1]	Zinc [1]	Iron and steel [2]	Brick and tile	Farm machinery	Plumbing and heating
1946—June	100.0	100.0	100.0	100.00	100.0	100.0
July	114.6	112.6	101.1	101.0	100.1	100.0
August	100.0	100.0	102.9	103.9	103.7	100.3
September	100.0	100.0	103.1	105.3	103.8	101.1
October	100.0	106.9	103.3	105.4	103.9	101.1
November	126.8	121.8	103.5	106.4	107.5	101.1
December	148.8	125.3	106.6	107.2	114.0	108.4
1947—January	157.3	126.4	116.0	109.2	114.8	109.7
February	161.0	126.4	116.8	109.3	114.9	109.7
March	181.7	126.4	117.6	109.4	114.8	110.4
April	182.9	126.4	117.9	110.9	114.9	110.7
May	182.9	126.4	117.6	110.9	115.2	112.4
June	182.9	126.4	118.0	111.0	115.5	112.4
July	182.9	126.4	119.6	118.1	115.5	116.4
August	182.9	126.4	125.6	119.0	115.9	122.1
September	182.9	126.4	126.2	119.9	117.1	128.3
October	182.9	126.4	126.5	120.7	118.3	128.4
November	182.9	127.6	126.7	122.1	121.1	128.4
December	182.9	127.6	127.3	122.7	122.6	128.4
1948—January	182.9	134.5	131.3	124.4	123.9	130.9
February	182.9	144.8	132.9	124.6	124.3	130.8
March	182.9	144.8	134.2	125.0	124.7	130.8
April	209.8	144.8	135.7	125.7	125.2	130.8
May	213.4	144.8	135.2	126.0	125.9	135.1
June	213.4	144.8	135.7	126.4	127.8	137.0
July	217.1	150.6	139.1	130.2	129.9	137.1
August	237.8	179.3	148.1	130.8	131.3	145.2
September	237.8	179.3	149.0	131.0	136.1	148.1
October	237.8	181.6	149.4	132.0	138.1	148.4
November	262.2	198.9	149.9	132.2	139.3	148.4
December	262.2	209.2	150.2	132.3	139.7	148.4
1949—January	262.2	209.2	(3)	(3)	(3)	(3)

[1] Monthly average of daily spot market prices.
[2] Includes iron ore, pig iron, scrap, and miscellaneous items as well as steel mill products.
[3] Not available.

Source: Department of Labor.

TABLE 12.—*Federal outlays to business (years ending June 30)*

[Millions of dollars]

	1948	1949, estimate	1950, estimate
Goods bought:			
Supplies, materials	3,767	3,768	3,899
Aircraft	791	1,157	1,718
Heavy equipment	1,068	1,501	1,727
Services bought:			
Travel	248	298	329
Freight, etc	599	629	585
Communications	62	63	55
Rents, utilities	174	155	157
Printing	40	43	46
Other	1,318	1,361	1,393
Financing: Subsidies, grants, loans, interest	6,318	9,094	8,899
Construction: Road building, structures, land	1,104	2,177	2,611
Total	15,489	20,246	21,419

Source: United States News, Feb. 25, 1949, p. 39.

TABLE 13.—*Percent distribution of gross national product, by type of expenditure*

Year	Gross national product	Personal consumption expenditures	All other expenditures for goods and services	Gross private domestic investment
1929	100.0	75.9	9.0	15.2
1930	100.0	77.9	10.9	11.2
1931	100.0	80.6	12.4	7.1
1932	100.0	84.4	14.2	1.5
1933	100.0	83.0	14.7	2.3
1934	100.0	80.6	15.7	4.3
1935	100.0	77.8	13.6	8.4
1936	100.0	75.8	14.1	10.1
1937	100.0	74.4	13.0	12.6
1938	100.0	76.2	16.4	7.4
1939	100.0	74.7	15.5	10.0
1940	100.0	71.7	15.3	12.9
1941	100.0	65.7	20.6	13.7
1942	100.0	56.9	37.3	5.8
1943	100.0	52.8	44.9	2.4
1944	100.0	52.5	44.5	3.0
1945	100.0	57.5	38.1	4.3
1946	100.0	70.4	17.0	12.7
1947	100.0	71.2	15.9	13.0
1948 [1]	100.0	70.0	14.7	15.4

[1] Estimates based on incomplete data.

NOTE.—Detail will not necessarily add to totals because of rounding.

Source: Department of Commerce.

TABLE 14.—*Liquid asset holdings, 1948*

[Distribution of spending units by size of liquid asset holdings]

Amount of liquid assets held	Percentage of spending units [1]	Amount of liquid assets held	Percentage of spending units [1]
None	27	$5,000 to $9,999	5
$1 to $199	15	$10,000 and over	4
$200 to $499	13		
$500 to $999	12	All spending units	100
$1,000 to $1,999	12	Median holdings of all units	$350
$2,000 to $2,999	6	Median holdings of those with assets	$820
$3,000 to $4,999	6		

[1] A spending unit consists of related persons living in 1 dwelling, who pool their income for major items of expense.

Source: Board of Governors of the Federal Reserve System (1948 Survey of Consumer Finances).

TABLE 15.—*Aluminum supply for 1949 and requirements, for 1949 and 1954*

Item	Thousands of short tons	Item	Thousands of short tons
1949—Supply:		1949—Requirements:	
Domestic supply	855,000	For domestic use	1,450,000
Imports	90,000	For export	50,000
Total	945,000	Total	1,500,000
		1954—Requirements:	
		(a) [1]	1,700,000
		(b) [1]	2,300,000

[1] Requirement (a) and requirement (b) derived from Bonneville Power Administration market estimates for 1960. Requirement (b) makes greater allowance for increased use of aluminum for building products, transportation, power transmission, and other products

Source: Department of the Interior.

TABLE 16.—*Income per capita of persons on farms and of persons not on farms*

Period	Per capita income: Persons living on farms	Per capita income: Persons not living on farms	Period	Per capita income: Persons living on farms	Per capita income: Persons not living on farms
1935-39 average	$243	$603	1947	$851	$1,453
1946	774	1,300	1948 [1]	909	1,569

[1] Preliminary estimate based on 11 months' data.

Source: Department of Agriculture.

TABLE 17.—*Steel furnace capacities, 1947, 1948, and 1949*

[Thousands of short tons]

Company	Capacity Jan. 1, 1947	Percent of total	Capacity Jan. 1, 1948	Percent of total	Increase 1948 over 1947	Capacity Jan. 1, 1949	Percent of total	Increase 1949 over 1948	Capacity Jan. 1, 1950 [1]
United States Steel Corp	29,547	32.4	31,226	33.1	1,679	31,277	32.5	51	
Bethlehem Steel Corp	12,900	14.1	13,800	14.7	900	14,200	14.8	400	
Republic Steel Corp	8,600	9.4	8,600	9.1		8,600	9.0		
Jones & Laughlin Steel Corp	4,741	5.2	4,741	5.0		4,816	5.0	75	
National Steel Corp	3,900	4.3	4,050	4.3	150	4,200	4.4	150	
Youngstown Sheet & Tube Co	4,002	4.4	4,002	4.3		4,082	4.3	80	
Armco Steel Corp	3,276	3.6	3,367	3.6	91	3,563	3.7	196	
Inland Steel Co	3,400	3.7	3,400	3.6		3,400	3.5		
Sharon Steel Corp	1,617	1.8	1,572	1.7	−45	1,672	1.7	100	
Wheeling Steel Corp	1,344	1.5	1,409	1.5	65	1,536	1.6	127	
Colorado Fuel & Iron Corp	1,452	1.6	1,452	1.5		1,452	1.5		
Ford Motor Co	815	.8	1,115	1.2	300	1,432	1.5	317	
Crucible Steel Co	1,275	1.4	1,254	1.3	−21	1,277	1.3	23	
Pittsburgh Steel Co	1,072	1.2	1,072	1.1		1,072	1.1		
Subtotal	77,941	85.4	81,060	86.0	3,119	82,579	85.9	1,519	
All other companies	13,300	14.6	13,173	14.0	−127	13,542	14.1	369	
Grand total	91,241	100.0	94,233	100.0	2,992	96,121	100.0	1,886	98,304

[1] Increase of 2,183,000 planned during 1949 over 1948 but no details as to producers will be available until late 1949. When this increase becomes effective, total steel-making capacity will be 98,304,000 net tons.

Source: American Iron and Steel Institute.
Prepared by Iron and Steel Division, Office of Domestic Commerce, Feb. 14, 1949.

TABLE 18.—*Steel production and gross national product*

[1939 dollars]

Year	Gross national product (billions of 1939 dollars) [1]	Steel production (millions of net tons)	Year	Gross national product (billions of 1939 dollars) [1]	Steel production (millions of net tons)
1919	66.8	38.8	1936	82.7	53.5
1920	62.2	47.2	1937	87.3	56.6
1921	54.4	22.2	1938	83.5	31.8
1922	61.0	39.9	1939	90.4	52.8
1923	70.6	50.3	1940	99.7	67.0
1924	70.3	42.5	1941	[2] 118.4	82.8
1925	72.8	50.8	1942	[2] 134.9	86.0
1926	75.9	54.1	1943	[2] 151.5	88.8
1927	76.4	50.3	1944	[2] 162.6	89.6
1928	80.2	57.7	1945	[2] 159.1	79.7
1929	84.3	63.2	1946	[2] 145.7	66.6
1930	75.7	45.6	1947	[2] 144.4	84.8
1931	69.4	29.1	1948	[2] 146.7	88.5
1932	59.4	15.3	1954	----------	[3] (*a*) 107 [3] (*b*) 103
1933	60.0	26.0			
1934	67.4	29.2	1958	[4] 200	[3] (*a*) 119 [3] (*b*) 112
1935	73.2	38.2			

[1] Current dollar estimates deflated by the consumers' price index, 1939=100, adjusted for understatement from December 1941–February 1947. Estimates for 1919–28 by Council of Economic Advisers.

[2] Deflated gross national product is not an exact measure of output in war and postwar years because of the shift in composition and quality of product.

[3] Estimates for steel production required for full employment in 1954 and 1958 based on GNP of about $175,000,000,000 and about $200,000,000,000 (1939 dollars) respectively in those 2 years. Estimate (*a*) assumes the same ratio between use of steel and GNP as in 1948. Estimate (*b*) allows for a shift in use patterns for steel.

[4] Target estimate for 1958 based on annual increase of output of about 3 percent. (The Annual Economic Review, January 1949, a report to the President by the Council of Economic Advisers, p. 52.)

Sources: Council of Economic Advisers, Department of Commerce, Department of Labor, and American Iron and Steel Institute.

TABLE 19.—*Total labor force, classified by employment status, 1929–48* [1]

[Annual averages, in thousands]

Year	Total labor force [2]	Armed forces [2]	Civilian labor force					
			Total	Employed			Unemployed	Percent unemployed
				Total	Agricultural	Nonagricultural		
1929	49,440	260	49,180	47,630	10,450	37,180	1,550	3.1
1930	50,080	260	49,820	45,480	10,340	35,140	4,340	8.7
1931	50,680	260	50,420	42,400	10,290	32,110	8,020	15.8
1932	51,250	250	51,000	38,940	10,170	28,770	12,060	23.5
1933	51,840	250	51,590	38,760	10,090	28,670	12,830	24.7
1934	52,490	260	52,230	40,890	9,900	30,990	11,340	21.6
1935	53,140	270	52,870	42,260	10,110	32,150	10,610	20.0
1936	53,740	300	53,440	44,410	10,000	34,410	9,030	16.8
1937	54,320	320	54,000	46,300	9,820	36,480	7,700	14.2
1938	54,950	340	54,610	44,220	9,690	34,530	10,390	18.9
1939	55,600	370	55,230	45,750	9,610	36,140	9,480	17.1
1940	56,180	540	55,640	47,520	9,540	37,980	8,120	14.5
1941	57,530	1,620	55,910	50,350	9,100	41,250	5,560	9.7
1942	60,380	3,970	56,410	53,750	9,250	44,500	2,660	4.4
1943	64,560	9,020	55,540	54,470	9,080	45,390	1,070	1.7
1944	66,040	11,410	54,630	53,960	8,950	45,010	670	1.0
1945	65,290	11,430	53,860	52,820	8,580	44,240	1,040	1.6
1946	60,970	3,450	57,520	55,250	8,320	46,930	2,270	3.7
1947	61,760	1,590	60,170	58,030	8,260	49,770	2,140	3.5
1948	62,748	1,307	61,442	59,378	7,973	51,403	2,064	3.3

[1] Estimates for the period 1929–39 were prepared by the Bureau of Labor Statistics. Estimates for the period 1940–48 were adapted from U. S. Bureau of the Census, Labor Force Bulletin, series P-50, No. 2.

[2] Total labor force includes civilian labor force and the armed forces. The estimates of total labor force and of the armed forces were adjusted upward to include about 150,000 members of the armed forces stationed outside the continental United States in March 1940, and who were not enumerated in the census of that date. The Census Bureau reduces its current estimates of the total labor force by this number in order to maintain comparability with the 1940 census.

TABLE 20.—*Per capita personal income after taxes:*[1] *Current and 1939 dollars*

Year	Per capita personal income after taxes[1] Current dollars	1939 dollars[2]	Consumers' price index 1939=100[3]
1939	536	536	100.0
1940	574	569	100.8
1941	691	653	105.8
1942	863	730	118.3
1943	964	758	127.1
1944	1,054	808	130.5
1945	1,070	798	134.1
1946	1,127	784	143.7
1947	1,205	751	160.4
1948[4]	1,299	754	172.2

[1] After Federal and State personal taxes.
[2] Current dollars divided by consumers' price index, adjusted for understatement during control period (see footnote 3), to give a rough measure of the changes in buying power of disposable income.
[3] Consumers' price index has been roughly adjusted to take account of the understatement during the period, December 1941–February 1947. This adjustment is in line with the report of the Mitchell committee.
[4] Estimates based on incomplete data.

Sources: Department of Commerce and Department of Labor.

TABLE 21.—*Earnings and hours of work in manufacturing and the movement of consumers' prices, 1914–48*[1]

Year	Average hourly earnings	Average weekly earnings	Average weekly hours	Consumers' price index (1939=100)	Indexes (1939=100) Actual hourly earnings	Actual weekly earnings	Real hourly earnings[2]	Real weekly earnings[2]
1914	$0.223	$11.01	49.4	72.2	35.2	46.1	48.8	63.9
1919	.477	22.08	46.3	124.5	75.4	92.5	60.6	74.3
1923	.522	23.82	45.6	122.6	82.5	99.8	67.3	81.4
1924	.547	23.93	43.7	122.9	86.4	100.3	70.3	81.6
1925	.547	24.37	44.5	126.2	86.4	102.1	68.5	80.9
1926	.548	24.65	45.0	127.2	86.6	103.3	68.1	81.2
1927	.550	24.74	45.0	124.7	86.9	103.7	69.7	83.2
1928	.562	24.97	44.4	123.3	88.8	104.7	72.0	84.9
1929	.566	25.03	44.2	123.2	89.4	104.9	72.6	85.1
1930	.552	23.25	42.1	120.1	87.2	97.4	72.6	81.1
1931	.515	20.87	40.5	109.4	81.4	87.5	74.4	80.0
1932	.446	17.05	38.3	98.2	70.5	71.5	71.8	72.8
1933	.442	16.73	38.1	93.0	69.8	70.1	75.1	75.4
1934	.532	18.40	34.6	96.3	84.0	77.1	87.2	80.1
1935	.550	20.13	36.6	98.7	86.9	84.4	88.0	85.5
1936	.556	21.78	39.2	99.7	87.8	91.3	88.1	91.6
1937	.624	24.05	38.6	103.3	98.6	100.8	95.5	97.6
1938	.627	22.30	35.6	101.4	99.1	93.5	97.7	92.2
1939	.633	23.86	37.7	100.0	100.0	100.0	100.0	100.0
1940	.661	25.20	38.1	100.8	104.4	105.6	103.6	104.8
1941	.729	29.58	40.6	105.8	115.2	124.0	108.9	117.2
1942	.853	36.65	42.9	117.2	134.8	153.6	115.0	131.1
1943	.961	43.14	44.9	124.3	151.8	180.8	122.1	145.5
1944	1.019	46.08	45.2	126.3	161.0	193.1	127.5	152.9
1945	1.023	44.41	43.4	129.2	161.6	186.1	125.1	144.0
1946	1.084	43.74	40.4	140.1	171.2	183.3	122.2	130.8
1947	1.221	49.25	40.3	160.2	192.9	206.4	120.4	128.8
1948[3]	1.327	53.13	40.0	172.2	209.6	222.7	121.7	129.3

[1] Based on revision and extension of data in Wages, Hours, and Productivity of Industrial Labor, 1909–39, Monthly Labor Review, September 1940. The earnings shown are "gross" in that they are affected by such factors as premium pay for overtime and late-shift work. Changes among firms, industries and areas in the distribution of employment also affect the general level of earnings.
[2] Money earnings adjusted by Consumers' Price Index.
[3] Preliminary.

Source: Bureau of Labor Statistics.

APPENDIX B

COMMENTS BY ROUND-TABLE GROUPS ON RECOMMENDATIONS CONTAINED IN THE ECONOMIC REPORT OF THE PRESIDENT: ECONOMIC OUTLOOK, CAPITAL INVESTMENT, PERSONAL CONSUMPTION EXPENDITURES

ECONOMIC OUTLOOK

Mr. WOODWARD. You may call this a moderate fluctuation in conditions, and moderate fluctuations, I think, are necessary. The population undergoes changing needs. With their changes there must be changes in the distribution and allocation of manpower and resources. Rather than fearing small fluctuations, it seems to me they are the essence of getting an adjustment to ever-changing conditions.

Moderately lower prices are not inconsistent with prosperity, as I have said. Moderately lower prices are the way for everyone to have an increase in pay and I think prices should be responsive—within reasonable limits—to changing demand. It is highly desirable that they be so. If we want more metal, prices within limits should increase. Now, the question is whether a return to a competitive situation will spiral on to a general depression. It has seemed to me that the Council of Economic Advisers, and much of the rest of the discussion, has understated the defenses which we have erected in the past several years against depression. On the part of government we have unemployment insurance, old-age insurance, agricultural price supports—and I need not run down a very long list, including bank-deposit insurance. Our defenses are vastly greater than they were when we last had any experience with declining business.

Likewise, the position of the public as a defense is vastly greater. The American public on the average, and substantially in every individual case, has far more in cash and liquid assets than it ever had before, meaning that with a slight decline in price there is the wherewithal to come on and stimulate buying.

In short, Mr. Chairman, it seems to me that there has been an indication this morning of much too much fear on both sides of the table about the ability of this economy to take care of itself. Finally, sir, therefore, I think we have a very good prospect of reasonably good times for a long period ahead, within an area of moderate fluctuations, like those perhaps which marked the '20's. We had a readjustment in 1924. We had another one in 1927. I think the inflationary forces have substantially spent themselves. I am not fearful of further inflation, barring the inflation that might arise from a war or the necessity greatly to increase our armament expenditures and a deficit.

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Mr. BRADFORD SMITH. We are faced now, or sometime in the future—I don't know whether it is immediate or not—but we are faced sometime in the future with that second transition, the return to normal. That transition in the past has not been made without going into depressions. * * * I do not think the shortages are entirely made good. That is number one.

Secondly, I do not think there is a prospect for the tightening of the money supply which serves as the financial basis for facilitating the production and distribution which makes good the accumulated shortages.

In the third place, I think that the international situation will react to insure high levels of spending in this country. More specifically, I think it will react to insure that we will continue the easy-money policy to which we have become habituated, which means that in the event people find themselves short of funds, funds will be made available to them at low interest rates to go ahead and do things which people think need to be done.

* * * So that I do not think, Mr. Chairman, that we are in for any serious deflation. As a matter of fact, such interpretation as I have made would mean that the abundant crops were the omen of further inflation later on, rather than a harbinger of a general deflation.

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Mr. SCHULTZ. Now, yesterday what was said by and large around this table was as follows: That the postwar inflationary forces have spent themselves; prices are leveling off; a buyer's market is rapidly becoming general, and there are some deflationary signs. If measures are taken now to curb inflation they would be exceedingly harmful, but the deflationary forces are not sufficient to justifiy measures of the opposite type.

This is really the dilemma presented to the committee here by the two sets of beliefs and evidences.

As of February this year we are confronted with sufficient uncertainty as to what lies ahead that you cannot safely decide whether you are dealing for the next 6, 7, 8, or 9 months with an inflationary set of forces, or something less than that in terms of the pressure on the economy. I think it simply means a general policy approach that is covered by the word "flexibility" and already touched upon in comments here this morning.

Measures of a kind that Mr. Ginsburg touched upon—unemployment, prices, production, are the ones to which I would appeal. By April we should know.

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Mr. GAINSBRUGH. * * * The new-order outlook is extremely important, I think, in business appraisal. About half of the companies reported that the new-order outlook was definitely downward for the first half of 1949, as compared with the last half of 1948. A quarter said the new-order outlook might be upward, and a quarter said the new-order outlook would be the same. The emphasis there is primarily upon the downward cast of new orders.

On the backlog position, two-thirds of the companies indicated that their backlog had decreased very sharply, as compared with a year ago. About a quarter said the backlog was the same, and only the remaining percentage, or less than a tenth, indicated any increase in backlog position at all. The note of optimism is to be found in a similar survey in which a dozen of the Nation's leading economists participated. * * * the results of the poll were about the same level of national income for 1949 as for 1948; about the same level of industrial production for 1949 as for 1948. Only one of the major business indicators was indicated to come down to any substantial extent, and that was corporate profits after taxes.

The group of economists on the average felt that it would not be possible for the corporations to pass along higher metal prices and higher labor costs which they anticipated in 1949, as readily as they had in the past, and that hence corporate profits would be substantially lower in 1949 than in 1948.

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Mr. KEEZER. Well, in my judgment, speaking in terms of the business outlook, we will have a year of high business activity in 1949; I do not share the jitters and fears currently being expressed. I think that beyond the middle of the year, perhaps Labor Day, the business outlook will be conditioned primarily by what is done here in Washington, and that, perhaps, primarily turns on taxes, and taxes specifically in their bearing on capital expenditure.

* * * If we cut a large amount in taxes away from profits we cannot, in my opinion, but adversely affect the volume of capital expenditures. If we do that I see no reason to believe that we will escape serious difficulty later on in the year. * * * In terms of inflation or deflation, I think certainly the postwar surge of inflation is stayed. Whether this is the end of it, I would not attempt to say. * * * I do not share my friend Dr. Clark's confidence that we shall certainly have more inflation as we move into the spring. I think that is problematical. * * *

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Mr. TERBORGH. As to prediction, I check out. I wish I could have the assurance that Dr. Clark exhibited here yesterday in stating that by April we would be on our way again on an inflationary trend. I have no such confidence in the capacity of economists, including myself, to predict the future.

If I may draw a moral for public policy, it is this: That it would be folly at this juncture to predicate policy on a forecast such as Dr. Clark gave yesterday.

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Mr. YNTEMA. The economy is coming into balance. If we could avoid another round of wage increases this year, the wholesale-price index of other than farm products and foods would certainly be lower by the end of the year than it is today.

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Mr. GINSBURG. * * * of the several billions of dollars appropriated for ECA last year, we know that all or most of the funds have been allocated. * * * I understand there is a good part of the funds which have not yet actually been spent in terms of contracts placed within the country. In evaluating what it is we have to deal with in terms of the inflationary pressure, I think it is important that we have these data, data which have not as yet, so far as I have been able to determine, been presented to committee, nor so far as I am aware, to any other congressional committee.

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Mr. GAINSBRUGH. Of the companies reporting—and ours is primarily a cross section of manufacturing and heavy industry—only 42 percent look for the same level of activity in the first 6 months of 1949, as in the closing 6 months of 1948.

Thirty-two percent look for a lower level of activity in the first 6 months of 1949, as compared with the closing months of 1948.

Only 26 percent—and this is the significant figure—anticipate a higher level of business operations for their individual companies in 1949 than in 1948. * * *

I think we have under the present levels of employment created domestic markets sufficient to sustain full employment when we get the right price-profit-wage relationship. We have yet to develop those right price-profit-wage relationships.

We are beginning to get the necessary correction in the balance of prices. Farm prices are coming down. The whole price band is narrowing. Manufactured goods, which were restrained, have moved up and we are beginning to get a better degree of exchange between the farmer's dollar for manufactured goods and the wage earner's dollar for farm products.

The CHAIRMAN. Then your testimony is, or the conclusion is, that the situation in which we find ourselves is one that is relatively satisfactory?

Mr. GAINSBRUGH. Yes.

Senator TAFT. Basically sound?

Mr. GAINSBRUGH. So far as the over-all picture looks. Internally there are a great many soft spots, such as New England, and other regional areas.

The CHAIRMAN. Yes, but over-all it is basically sound, as Senator Taft said. Is that your judgment?

Mr. GAINSBRUGH. If this process of readjustment is allowed to continue.

CAPITAL INVESTMENT

Mr. KEEZER. In my opinion the Council is wrong, dangerously wrong in this conclusion; that as a Nation we are devoting too large a proportion of our resources to productive facilities * * *.

In brief, the results of this survey seem to me to indicate that relative to total investment in manufacturing, the rate of expenditure for new manufacturing facilities is low. Relative to need, the rate of investment in new industrial facilities is low. This appears to be the case, whether the need is measured by direct estimate of the financial requirements to put our industrial establishment in first-class condition, by estimates of prospective capacity requirements, or by the returns which our industrial corporations expect to get with the limited funds they have available for investment in plant and equipment. * * *

It is a fact, whether we like it or not, that capital investment and prosperity have gone hand in hand. Now, which is cause and which is effect, is a matter that is arguable. This is the proposal to cut back capital investment, which I think is dangerous.

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Mr. KAPLAN. Not only we cannot overlook it, but the thing I am very much afraid of is that unless we allow normal readjustments to continue now, we are going to have a slackening in some of the formal planning by private industry, which Mr. Keezer mentioned, and we may not collect enough funds out of productive earnings to carry some of our budgetary requirements.

We should always have a good pile of blueprints and plans far enough advanced for us to time those long-term programs in terms of our needs. Not all projects are of equal urgency. The priorities of social urgency in housing must be considered along with our foreign and military commitments and the whole lump weighted against the means for paying the bill.

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Mr. TERBORGH. I find myself seriously at odds with a basic assumption in the Economic Report of the Council as reiterated here, I believe, in testimony by Mr. Keyserling and Mr. Clark: That we are currently having an excessive and insupportable rate of business-capital formation; that this capital formation is being financed out of profits and that therefore we should take measures to reduce profits in order to bring capital formation into line with a normal and supportable level.

I have given considerable study to the question of where we stand currently on business fixed-capital expenditures, and it is my judgment so far as we can determine from historical trends, that we are somewhat above normal for this period in respect of equipment installation but we are, on the other hand, under normal with respect to plant construction. When you put the two together you have a very difficult time making a case for the proposition that we are up in the clouds on business-capital formation.

When we consider that our business plant is gravely deteriorated at the present time as a result of a decade of depression, followed by several years of war (in which capital formation was drastically curtailed except in certain metalworking fields essential to munitions production), I think we have nothing to be alarmed about in the fact that the current level of business-capital formation may be at or slightly above what would have been a normal in the absence of this past history.

In the interests of production and the increase in our standard of living, we ought, indeed, to expect and to welcome a period of overnormal business-capital formation, extending for several years. * * *

PERSONAL-CONSUMPTION EXPENDITURES

Mr. Gainsbrugh. This committee has heard, and the Council's report contains statements to the effect that consumption expenditures are now too low for purposes of stability; that consumption expenditures in the past have been about 75 percent of gross national expenditures; they are currently 70 percent. Hence there is something inimical or unstable about the present composition and size of consumption expenditures.

The figures are correct. What I would like to give this committee is some background underlying those figures. Let us take consumption expenditures and break them into their three major categories, durable goods, nondurable goods, and services, and see which of those three now lies below prewar position.

Consumer durable goods accounted for 9 percent of total GNE, or gross national expenditures, in 1948, as compared with 7.3 prewar—a very sharp increase in the expenditures of consumers for durable goods.

For nondurable goods we spent 40.9 percent in 1948 as compared with 39 percent prewar. If we put the expenditures for durable and nondurable goods together we get 50 percent spent for goods of all types in 1948 as against about 46 percent prewar. There has been a very substantial increase by consumers of America in the proportion spent for goods.

Where, then, does this lower value of consumption make itself manifest? Only in one area, and that is in services.

Prior to the war in 1939 we spent 28.2 percent of gross national product for services; today we are spending only 20.2 percent.

There is the weak spot in the consumption picture that the Council has painted for us. Why is that percentage so low now as compared with prewar? Primarily because of rent control and the impact of rent control upon the expenditures for services. We are also spending less relatively for domestic services and related hand trades.

There is nothing in the present picture of retail sales to suggest underspending on the part of American consumers. If anything, the ratio of retail sales to disposable income is well above any prewar ratio. It was usually about 55 or 60 percent prewar and is currently about 65 or 70 percent of disposable income.

COMMENTS BY WITNESSES, ROUND-TABLE GROUPS ON RECOMMENDATIONS CONTAINED IN THE ECONOMIC REPORT OF THE PRESIDENT, JANUARY 1949

(See list of participants and their affiliation, p. 84)

1. (*a*) *It is essential to sound fiscal policy to have a budget surplus.* * * *

Secretary Snyder. We must have a surplus during times of prosperity with which to reduce the debt; for, if we do not, we shall never be able to reduce the debt in the manner which I feel is necessary and desirable.

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The Chairman. Then if it be assumed that the expenditures of government are greater than the receipts of government, and if it be assumed that the Congress, as well as the budget, is making an effort to keep those expenditures down, what would you then say with respect to the advisability of additional receipts?

Mr. Woodward. If the necessary expenditures in a period of prosperity and full employment, such as the present, exceed the receipts under the existing tax basis, I think we ought to increase taxes and balance the budget and reduce the debt.

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Mr. KEEZER. I should certainly like very much to see a budget surplus. I am aware of the tremendous burden of Government expenditures. By addressing myself to the business outlook I think the most crucial factor in that outlook is the volume of capital expenditures. I do not think you can tax several billion dollars out of corporate profits in 1949 and still maintain anything like the present volume of capital expenditures * * * I would much prefer to take my chances on the fiscal complications of not having a surplus, than take my chances on cutting down capital expenditures and investment in plant equipment.

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Mr. FLEMING. We believe that under present conditions the budget must be balanced. This should be done by limiting governmental expenditures to tax revenue. If the threat of war makes additional spending advisable, income taxes should be raised on an equitable and a broad basis.

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Mr. LINCOLN. We are definitely for the raising of the necessary funds, by taxation based on the principle of the ability to pay, to cover all the necessary expenses of government, and to make payments on the national debt.

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Mr. BLOUGH. We have had a curious reversal of position on deficit spending. Both the business community and the administration are in favor of balanced budgets and they were in favor of balanced budgets in the 1930's. But in the 1930's, the administration was more interested in some other things than it was in balanced budgets, and we did not get balanced budgets. The business community was very critical about it.

At the present time, both the business community and the administration want a balanced budget, but the business community wants something else more than it wants a balanced budget, namely, tax reduction, to keep what they have received, and get more when they can. * * * The business community would rather risk a deficit than have any tax increases, especially any tax increases on them. In a situation of uncertainty it is very important that we be in a strong fiscal position. * * *

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The CHAIRMAN. What is your view with respect to the desirability of maintaining a budgetary surplus?

Mr. SCHMIDT. So long as the inflationary pressures continue I certainly would agree with what apparently was the unanimous view of this group. But now if you are on this fence not knowing whether inflationary prices are still with us, or whether it is deflation, I would still try to generate a surplus. But instead of paying off the bank-held debt I would pay off the publicly-held debt because the paying off of the bank-held debt tends to reduce the reserves of the banking system, and therefore is a much more powerful deflation weapon than is the payment of certain bonds that I happen to hold, and you happen to hold.

If the Government itself were able to adopt a contra-cyclical policy, that would make, probably, the most powerful single contribution to economic stability and to the boom-bust theory that could be made.

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Mr. WOODWARD. I have been very much impressed with the press accounts of Mr. Hoover's recommendation toward reducing expenditures.

The CHAIRMAN. That is a result which we devoutly hope will follow from the reorganization of the Government.

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Mr. S. ABBOT SMITH. When I see our Federal, State, and local taxes taking something like 25 or 30 percent of our national income, it is perfectly obvious to me that we are in a dangerous situation. Now, when a business man finds himself in a situation like that the first thing he wants to do is cut his costs. It seems to most of us that the Government should do the same.

Judging from the newspaper articles about the Hoover Report we think it is going to show a lot of places where substantial savings can be made. We would like to see those recommendations implemented, as soon as possible. We realize that it is hard to do. It is hard to cut expenses, whether you are in business, in government or in your home. Everybody squawks when you cut things off, but it has to be done.

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Mr. FLEMING. Consistent with that [affirmative action to counteract monetary inflation], of course, is the necessity to reduce nonessential Government expenditures. We are conscious of the fact that in the United States about 29 cents out of every dollar earned now is used to defray the cost of government. We are very anxious that the Congress give attention to every appropriate means for reducing nonessential Government expenditures.

1 (b). Increase the Government revenue from taxation by $4,000,000,000 a year.

Secretary SNYDER. The objective of the administration is to increase revenues by $4,000,000,000: and the need for these additional revenues for the Federal Government is imperative.

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Mr. TERBORGH. I submit that it should not be public policy to attempt, by taxation or otherwise, to curtail this much delayed replenishment of our physical facilities of production.

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Mr. PAUL. We should have one tax policy for an inflationary period and a quite different tax policy for a deflationary period. A tax for use in high prosperity simply will not fit into a period of depression.

I listened with great interest to the testimony yesterday and this morning, and the arguments submitted. They seem to come to a definite majority opinion, at least among the experts. One is that 1949 will not be much off the level of 1948. The second is that we should have a budget surplus. The third is that we should not impose additional corporate taxes because they might possibly affect the economy adversely.

Now, it seems to me it is time we had a dissenting opinion on that last one. It is perfectly clear to me that we must have additional taxes if we are going to achieve a budgetary surplus, in a time of high prosperity. We cannot have this surplus with no additional taxes, unless we are prepared to reduce expenditures very drastically.

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Mr. BLOUGH. As a matter of fact, taxation is about the only available anti-inflationary measure that we have in our kit of implements at the present time. Our debt is of such size that debt-management considerations limit us in using banking and credit instruments for anti-inflation purposes. * * *

So my conclusion is that it would be desirable to set in motion the machinery for getting a tax increase. Of course, if we do run into this unexpected depression we do not want to increase taxes in the face of drastically declining economic levels.

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Mr. FLEMING. With regard to control of inflation as a major proposition, as I have indicated it has been our policy and still is, that we should deal with the causes of inflation, rather than with the symptoms. We backed up that policy by opposing tax decreases in the Eightieth Congress. In other words, it was our conviction at that time that during periods of prosperity is the time to collect taxes, balance the budget, and make a substantial payment of the public debt.

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The CHAIRMAN. How do you feel with respect to taxation now, the recommendation of the President, for example, that an additional $4,000,000,000 should be found?

Mr. FLEMING. We are less sure that the inflationary pressures, which we were confident existed a year ago, exist today. Therefore, it would be our suggestion that, before a positive commitment be made on that point, we determine more accurately than we can now—and we may be able to do it more accurately within 3 months—the exact point we are in with regard to the transition from an inflationary to a deflationary situation.

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Mr. GOSS. Our whole tax structure needs a courageous overhauling.

I feel that we must spread our tax base more widely. I feel there has been a tendency to seek taxes where they could be most easily raised, and I feel that all of us generally must figure that individually we have to take a bigger part in supporting our Government financially than we have heretofore.

1. (c) Principal source should be additional taxes upon corporate profits

Mr. TERBORGH. I can think of nothing more certainly calculated to reduce the volume of business investment than additional taxes on profits.

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Mr. PAUL. I want to call the attention of the committee to the fact that sources of additional taxation are not unlimited. Congress did a very good job during the war years in increasing taxes, and really almost exhausted the sources of taxation. If we are to have $4,000,000,000 of additional taxes now, the principal source simply has to be corporate sources, which in 1948 went to a total of $34,000,000,000 before taxes, and $21,000,000,000 after taxes.

The only remaining question in my mind is the language of the economic report, "Will additional corporate taxes of this magnitude unduly interfere with prospects for continued business expansion?" * * *

Another way of putting the question from the Economic Report is, "Whether we have a reasonable assurance that profits after taxes and dividends will be sufficient for investments and contingencies." I think they will be. I base my conclusion on various statistics, supplied by Mr. Keyserling. * * *

If we decide corporate taxes should be increased by the amount of $3,000,000,000, the next question is whether this tax should be put in the form of an increase in the corporate tax to a top rate of about 50 percent, or in the form of an excess-profits tax. * * *

I would much prefer to see Congress enact an excess-profits tax. There is only one argument that I would care to mention in that connection, and that is that there would be much more flexibility in an excess-profits tax, in that it would become automatically ineffective in a time of recession.

When I speak of an excess-profits tax I want to define my term. I do not mean a war excess-profits tax, I mean a tax which would exempt small corporations reasonably generously, and a tax that would not reach a top rate of more than 65 percent.

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Mr. REED. * * * a drop in volume or a drop in prices might very easily and rather quickly reduce those profits to the vanishing point.

Of course, that makes it even more dangerous from the standpoint of Government revenues. There is no cushion there, and the leverage, as I say, which determines the income-tax collections, with the falling taxable income on the part of American corporations, is something that I think should be carefully considered by Government itself.

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Mr. GINSBURG. With the economic outlook as confused as it is, how can we increase the revenue to obtain a budget surplus and yet not increase the threat of excessive deflation? Mr. Paul has recommended one way; that is, the utilization of an excess-profits tax.

There is a second possibility which perhaps this committee will wish to consider. I see no reason in the nature of things why it would not be completely possible to impose a conditional tax on corporate income, based on business experience, so that at any time within the first 9-month period, after the enactment of the tax, the tax would be automatically suspended in the event that some of the pessimism which has been expressed here yesterday and today, in fact, proves warranted.

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Mr. S. ABBOTT SMITH. If you want to do something for all business and expressly something for small business, exempt the first $25,000 of corporate profits from income tax. That would do more to help many small businesses than anything else you could do. To my mind it is a lot sounder than taking the money away from them in the form of taxes and then setting up a Government agency to lend it back to them.

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Mr. CLARK. That is the first point in the President's anti-inflation program, to put the pressure upon profits in order to reduce to some extent the demand of business for goods and services to be used in capital investment. He has recommended a $4,000,000,000 increase in taxes imposed principally upon business profits.

Looking at what they have done, we find that corporate profits of 21.8 billion dollars before taxes and of 12.8 billion dollars after taxes in 1946 caused American corporations to institute a tremendous campaign of investment in new plant and equipment and that corporate profits of 18.1 billion dollars after taxes in 1947 was large enough to induce corporate managers to expand new investment in plant and equipment in 1948. The proposal of the President would leave corporate profits after taxes at a level at least as high as the profit figures in 1947 and far above those of 1946.

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Mr. Paul. To Dr. Clark's statement (the second quotation above) should be added the thought that corporations have less working-capital needs in 1949, because they have replenished inventories. If these figures are correct I see little remaining question about the propriety of additional corporate tax of about $3,000,000,000, assuming corporate profits remain at approximately the present level. This additional load, in my opinion, will not unduly interfere with the prospects for continued business expansion. It will leave plenty after taxes for investments and emergencies.

Our tax policy must depend upon developing economic conditions. We should have one tax policy for an inflationary period and a quite different tax policy for a deflationary period. A tax for use in high prosperity simply will not fit into a period of depression.

If we are forced to increase military expenditures and have inflation, I would recommend a supplementary program involving substantial social-security increases, and perhaps an increase in the lower income-tax brackets. If we have deflation of any magnitude, obviously other methods are called for, including perhaps a slower increase in pay-roll taxes; perhaps a reduction in excises; a lower tax upon the middle and lower income-tax bracket and perhaps also some incentive tax provisions designed to encourage investment. All tax policy must be based upon the best hypothesis available at the moment; the best hypothesis of the moment seems to me to be continued prosperity.

1. (d) Another source of additional revenue should be the tax upon estates and gifts

Mr. Paul. I would like to join in the President's recommendation in favor of additional taxes on estates and gifts. * * * I think the President's recommendation is firmly rooted in two persuasive premises. The first is that we are very far short of tapping the estate- and gift-tax revenues which are available to us. The second is an estate and gift tax would have the virtue of raising revenue with a minimum effect on incentive. I think the exemptions of the estate and gift taxes should be lowered and the rates increased. I think these two taxes should be integrated into a single transfer tax. I think we have got to tackle some day one of the principal remaining loopholes of the estate tax which makes it possible to avoid the taxes through one or two generations by means of family trusts.

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Mr. Ginsburg. I suggest consideration of a tax not on estates, but on inheritance, so that the person who receives the inheritance pays the tax. He would be taxed not on the total estate received during any particular year, but would integrate it into his income tax and treat the inheritance as income over a period of years. For example: an estate of $100,000 would be treated as a $10,000 addition to income by the beneficiary over a period of 10 years.

1. (e) Study should be directed to increasing the rates of individual taxes in the upper and middle brackets

Mr. Goss. I present it as a serious question as to whether any democracy can live which lacks the courage to tax the voters. And I say tax the voters advisedly, because I think our tax policy is too much designed with an eye on the election returns, and not designed on establishing a sound tax system. All you have to do is look to France and some of the countries of Europe to see what the failure to balance the budget, the failure to establish a sound tax system, the tendency to call on the government for everything without paying the bill, in order to realize what I am talking about. * * * I think we should at this time take a very courageous look at our whole tax system. * * * I feel that we must spread our tax base more widely. I feel there has been a tendency to seek taxes where they could be most easily raised, and I feel that all of us generally must figure that individually we have to take a larger part in supporting our Government financially than we have heretofore.

2. Increase in social-security contributions under existing and extended social-insurance programs

Mr. Calhoun. The benefit promises already made, and the liberalized promises that will be made, if there is a liberalization in benefits, would justify a great increase in pay-roll taxes. If these taxes were increased to equal what the insurance people call a level premium, this would bring in additional billions in pay-roll taxes.

There is one thing which everybody agrees on today, that is, that the level premium for paying for the promises that have already been made will be at least two or three times the present pay-roll rate; and if these promises are greatly liberalized we can expect that sooner or later the required pay-roll tax will be so large that it will substantially reduce the money which the wage earner might otherwise spend or invest.

I shall not discuss what we need by way of benefits. Perhaps this issue will be settled despite purely fiscal considerations. I am merely making the point that the benefit promises already made, and in prospect, for old-age and survivors' insurance alone would justify as large a pay-roll tax as I believe it is likely the people or the Government would want or expect.

Such an increased tax, if presently put into effect, would, incidentally, result in a tremendous cash surplus in the Treasury.

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Mr. EWING. When the effects of all Federal security programs—limited construction, the social insurance, public assistance, education, and health—are combined, the upshot is that pay-roll-tax intake exceeds all expenditures for these purposes by approximately $1,000,000,000. If the programs were expanded, as we recommend, this excess would approximately be $1,500,000,000. Thus the net economic effect of these programs during the coming year will be counterinflationary as long as economic activity continues at a high level.

During 1950, total tax collections will exceed total benefit payments by about $2,200,000,000. More will be taken out of the stream of purchasing power in pay-roll taxes than is paid out in benefits. The unemployment reserves are building up to finance benefits in the case of need and the old-age and survivors insurance reserve is building up to take care of increasing liabilities as the population ages. The current program will therefore act to reduce inflationary pressures.

We are recommending changes in both of these programs—principally increases in benefits and expansion of coverage—and the adoption of disability and health insurances. These proposals are not inflationary. Their adoption would mean that the excess of tax collections over benefit payments in 1950 would be at least $3,000,000,000, rather than the $2,200,000,000 excess under the current programs.

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Mr. GOSS: The obligations which we have assumed toward our old-age payments are accumulating three times as fast as the money we are putting away * * * Congress has backed away from that question two or three times and has proceeded to maintain the obligations of old age without imposing taxes sufficient to support it. * * * The only reason Congress backed away from it is that they do not like to levy taxes because the voters do not like them.

3. Continue maintenance of stability in the Government-bond market (no specific legislative recommendation required)

Mr. MCCABE. One of the most important objectives is the maintenance of stability in the Government-securities market. To accomplish this, the Federal Open Market Committee stands ready to buy such securities when there are no other buyers at established prices and also to sell securities when demand is heavy * * *.

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Mr. CLARK. The policy of supporting the price of long-term Government bonds at not less than par must be maintained, and the President has said in such vigorous terms that it will be maintained that the financial world seems to have accepted the fact. The result has been that the effort of the past year to overturn the policy has subsided, the market is taking care of itself above the peg point, and the difficulties which arose because holders of bonds were disturbed by constant speculation whether the policy would be abandoned have disappeared.

4. Provide continuing authority to the Board of Governors of the Federal Reserve System to require banks to hold supplemental reserves up to 10 percent against demand deposits and 4 percent against time deposits, such authority to be applicable to all banks insured by the FDIC.

Mr. MCCABE: We are again asking for authorization to require supplemental reserves up to a maximum of 10 percent against demand deposits and 4 percent against time deposits. Congress granted authority up to 4 percent on demand deposits and 1½ percent on time deposits, applicable to member banks only, and expiring June 30, 1949. The present request would replace this temporary authority * * * It is vitally important that the requirements be made applicable to all insured banks, and not exclusively to member banks of the Federal Reserve System * * * Failure to include all insured banks would seriously impair the effectiveness of national monetary policy * * * The pending proposal * * * would equip our monetary mechanism with authority to cope with overexpansion of the money supply in case that danger again threatens us.

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Mr. Clark. The tightening of bank credit is the oldest of the recognized measures to reduce overexuberant business activity. The use of this traditional policy is not related to any condition of overexpansion of bank credit itself, but arises from the fact that the commercial banks, perhaps to their misfortune, happen to be the important cogs in a machine which is easily subjected to social control for this purpose.

5. Continue authority for the regulation of consumer installment credit beyond June 30, 1949

Mr. McCabe. We urge you to continue consumer-installment-credit regulation. * * * Regulation of installment credit is designed to help maintain stability without preventing sustainable long-term growth in such credit. Consumer installment credit has risen since the end of the war from $2,000,000,000 to $8,000,000,000 at present. If these rates of increase in consumer debt were to continue, we would eventually, and perhaps before long, exhaust the cushion of consumer borrowing power and thus endanger our economic stability. * * * Smaller business enterprises can compete more equitably and safely when terms conform to reasonable standards.

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Mr. Clark. One selective control of credit which the President recommends is that of installment credit, and the authority of the Board of Governors in this respect should be permanent. Installment credit creates an especially precarious situation because it increases the demand for goods in periods of great prosperity and then, by largely drying up in periods of recession when contract debtors are straining their resources to liquidate their indebtedness, it contributes a double push to the deflation.

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Mr. Goss. We also approve the reinstatement of regulation W. Generally speaking, we are not for too much Government regulation, but we see developing the same kind of trouble which developed after World War I. Then with our largely expanded production, we ran out of markets for our goods. We extended large credits to Europe to continue that production and as those credits became in difficulty, we expanded our installment buying tremendously and got everybody in debt.

Well, it so happens that I was one of the group that ran up against that problem pretty directly, because as Land Bank Commissioner I saw the tremendous grief which arose from incurring more debt than the normal prospects of ability to repay would support.

We think we should go very, very carefully in these times of encouraging any increase in debt. There is one safe time to go into debt, and that is when prices are down. There is one almost invariably dangerous time to go into debt, and that is when prices are high.

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The Chairman. Do you agree with Mr. Goss that regulation W should be extended?

Mr. Schmidt. Our policy happens to be against that. I personally think the problem is really the method of financing consumer credit, rather than the question of whether you have quality control. Generally, it probably is better to have over-all credit control, rather than quality control, because if you pick out this industry or that particular type of a sector of the economy and put a control on it, you may not reach the objectives you thought you would.

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6. (*a*) *Immediate legislation to deal with the problems of capacity and supply in certain critical areas which are so serious as to impede maximum production in an expanding economy and to limit programs relating to national security. Legislation should impose upon the Government the specific responsibility and provide the funds to make careful surveys of future supply needs and productive capacity* * * *

Secretary Krug. To achieve these objectives [of the Employment Act of 1946] requires, most importantly, an increase in supply and capacity in those critical areas which are impeding maximum production in an expanding economy.

In order to insure increasing national output and economic expansion we must determine what our needs and potentials are in terms of natural resources and gear our natural-resources programs to those needs and potentials.

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Dr. ANDERSON. Because of the continuing and distressing shortages of materials there is need for a careful analysis of such important basic industries, along with steel, as light metals, power, fertilizers, petroleum and fuels, and newsprint. These industries are of broad public interest, their part in the entire economic scene is very great, and many of the important decisions required cannot and should not be taken entirely by private management.

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Secretary SAWYER. I believe that the ability of the Government to assist industry in forming its plans would be greatly increased if we were in a position to collect and analyze for the use of industry and the public generally complete, accurate, and current information about industrial operations and trends.

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Mr. RAVER. The normal reserve capacities of our generating facilities should be at least 15 to 20 percent to take care of break-downs and replacements and the normal growth and demand for power. The fact that we will, through the program that is now under way by both private and public agencies, according to this report, improve the reserve capacities or generating facilities of the nation so that we have 2 percent of reserve and 10 percent of reserve by 1951, does not indicate that we are out of the serious power shortage in that period at all.

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Mr. FALCK. I agree with Dr. Raver that the 10-percent margin of national power surplus indicated by 1951 is not as high as it should be, and it is not as high as it will be. The report that was distributed yesterday was made up in the fall of 1948. It showed that the order boards of manufacturers were preempted entirely, practically entirely, for turbines, large and small, and water turbines as well, for the years 1949 and 1950, but it did show open capacity for the year 1951. Much of that open capacity has since been taken up by additional orders placed with the manufacturers since the date of our survey, so that I suspect the total capacity, if we reviewed the same condition today—indicated for the end of 1951—would show a larger surplus.

* * * That answer simply is that the utility industry does plan more than a few months ahead, it plans 3 or 4 years ahead. The utility industry is now engaged in the greatest expansion construction program in its history that will raise capacity from 47 to 50 million kilowatts for the large central-station systems as of 1947, to over 73,000,000 kilowatts by 1951. That is an expansion of roughly 50 percent in the nation's power capacity in 4 years.

Likewise the gas industry will by 1951 put out 50 percent more B.t.u's of heat than they were putting out in 1947 * * *.

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Mr. YNTEMA. * * * But this I do know: From the demand for steel in this immediate period you cannot judge as to what the long-run steel capacity ought to be, because we are obviously trying to make good our durable-goods shortages in a hurry.

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Mr. ANDERSON. * * * Decisions affecting the economic welfare of the whole Nation can be made by a handful of men in a handful of steel corporations.

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Mr. CARY. I am concerned that we have inflationary trends in the heavy-goods industries and we have a tendency not to expand in areas that so desperately need expansion, such as steel and other industries. * * *

We find that the steel industry is basing its future plans on a depression basis, and we are terribly concerned about it. They talk in terms of years like 1948 and 1929 being abnormal years. I think we had better look into that very carefully to see whether we should not produce a capacity of steel production of perhaps 10 percent larger than the present capacity. * * *

We look back and we find that even McGraw-Hill in their survey indicated that from 1939 to 1948 the manufacturing industries expanded 56 percent. The steel industry, under the pressures exerted by Government, expanded 15 percent, the lowest of all industries. Manufacturing industries, according to this survey, plan to increase capacity about 13 percent between now and 1953. The steel industry plans a 3-percent expansion during that period.

Now we find that industry, despite the profits they have been taking out of American industry, which are extremely attractive, still does not have the confidence in the future of this country that they are willing to expand their capacity. I think the Government is going to have to do that, and I am not at all certain that just exorbitant profits are going to bring about that amount of confidence, so that the American industrialists, the managers of our economy, will expand to meet the needs of this community.

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Mr. Reed. Honest men will differ as to what the point is at which the steel industry—and Mr. Schmidt is right in pointing out that it is not one individual or one group of individuals, but a large number of them—should be preparing for in the way of capacity. I think in the next 6 months it will be determined whether by and large the industry's view is right, and that is that we are very close to balance on steel demand versus supply, or whether they are not right.

But the pressures, the incentives, the inducements to expand production are there, and the result will follow, although if they are wrong in their present view it, of course, will involve an embarrassment and a certain amount of difficulty while the situation is corrected. * * *

The Chairman. Altogether aside from the steel industry, Mr. Reed, do you think that the Government has any responsibility toward encouraging the production of commodities which are in short supply?

Mr. Reed. Yes; indeed I do. I think it is entirely appropriate and right that the Government should invite members of industry down to see the picture as Government sees it, to answer questions, and to explain why they take the view they do, if it differs from the view of Government economy.

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Mr. Raver. When you take a situation such as we are facing today—when the statements have implied that we are making a transition here now from a war-production economy to a peace-production economy—and realize that we were able to produce the goods and services to win this war on the electric-power productive capacity of the Nation, and are not able to produce the goods and services to maintain a stabilized peacetime economy, then we certainly have a shortage which is of national significance for a peacetime future and the maintenance of full employment in this economy.

The Chairman. Does that mean that the demand for other basic commodities has been lessened likewise?

Mr. Raver. That is certainly true. I can give you some illustrations of the effect of this upon the economy there. Certainly the same type of thing is having its effect upon the entire economy. During the past 90 days in the Northwest, aluminum production was reduced with a loss of about 20,000,000 pounds of production, valued at 3½ million dollars. That is a small item in the economy, that is true, but it is indicative of the type of thing that happens in the whole production field when you are short of power. * * *

So that it seems to me there certainly is a place in this picture, in harmony with what my understanding is of the proposals by President Truman to insure maximum employment, maximum production, and maximum purchasing power throughout the Nation, to speed up the expansion of our electric-generating supplies throughout the Nation, and particularly to expand as quickly as posible the hydroelectric supplies which, when they are once developed, provide an inexhaustible supply. * * *

* * * Power is at the base of that kind of an economy. If we do not expand it to the needs of the economy and, in fact, keep well ahead of the needs of the economy—we should never be behind in our power base in this Nation, we should always be ahead with ample reserves to take care of break-downs in expansion—if we do not do that we are putting a brake on all the aspects of the economy, certainly in the industrial field. And when you combine with that an expansion in population you are simply lowering our standard of living.

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The Chairman. Secretary Krug said: "There is every reason to believe that our needs for electric energy will double in the next 10 years or so. They have doubled, on the average, for every decade in the last 40 years. They may increase even faster. Generation capacity must increase on the order of 80,000,000 kilowatts by about 1965, if true needs of the country are to be met."

What is your comment on that estimate, Mr. Reed?

Mr. REED. Well, assuming that estimate is correct, the rate at which power capacity will be installed this year, the next, and the one after that is at a rate which would double the capacity in 10 years, more than double it in 10 years. So that the program is aimed precisely at that target and will reach that target, if the demand justifies it.

The CHAIRMAN. Then is it your position that nothing need be done to stimulate the expansion of generating facilities?

Mr. REED. That is right, sir. I think it is well taken care of.

6. (*b*) *To the extent that facts reveal the need, the legislation should provide additional authority to deal more effectively with inadequacy of capacity and supply.*

Mr. LINCOLN. Now speaking as an individual, our organization has not passed on it as yet, I am all for trying out the suggestion of President Truman that the Government try out a pilot plant to manufacture steel or any other material in short supply and especially potash and phosphorus. How else are we little guys going to know whether the price of steel or other raw materials is fair or just?

I propose that the Government shall extend the REA principle by making loans at the cost of money to the Government to any properly organized group of people who desire to serve themselves with goods or services that are not adequately supplied by our present business enterprises. * * * I say we ought to do it with steel, with housing, with hospitals, with medical care, with fertilizer, and with any other commodity that is reported to be in scarce supply.

7. (*a*) *Temporary extension of the law under which voluntary agreements for allocation of materials in short supply are now permitted*

(*b*) *Authorize the use of mandatory allocation powers which may be employed on a selective basis where they prove needed*

Mr. FALCK. During a period of full mobilization for all-out hostilities, it is far easier, as a practical matter, to distinguish between priorities that should be granted and priorities that should not. I think we have that problem today. The only point I am making is that it will be more difficult, a great deal more difficult in a period of partial mobilization or a cold war, to do the job with honesty and fairness and without discrimination. * * * It is my conviction that voluntary or perhaps mandatory allocations should be available to safeguard the completion on schedule of the utility construction programs, and a few others with which I am less familiar but which are a basic part of our supporting economy. By that I do not suggest that the control should be invoked lightly or without necessity or in a discriminatory manner. I would a great deal rather see some of the basic raw materials industries use their own good judgment and flow the materials, say, into the utility construction program without the necessity of a government directive.

* * * The major producers of aluminum are using practically all of the pig for further fabrication, so that the nonintegrated fabricator is not able to get the 16-cent price. If more of the aluminum pig were in the open market there might be a higher price, but the price is a rather fictitious price today because fabricators are not able to get delivery. * * *

I do agree with Dr. Raver that we have had a few isolated bottlenecks, the two most important of which are aluminum for conductor and cable and, in the gas business, plate and pipe for long-distance natural gas pipelines. In both of those areas I cannot see any relief in sight unless there is either (*a*) further expansion by those industries, or (*b*) mandatory allocations that would give for military procurement and for utilities, regarded as essential for civilian welfare, a priority over other uses.

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Mr. GOSS. In regard to the direct controls suggested by the President concerning inflation, we believe there should be certain allocations with reference to basic raw materials and basic strategic items, such as steel. Ordinarily, we do not like it. But we are faced with this knowledge that steel is being diverted to uses which we do not need so badly, while it was brought out in these hearings that we are desperately short of power; some of the steel for power equipment and some of the aluminum for power equipment are badly needed. We are way behind. The same thing is true in the field of transportation. We know those things exist. We do not think we should shut our eyes to it.

We believe that Congress, in giving any powers of allocation, or any powers of control to the President, should set up guideposts, or should build the lane down which he can operate and not give powers so broadly they can be operated indiscriminately, but operated to achieve a very definite purpose.

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Mr. SCHMIDT. If you allocate scarce materials to this or that sector of the economy you think you solve the problem. But you discover immediately that you are pinching somebody else, because from whom are you going to take these scarce materials when you allocate them to where the squawks occur? The minute you allocate any quantity of these scarce materials then you create pincers here and there, and everywhere. You create unemployment in some instances. * * *

Now the whole economy has this very profound technological interdependence. Something like 200 or 300 million business transactions take place every day. The minute you control this economy, the minute you allocate, the minute you interfere with the voluntary efforts of these millions of people, businessmen, consumers, wholesalers and retailers, you are bound to set up all sorts of frictions and bottlenecks and that is why all these controls not only breed friction, but every control is bound to create a new source of friction. In fact, that is its intention, that is its purpose. The purpose of control is to divert something from one place to another, and by the very process of diversion you create irritations, frictions, and shortages in areas that you had not anticipated.

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Mr. FOLEY. Voluntary allocation programs under Public Law 395 * * * will continue to be needed for some time for the more critical items.

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Secretary KRUG. * * * the further expansion of Federal hydro power has long been overdue. Hydro projects that would provide for 30,000,000 kilowatts of capacity should be planned and scheduled as soon as possible. And the capacity problems involved in the manufacture of the generating and transmission equipment required for this program should be surveyed. Such action would constitute a long step forward in reducing the waste of undeveloped hydro and in meeting long-term needs for such products as aluminum.

Allocations of steel will have to be continued and extended. For some needs, I am frankly of the opinion that voluntary allocations may not do the job and that mandatory allocations may be necessary.

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Mr. RAVER. * * * there is a place in this whole problem of allocation of materials, whether it is voluntary or whether the President is given mandatory authority to channel the basic materials required to speed up this production, not only in Government plants but in private utility company plants, into those areas which will speed up the development of our basic power supply.

* * * there is a problem of channeling these critical materials; materials that are in short supply, into those particular activities in our economy which will most quickly remedy the shortages that are apparent from the statistics that have been indicated. Power is one of those places. I think aluminum is another. I think aluminum should be channeled into the cable business for the power companies of this Nation.

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Mr. FALCK. * * * we have had a few isolated bottlenecks, the two most important of which are aluminum for conductor and cable and, in the gas business, plate and pipe for long-distance natural gas pipelines. In both of those areas I cannot see any relief in sight unless there is either (*a*) further expansion by those industries or (*b*) mandatory allocations that would give for military procurement and for utilities, regarded as essential for civilian welfare, a priority over other uses.

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Mr. FOLEY. * * * despite this general improvement in production and supply, the Department of Commerce anticipates that cement and some iron and steel items, particularly pipe, may continue in tight supply during 1949 in some localities.

Production of pressure pipe, soil pipe, cast iron boilers, cast iron radiation, plumbing and drainage equipment, and warm air furnaces was assisted in 1948 by voluntary allocation programs under Public Law 395, and it is quite apparent that this type of assistance will continue to be needed for some time for the more critical items.

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Mr. WOODS. * * * In the entire United States during 1948, only about 17 percent, or less than 160,000, of the 930,000 nonfarm dwelling units started were rental-type units.

If our total supply of manpower and building materials cannot be expanded rapidly enough to produce more than 1,000,000 units a year, then I would recommend temporarily the deliberate discouragement of the construction of single family units for sale. A multiple unit apartment building can be built faster, cheaper, and with less material than the same number of single family homes. This necessary switch from single family units to multiple unit buildings could be brought about by a deliberate tightening of credit and risk insurance requirements for homes and by giving additional incentives to builders of multiple unit structures.

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Mr. GOSS. In regard to housing, we think too much attention has been given to the credit phases of it; that the real problem is short materials and defective building codes. Those things might be handled to some extent by allocations, and to the one extent, which I hesitate to recommend—but it may be justified—that is, the extension of credit when and if building codes are adjusted to make sense. I do not like to see Congress reaching over and trying to dictate the building codes, but some of them are terrible.

8. Continue the priorities and allocation authority in the field of transportation

(Not discussed.)

9. Selective price control authority should be promptly made available to the Government

Mr. CLARK. Consumers' prices have been receding slightly but the prices of many commodities which are important in determining the costs of production of manufactured articles have continued to rise. It is because there is a chain reaction when these prices move upward that direct action against price increases is necessary in order to break the circle of spiraling inflation. * * * The recommendation for authority to control the prices of essential commodities of prime importance in determining the cost of living or the costs of production of goods * * * relates to a situation which is now developing to a climax. If wage increases are again secured in the steel and coal industries and the prices of those commodities are again raised, the inflationary cycle will be given another twist which will carry the economy we know not where. If the Government is unwilling to take any action to halt price increases, the workers will have no reason to withhold their wage demands in the expectation that prices will not continue to rise, and the Government will have no excuse for asking the workers to make a sacrifice which the owners of business will not make.

If action is taken to prevent price increases, the Government will be justified in taking action to discourage wage increases and the President has already accepted that responsibility. A part of his proposal is that in order to prevent an established price ceiling from being broken through as the result of wage increases, there shall be a determination by a board that wage advances are justified before those wage advances shall be accepted as a reason for permitting a price increase.

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Mr. KEYSERLING. My summary was that we have recently been facing a situation of continued price increases and continued high margins of profits in certain industrial sectors of the economy—in part reflecting an administered price or a partly monopolistic situation. I also said that at the same time we have confronted what is beginning to be an excessive lowering of the fair take from the economy on the part of the farmer, the basic producer. Thus the industrial and agricultural fronts are getting out of line. Moreover, there is a problem on the distributive side, namely, the margin between what the farmer gets and what the consumer pays is increasing * * * I am here trying to develop the analysis that very many important prices are too high, are rising too fast, and should be restrained rather than kept up * * * I think we need a rounded and balanced stabilization program. I think that such a stabilization program includes many elements of restraint, but also includes some elements of support, because we have now a mixed economic situation.

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Mr. Goss. * * * in regard to price and wage controls, we think we have passed the peak of inflation and we do not approve of the general program of wide powers for price and wage controls. If they are to be exercised, we think they ought to be exercised together. We do not think there should be price controls without wage controls. We do not believe in wage control, and we do not believe in price control.

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Mr. Kestnbaum. Now, as to the powers of the President to fix prices, it would seem to me that would be useful or desirable only with respect to a very few commodities, and they would have to be of a basic character, rather than those near the ends of the manufacturing scale. * * *

I believe the only place where it is possible to control basic prices is at the source of raw material. There is some possibility that you could arbitrarily say that we may not sell for more than a certain price, or that certain national products such as cotton and wool may not be sold above a certain price. But whenever we try to do things of that kind, we begin to create property rights in allocations, in priorities, and so on.

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Mr. Ginsburg. I am presumably to address myself to the matter of direct controls, and particularly those direct controls which are contained in titles 3 and 4 of the bill which has been introduced in the House, that is, H. R. 2756. These titles deal particularly with matters pertaining to allocations, price control, and wage controls. * * * At the outset, however, I want to indicate clearly that I strongly endorse the principles and objections of stand-by control embodied in these two titles.

With respect to one matter of principal, however, I should have thought it possible to have tied selective price control and allocations together. If we learned one lesson during the period of controls during the war, it was that control over price and control over supply should be coupled. The economic conditions which give rise to the need for one also call for the other. * * * Beyond that, as I have stated, the legislation in its present form looks broad. That problem can easily be met when the legislation is in fact being drawn. The basic principle, however, the principle of selective stand-by control, of insurance against particularly dangerous price rises, seems to me to be completely sound.

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Mr. Raver. Mr. Chairman, I should like to subscribe to the point of view expressed by Mr. Ginsburg with respect to this legislation. * * *

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Mr. Fleming. With regard to price controls, we have been conscious of what we think have been efforts to delude the American people into thinking that price controls will control inflation. Price controls deal mainly with symptoms rather than causes. We would think it a sorry situation, indeed, if efforts were to continue to be made to try to convince the American people, whether it be agriculture, industry, labor, or people who do not fall in any of those classifications, that price controls offered any real hope for dealing with the basic causes of inflation. Price levels reflect basic relationships between money in circulation and goods and services available for purchase. Selective price controls are in fact dangerous. They deceive the people and create a false sense of security.

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Mr. Schmidt. Price control is a device for making the price tag say something which is not true. Immediately you have to employ a battery of policemen to try to implement what is the lie in price control. Selective price controls will not work because they overstimulate demand and check supply. Therefore much of this bill would probably make the system work less effectively.

10. Price control authority should be supplemented with a provision permitting the Government to order the withholding of price advances while public inquiry into their justification is being made

Mr. Clark. There is a recommendation that the Congress authorize the President, if the occasion arises, to regulate specific prices because there are certain commodities of key importance which have such an influence upon economic developments that if prices are rising in those commodities it brings about chain reaction throughout the whole business world. Steel, of course, is the most important of those commodities.

* * * Finally that there be authority to actually impose specific price controls at certain critical points, accompanied by a proposal that there also be authority to require the suspension of price advances, applying to price advances

exactly the same principle which the Congress has applied to labor in connection with its effort to advance its price.

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Mr. WOLCOTT. Do you think the stand-by price controls and allocation controls are necessary to the continued prosperity of the American farmer?

Secretary BRANNAN. I think so, sir, and if I may cite to you for example—the price of tractors went up almost $400 in the last 12 months. The price of fertilizer has gone up. The price of many other things that farmers used to produce has gone up, and because of that, for the first time in 10 years, the net farm income of the farm population of this country has gone down.

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Mr. KESTNBAUM. * * * it would seem to me that would be useful or desirable only with respect to a very few commodities, and they would have to be of a basic character, rather than those near the ends of the manufacturing scale. In other words, I think they deal very largely with some of the basic raw materials. * * *

There is nothing in price regulations during the war which indicated that that can be done wisely or equitably, without a tremendous amount of study and investigation. * * *

I believe the only place where it is possible to control basic prices is at the source of raw material.

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Mr. FLEMING. I cannot visualize anything that would be much worse at the moment than to announce price controls on livestock. * * *

Livestock men like to have a little certainty in a business which at best has a tremendous amount of risk taking in it. Consequently, one of the things that livestock feeders are especially conscious of these days is the feed-livestock ratio particularly with the break in commodity prices which has occurred. Any fear on their part that price controls on livestock were going to be reimposed would certainly bring about decisions with regard to feeding livestock and providing more meat which would adversely affect the supply of meat available to the consumers in this country. Consequently we would not achieve our objective, which is the proper balance between the demand for meat and the supply of livestock available.

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Mr. KESTNBAUM. * * * the proposal that an industry would be required to file notice before it promulgated any price advance, would seem to me to be a very useful one, because it does put the economy on notice of advances in these important commodities. But obviously, with that meaning, the industry proposing to raise its prices would be indicating the reason for this increase, which would either be an increase in its wage level, or an increase in the cost of its raw materials. So that the problem then immediately becomes acute. If there has been an increase in the cost of certain raw materials or the cost of labor, then obviously the question that the committee would have to decide, or the President would have to decide, is what we are going to do in the circumstances. Will we make an increase comparable to these increased costs, which would certainly appear just, but which then obviates the whole purpose of this legislation? Or should we say that irrespective of what happens they must maintain those prices?

Now the difficulty with the December 1948 date is that at no time do you strike a date which is right for all industries. It may well be in the case of steel that December 1948 is too low. On the other hand, in the case of textiles, it may well be that December 1948 was a rather high point, as I think it was.

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Mr. CAREY. The chairman made reference to a provision in this bill to require the managers of industry to give up to 60 days' notice before they increase a price and, of course, to give their reasons as well. Now, it would be similar to the provision in the present law that puts on a cooling-off period if labor seeks to increase wages.

11. Authority (as requested in July 1948) to limit wage adjustments which would force a break in a price ceiling, except where wage adjustments are essential to remedy hardship, to correct inequities, or to prevent an actual lowering of living standards

Mr. GOSS. In regard to price and wage controls, we think we have passed the peak of inflation and we do not approve of the general program of wide powers for price and wage controls. If they are to be exercised, we think they ought to be exercised together. We do not think there should be price controls without wage controls. We do not believe in wage control, and we do not believe in price control. It is true that some prices are still going up. We think we are close to the end of that. * * *

There are two things which have disturbed us a bit in the presentation of the situation before your committee by all these diagrams that have been set up before you. In the first place, wages have not been compared with prices. Secondly wages, and increases in prices, prices on farm products, and the cost of living have all been based upon a period when agriculture was greatly out of kilter.

12. Continue rent control for at least 2 years, and strengthen its enforcement.

Mr. WOODS. Rent controls should be extended for a 2-year period beyond the expiration date of the present act. It is my judgment that the demand for rental housing will not have been reasonably met within this period and that inflationary pressures which would be exerted if controls were removed from the estimated 14,350,000 rental dwelling units now under control would be a serious blow to our economy.

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Mr. CLARK. Among the recommendations of the President for policies which directly attack points of particular inflationary pressure, that for rent control requires only the comment that the housing situation clearly proves that the economy has not yet entered the phase where Government intervention in the making of business decisions is not needed. If rents were freed from control, the inflationary forces underlying our deceptively quiet economy would become too clear to be discounted.

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Mr. GOSS. * * * there is going to be the necessity for some extension of rent control. We hope that it may be administered upon a realistic basis, recognizing those economic forces which may contribute to or prevent the investment of money in private housing.

13. Extend existing powers of control over exports, and strengthen the machinery for enforcement

Mr. THORP. The record has been reported in detail by ECA and it is to the effect that the commodity structure has not been seriously deranged, thanks in large part to the operation of export controls over the critical uses of so-called scarce commodities.

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Mr. CLARK. The case for export controls is generally accepted. Some support such controls upon the ground that they are needed in order to channel goods in such manner as to accomplish the purpose of the foreign-aid program, but there is inherent in this argument a recognition that the supply of certain commodities required for that program is too small in relation to total demand to permit the allocation of those goods to be made by the operation of the free-market mechanism.

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Mr. GOSS. We believe there is necessity for some export controls. That is now being exercised to a considerable extent through ECA, but we would approve export controls over strategic materials to keep economy in balance.

14. Grant more specific and more adequate authority to prevent excessive speculation or the manipulation of prices of agricultural commodities

Secretary BRANNAN. This week's price fluctuations also point up the need for one additional stabilizing measure on the agricultural side. * * * We know from experience that speculation may start a downward market cycle or may intensify the movement, forcing prices to unduly low levels. On the other hand, speculative buying movements may cause a boom in market activity temporarily pushing prices to unwarranted levels. Speculation may simply reflect actual changes in crop production, supplies, or demand. But just as easily it may reflect rumor, gossip, and unfounded reports.

We must not impair the hedging facilities of the futures markets. At the same time we cannot afford the effects of excessive speculation. The present Commodity Exchange Act provides a considerable measure of protection against outright manipulation, corners, and sharp practices in certain commodities. This protection should be extended to all agricultural products in which there is futures trading. But neither the Commodity Exchange Act nor any other present authority can be exercised to curb the speculative fevers that sweep over these markets at times.

One way to slow these movements is to limit general public participation when necessary by increasing the amount of margin money that must be deposited to cover speculative trades. By requiring speculators to cushion their trades with more capital, the size of their operations is reduced. The trades which they are able to make are made more secure and the market as a whole is placed on a more firm foundation.

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Mr. CLARK. The recommendation of the President that permanent authority be granted to regulate trading in futures on the commodity exchanges grew out of our experience a year ago when we were most fortunate to avoid a disastrous collapse of business following a crash of grain prices which had been carried by speculative trading far above any level supported by conditions of demand and supply for grain itself. We have now had a second experience with the widespread impact of the wild gyrations which can take place only in a speculative market and could not occur in a market dealing with actual commodities. The legislation recommended by the administration would control the purely speculative trading while leaving true hedging sales and purchases free from control.

15. Increase benefits under the old-age and survivors' insurance substantially

Mr. GOSS. We heard yesterday, or the day before, that the obligations which we have assumed toward our old-age payments, are accumulating three times as fast as the money we are putting away. That has been up before Congress. It has been clearly explained to Congress, and Congress backed away from that question two or three times and has proceeded to maintain the obligations of old age without imposing taxes sufficient to support it. That is the kind of thing I am talking about. The only reason Congress backed away from it is that they do not like to levy taxes because the voters do not like them.

16. Broaden the coverage of the Fair Labor Standards Act

(Not discussed.)

17. Increase minimum wage from present 40 cents per hour to at least 75 cents an hour

Secretary TOBIN. One way to improve the situation (of unorganized white-collar workers) lies in a reduction in living costs. Another, particularly helpful to those at the lower-wage levels and therefore most in need of assistance, lies in the adoption of higher minimum-wage standards and the extension of minimum-wage coverage.

* * * On the average * * * even our lower-wage industries have increased wages under the pressure of manpower shortages. These averages include some cases of real increases in standards. The textile industry, once a minimum-wage problem child, has made great progress in raising the level of the wages of its workers. Increases in many other low-wage industries have merely kept pace with the rise in prices; real wage standards are still low. They will not improve unless the Federal Government and the States make certain that they do, through the enactment of reasonable minimum-wage legislation. To make this legislation effective, the coverage of the legislation will have to be extended.

Fortunately, we can act today to assure a reasonable minimum without disturbing our generally high economic level. Only 6½ percent of the wage earners in manufacturing industry, for example, were earning less than 75 cents an hour in November 1948. At least three times this proportion were earning less than 40 cents an hour at the time the Fair Labor Standards Act was enacted. In the same month of November 1948, approximately 21 percent of manufacturing wage earners were estimated to be getting less than $1 an hour. In comparison with the situation in 1938, $1 an hour becomes a reasonable minimum-wage goal for realization in the future. It is my belief that we should proceed rapidly to the achievement of this goal.

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Mr. GOSS. The President also recommends an increase in the minimum wage. We believe in a minimum wage, but we believe the minimum wage should be adjusted to our cost of living. Again we are talking about a balance, and we believe it should also be adjusted geographically. That is, the difference in cost of living in different localities should be recognized, and the minimum wage should be adjusted accordingly.

18. Improve public-assistance program for relief.

Mr. EWING. * * * public assistance should be available to persons who are destitute no matter what the cause of their destitution, rather than to those who are needy because they are aged, blind, or dependent children, which are the limits at the present time. If this is done, we can establish in prosperous times the framework of a planned, logical, well-administered system that can carry a heavy load if extensive unemployment of long duration should ever again develop. If this is not done, we face the certainty that the experience in the last depression will be repeated in any future slump—a series of improvised, shifting, uncoordinated programs.

19. It is essential that public-power programs be expanded this year, even where this requires use of scarce materials for construction of dams and generators

Mr. RAVER. All this discussion I have listened to leads me to this conclusion: That there is a problem of channeling these critical materials, materials that are in short supply, into those particular activities in our economy which will most quickly remedy the shortages that are apparent from the statistics that have been indicated here.

Power is one of those places. I think aluminum is another. I think aluminum should be channeled into the cable business for the power companies of this Nation. * * *

I want to express my disagreement with Mr. Kaplan * * * that this particular portion of the Federal government's responsibility in our economy should be put on the shelf. * * * it should not be considered in a public works category any more than the investment or private capital by private utility companies in this particular field should be so considered.

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Secretary KRUG. Current shortages of raw material in energy are seriously limiting economic expansion and output. An outstanding example is a shortage of electric power. Continued neglect of these shortages will impose absolute physical limitations upon our economy, with all of the economic maladjustments that such limitations imply. * * *

I think the power shortage seriously imperils national security and national economic well-being. For example, aluminum, needed for both civilian and defense requirements, is at least 30 percent short of demand, and today the industry operated at only about one-half of World War II capacity. The aluminum industry depends largely upon hydro power, 70 percent of which is provided by the Federal Government. * * *

We have approximately 77,000,000 kilowatts of undeveloped water power now wasting annually into the oceans, about two-thirds of this in States west of the Mississippi and about one-third is in the Eastern States. Controversy over the development of Federal hydro projects has obscured this tragic waste of undeveloped water power. Certainly in the next 15 years, at least 25,000,000 kilowatts of this hydro ought to be developed. This is the kind of target which the country needs to sustain an expanding economy operating at maximum employment, maximum production, and maximum purchasing powers.

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Mr. RAVER. It seems to me that in the Northwest it is almost criminal to burn oil or to take other scarce materials to make power when you have an inexhaustible supply continually running away to the sea. We ought to get out of that situation not only for the benefit of the Northwest, but for the benefit of the Nation, as quickly as we possibly can.

We provide with that power today almost half the aluminum supply for the entire Nation. The curtailment of aluminum is serious as a national product. It is serious to us and to the whole electrical industry because of the uses to which aluminum is put in the manufacture of cable, wire, and other materials of that kind. The long delivery time for wire and cable is holding up rural electrification programs as well as industrial expansion.

So that it seems to me there certainly is a place in this picture, in harmony with what my understanding is of the proposals by President Truman to insure maximum employment, maximum production, and maximum purchasing power throughout the Nation, to speed up the expansion of our electric-generating supplies throughout the Nation, and particularly to expand as quickly as possible the hydroelectric supplies which, when they are once developed, provide an inexhaustible supply. Certainly no nation, and no region as a part of a nation, can make progress in this technological age, except in terms of an assured energy base and an expansible energy base and a cheap energy base to run the machine for an expanding economy.

In my judgment that is one of the outstanding things which has given America its leadership in the world and has made it the greatest Nation from the point of view of producing goods and services. Power is at the base of that kind of an economy. If we do not expand it to the needs of the economy and, in fact, keep well ahead of the needs of the economy * * * if we do not do that we are putting a brake on all the aspects of the economy, certainly in the industrial field. * * * In the case of the Northwest, it is admitted by both the private utilities and the public agencies of that region, that so far as the harnessing of the water power of the Columbia Basin is concerned, it is primarily a Government job. In other words, it is a multiple-purpose job involving not only power but navigation, flood control, and irrigation, which are either nonreimbursable or partially reimbursable projects.

* * * those basic industries that are waiting to expand with Northwest hydro power will be held back unless they can find an alternative source of energy. Frankly, I do not see where that alternative source of energy is to come from on the basis of the shortages all over the Nation. So that some of them like aluminum, phosphate, zinc, lead, and perhaps copper are unlikely to expand significantly until this power-supply situation is remedied, particularly in the Northwest, where cheap hydro appeals to the metallurgical and chemical industries.

Therefore, the whole country, as well as the Northwest, will feel the effects of the Northwest shortage for a number of years.

I must therefore stress the importance of congressional policy in trying to accelerate the construction of the Federal Government's portion of this power-development program through appropriations and legislation permitting the allocation of steel, aluminum cable, and other materials for whatever period of time that allocation proves necessary to speed up the productive capacity of this basic production resource.

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Secretary KRUG. * * * the further expansion of Federal hydro power has long been overdue. Hydro projects that would provide for 30,000,000 kilowatts of capacity should be planned and scheduled as soon as possible. And the capacity problems involved in the manufacture of the generating and transmission equipment required for this program should be surveyed. Such action would constitute a long step forward in reducing the waste of undeveloped hydro and in meeting long-term needs for such products as aluminum.

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Secretary BRANNAN. * * * Two basic shortages are currently retarding the rural electrification program in most parts of the country. A shortage of low-cost power is holding up the extension of service and restricting the amount of electricity that can be used by people who already have service. The second major shortage is that of conductor for the construction of distribution and transmission lines. Both copper and aluminum conductors are in short supply. The program is practically at a standstill in some locations because aluminum conductor is not available, and conductor made of other material is too expensive to be feasible under the REA policy of making only sound loans.

There are still approximately three and one-half million rural homes that do not have central station electric service. Most of them can expect service within the next 5 years if adequate power and materials can be made available, but only if this is done.

20. A start on the St. Lawrence River waterway and power project should be made immediately

Secretary KRUG * * * If you develop the St. Lawrence for a waterway and for power, you can get power there in large quantities of power at about 2 mills a kilowatt-hour, including interest and return on the Government money. But I do not know of any private enterprise that would be able to undertake the development of the St. Lawrence.

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Mr. GOSS * * * We are heartily in favor of the St. Lawrence seaway and the power development under it. In fact, we are in favor of the development of our water resources by public agencies and private agencies, as fast as they can be developed, to save our exhaustible natural resources and to give us the power we need.

21. Programs on the improvement of river basins should be examined and action taken where needed to provide coordinated development plans

(Not discussed.)

22. (a) To fit a prosperous and equitably treated agriculture consistently into an economy seeking to operate continuously at maximum levels

Secretary Brannan. For 1949 the Department of Agriculture has suggested production goals that call for continued high-level farm output * * *.

On the basis of all indications we now have, farmers are planning to continue making full use of their productive resources, and with good weather farm production should continue at about the level of recent years.

* * * the big question before us is not whether agriculture can and will continue to produce an abundance but whether farmers will be penalized for producing in accordance with the needs and policy of the Nation.

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Dr. Schultz. * * * the three main issues affecting agriculture that Congress will have to decide.

1. Will Congress decide to support farm prices in 1950 at a flat 90 percent of so-called parity, or at some flexible rate based on size of crops and on accumulated carryovers? That will be a controversial issue affecting economic policy. It has a major bearing on all of the economy.

2. How will Congress deal with those farm products for which foreign requirements have been so extraordinarily large, and for which the demand may drop drastically in the near future? Will Congress act to adjust supplies by crop restrictions, or by dumping such products abroad, or by other measures? * * *

3. And lastly, in the event—and this I hope will not occur—that the industrial sector of the economy cuts output sharply, if we really have a turn-down in industrial production, and a large increase in unemployment, and that drop comes to mean three, four, five, or more million unemployed, and agriculture stays on the job, at that point how will you deal with agriculture? I submit you cannot deal with it with your present policy, namely, by restricting output or by piling up food to hold up farm prices under those circumstances.

That is not the way to give some minimum income insurance to farmers. The foodstuff has to go to consumers even if we have—and I should say particularly we have—a depression of any major sorts. All I am saying is that we have not thought our way through such a situation because our present agriculture policy at that point would break down. We would either pile up food or we would start restricting production. Neither of those two approaches can be defended in a really deep depression. I am sure that is true.

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Mr. Kaplan. I am opposed to the support program that is going to fix farm prices at 90 percent of parity under the present levels.

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Mr. Goss. * * * We believe in a flexible floor. There are some commodities where we feel that a fixed floor may be necessary, particularly in export commodities and in those commodities where tremendous production adjustments are necessary. But we believe in supports which will contribute toward shifting from one line of production to another line of production. We do not believe in a floor which will hold our economy out of balance but will assist in maintaining that general balance that we seek for all.

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Mr. Smith. * * * I have considered farm subsidies as one of the glaring examples of a policy which was inducing overproduction, which is going to cost the Treasury hundreds of millions of dollars, and, as a matter of fact, from what I can make out, most intelligent farmers realize that they simply result in a revulsion of sympathetic feeling which most people have had for the farmers.

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Mr. Fleming. As it relates particularly to the agricultural field, the whole area of their report with regard to farm price policy, starts at the bottom of page 47 and continues to the close of that section, is thoroughly consistent with our views on that subject. [Refers to report of CEA.]

The Chairman. Then you are telling the committee that you believe Government should follow the policy of agricultural price supports?

Mr. Fleming. Price supports as floor prices, rather than as a means of price fixing. Not to guarantee a profit, but to provide a floor against the sort of devastating price declines that too often result from the farmer's own success at high production.

22. (b) To move toward the goal of farm living standards comparable to the rest of the population

(Not discussed.)

22. (c) To more abundant farm production to supply the industrial and consumer needs of a full employment economy

(Not discussed.)

22. (d) To encourage shifts in the composition of farm output adjusted to domestic and export needs

Mr. FLEMING. We have aggressively supported efforts to get an international wheat agreement that would work. Let me say in that connection that we do not view it principally as a means of price support in this country. Instead, we view it as a means of providing an assured outlet for wheat, which is in our interest, and which tends to prevent the development of uneconomic wheat production in other areas, which policy is not only in their interest, but likewise in ours.

Mr. HERTER. Your interest in the wheat agreement is to have a guaranteed exportable surplus taken off the market each year, regardless of the price?

Mr. FLEMING. I would not say regardless of the price, but we should not give major consideration to price factors.

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Mr. GOSS. In this distribution program we are aiding the stabilization of prices at the international level. We are supporting the wheat agreement which the President lists.

22. (e) To provide adequate storage facilities, the improvement of distribution, and adequate credit facilities

Secretary BRANNAN. Another important need is that of increasing storage facilities so that the price-support program will be fully effective and so that safe reserves of food and other agricultural products can be maintained in the interest of a stable economy and national security. Because of heavy demands, galvanized sheet steel has not been available for the production of storage bins without formal Government assistance.

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Mr. GOSS. The President has suggested aid in storage. We think there must be more storage. We hope that private industry will provide it. We hope that if they do not provide it we might have some Government guaranteed loans to our cooperatives to provide it.

If those two means fail, we think the Government needs to step in and provide sufficient storage, so that the crops we need will not go to waste, because agriculture itself cannot provide terminal storage for its commodities.

23. Continue European recovery program

Mr. THORP. The most important aspect of programs such as the ERP to our domestic stability lies in the fact that improved world economic conditions will open the way to achieving a balance in our international transactions without Government intervention or extraordinary financial assistance. * * * In fact, the future pattern of our economic foreign relations depends basically upon the success of the effort to achieve European recovery, the extent to which progress can be made in dealing with the condition of underdevelopment in other areas, the degree to which trade barriers can be reduced, and the extent to which the flow of private investment can be resumed. Above all, of course, is the problem of security and order. Economic progress cannot be expected in areas disturbed by political and civil disorder.

If we cut off our assistance to Europe we would then, I think, postpone, or perhaps make virtually impossible, within the near future, a full European recovery. Therefore, the demand for American goods would be reduced probably even more than by the amount of our reduced assistance, because our assistance in turn helps them to produce goods which they can send to us.

That reduction, I think, would have quite serious impacts on some areas of the American economy, the areas which are particularly adjusted to exporting. I mentioned tobacco and cotton. There are other areas, too, machine tools, for example, where they count on a substantial foreign market thereby acquiring dollars with which to make purchases from us.

The impact on our own economy would start in these key points and then would tend to spread through the total economy.

Mr. Goss. He advocates that we go forward with the Economic Cooperative Administration, and we are in sympathy with that. We do think, however, that in the Administration there must be a tapering off * * *. There are signs that there is not enough attention being given to an adequate tapering off in ECA.

We believe Congress should make a comprehensive study of the problem in connection with ECA right now. Some of the recipient nations are able to furnish us with strategic materials, tin, lead, zinc, and so forth, and they want cash on the barrel head. We think we ought to begin trade at this time, and if it means a little longer period, rather than pay them cash for stuff which they export to us, and then give them the money to buy from us, we think there should be a longer period, but we should begin to develop those normal processes of trade.

24. Restore the Trade Agreements Act to full effectiveness, and extend it for 3 years

Mr. Thorp. We have a fundamental belief that while one can proceed through such things as the recovery program in an effort to get the world back into balance, if it is to be continued as a healthy situation it is necessary that trade be able to flow without any substantial amount of arbitrary interference by governments.

The reciprocal-trade agreements program has been a way in which this Government, for virtually 15 years, has been endeavoring to clear away some of these interferences to the flow of goods back and forth.

* * * we are asking its extension for 3 years instead of 1 year, the time it was extended by the last Congress, because that is historically the length of time for such an extension. Also, because we have felt we did not even want to suggest to other countries that our foreign policy was on a day-to-day or even a year-to-year basis, with respect to a matter of this kind.

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Mr. Goss. * * * We are in favor of reciprocal-trade agreements, but at this point we believe Congress has disenfranchised itself. We believe Congress should enact some very definite guides as to a tariff policy on reciprocal-trade agreements. The only policy now is to promote trade. That trade may be good, or it may be bad. We ought to have some very definite policies to guide the Administration, and those we feel are completely lacking.

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Mr. Lincoln. We are for the extension of the reciprocal-trade agreements.

25. (a) Immediate passage of the unenacted portions of the comprehensive housing bill with the quota of low-rent housing increased to provide for 1,000,000 units within 7 years

Mr. Foley. In spite of its great size and importance to our economy, home building has never achieved economic maturity. There is a large segment of the American people to whose income the housing product has never been adjusted. This in turn has led to violent cyclical fluctuations in production. Hence, instead of being one of the important stabilizing elements in our national economy, home building has actually fluctuated more violently than any other major segment of economic activity. This instability has contributed significantly to the instability of our economy as a whole.

There is some evidence that construction costs may be stabilizing and that a turning point may have been reached. Reflecting primarily a small drop in the price of lumber, construction cost indexes declined in both October and November.

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Mr. Goss. In regard to housing, we think too much attention has been given to the credit phases of it; that the real problem is short materials and defective building codes. Those things might be handled to some extent by allocations, and to the one extent, which I hesitate to recommend—but it may be justified—that is, the extension of credit when and if building codes are adjusted to make sense. I do not like to see Congress reaching over and trying to dictate the building codes, but some of them are terrible.

25. (b) Substantial Federal aid to the States and localities to enable more rapid progress in clearing slums and in assembling land for balanced redevelopment

Mr. Foley. * * * That legislation would enunciate a national housing policy, and in that way would, for the first time, provide a frame of reference within which we could define our objectives and measure our progress in reaching them. It would authorize Federal aid to our cities so that they might make a start in the long overdue job of slum clearance. It would reactivate and expand the low-rent public housing programs. * * *

26. Initiate Federal program for aid to elementary and secondary education

Mr. EWING. Federal funds to aid States in construction of additional elementary and secondary schools are also badly needed. But no grants for these purposes have been requested for the coming year. All that we have requested in these instances is authorizations for programs which will require appropriations at a later time.

27. Make plans to expand opportunities for higher education through cooperation between the Federal Government and public agencies and private institutions, including a system of general scholarships and fellowships

(Not discussed.)

28. Initiate a study to determine authoritatively our national needs for educational facilities and the most feasible methods of providing them

(Not discussed.)

29 (a) Enactment of a program of national health insurance with Federal grants in support of hospital construction

(b) Take steps to overcome the present serious national shortage of medical personnel

Mr. EWING. Of the total civil public works expenditures of $2,900,000,000 proposed for the entire Government during the fiscal year 1950, only $85,000,000, 3 percent of the total, will be accounted for by construction for education, health and welfare programs. Practically all of this money will be spent for critically needed hospital and medical research facilities.

30. Widen the coverage and make benefits more adequate under old-age and unemployment insurance systems

Mr. EWING. The social insurance and public assistance programs put a strong brake on the swings of the business cycle. When times are good, as they are now, relatively few people are unemployed and unemployment insurance benefits are low. But simultaneously with an increase in unemployment, the volume of unemployment benefits rises.

Mr. GOSS. I would like to mention old-age and unemployment compensation. We are disturbed at the unemployment compensation. We believe in the principle but when 80 percent of our receipts are paid out in unemployment benefits at a time when we have relatively full employment, where are we going to land when we have real unemployment? There have been some tremendous abuses. In some places it has been almost a farce. We would like to see it strengthened, but particularly strengthened so as to prevent the abuses and make it serve the purpose which it is intended to serve—that is when we have real unemployment.

31. Inaugurate a system of insurance against loss of income through temporary or permanent disability

(Not discussed.)

32. (a) Improvement of conservation practices
(b) Regulation of timber cutting
(c) Protection of public range lands
(d) Development of tidelands oil resources

Secretary KRUG. Our national security and welfare require positive measures now to secure our oil supplies of the future. The Federal Government should undertake its responsibility for rapid exploration of the reserves remaining on the public lands and the Continental Shelf. For that purpose, legislation is needed immediately.

32. (e) Press forward with programs of basic research and exploration

Secretary KRUG. The Federal Government should also foster the early development of a synthetic liquid fuels industry and encourage more adequate conservation laws in some of the States.

(f) Encourage the bargaining of labor and management along lines most consistent with national progress and stability

(Not discussed.)

List of witnesses and participants in round-table discussions on the President's Economic Report of January 1949

Anderson, Dewey	Public Affairs Institute.
Blough, Roy	University of Chicago.
Calhoun, Leonard	Morgan and Calhoun.
Carey, James B	CIO.
Falck, Edward	Consulting Engineer.
Fleming, Roger	American Farm Bureau Federation.
Gainsbrugh, Martin	National Industrial Conference Board.
Ginsburg, David	Ginsburg & Leventhal.
Goss, Albert	National Grange.
Hines, Lewis G	A. F. of L.
Kaplan, A. D. H	The Brookings Institution.
Keezer, Dexter	McGraw-Hill Publishing Co.
Kestnbaum, Meyer	Hart, Schaffner & Marx.
Lincoln, Murray D	Cooperative League of the United States.
Patton, James G	National Farmers Union.
Paul, Randolph	Paul, Weiss, Wharton & Garrison.
Raver, Paul	Bonneville Power Administration.
Reed, Philip	General Electric Co.
Robey, Ralph W	National Association of Manufacturers.
Schmidt, Emerson	Chamber of Commerce of the United States.
Schultz, Theodore	University of Chicago.
Smith, Bradford	United States Steel Corp.
Smith, S. Abbot	Smaller Business Association of New England, Inc.
Terborgh, George	Machinery and Allied Products Institute.
Woodward, Donald	Mutual Life Insurance Co. of New York.
Yntema, Theodore	Committee for Economic Development.

List of witnesses appearing before committee hearings on the President's Economic Report of January 1949

Charles F. Brannan	Secretary of Agriculture.
Leon H. Keyserling	Vice Chairman, Counsel of Economic Advisers.
John D. Clark	Council of Economic Advisers.
John W. Snyder	Secretary of the Treasury.
Charles Sawyer	Secretary of Commerce.
Raymond M. Foley	Administrator, Housing and Home Finance Agency.
Tighe E. Woods	Housing Expediter.
Julius A. Krug	Secretary of the Interior.
Oscar R. Ewing	Federal Security Administrator.
Maurice Tobin	Secretary of Labor.
Thomas B. McCabe	Chairman, Federal Reserve Board.
Willard L. Thorp	Assistant Secretary of State for Economic Affairs.

Appendix C

SUMMARY OF THE WORK OF THE JOINT COMMITTEE ON THE ECONOMIC REPORT DURING 1948

Calendar 1948 marked the first full year of activity for the Joint Committee on the Economic Report. The committee, which had been reorganized at the beginning of the Eightieth Congress, did not assemble its staff until well into 1947 and consequently felt it was not in a position to appraise or comment on the President's program of that year when it issued its first report on the President's report.

THE COMMITTEE'S REPORT ON THE PRESIDENT'S REPORT

By January 1948, the committee had conducted a number of hearings on matters relating to its work and had adequate staff available to assist in preparing the review and analysis of the President's Annual Economic Report, which is the committee's major responsibility under the Employment Act of

1946.[1] Beginning soon after the President submitted his 1948 Economic Report (January 14), the committee held a number of meetings to consider the recommendations made in that report and to review materials prepared by the staff which dealt with those recommendations or with other parts of the report. On May 8 the Report of the Joint Committee on the Economic Report on the January 1948 Economic Report of the President was submitted in the Senate and ordered to be printed (S. Rept. No. 1358). The report contained the committee findings as approved by the majority members, an analysis of the President's Economic Report by the committee staff, a summary of the recommendations offered in the Economic Report of the President, and the minority views on the President's report.

OTHER HEARINGS AND REPORTS

In its function of "continuing study of matters relating to the economic report" the joint committee held a number of hearings during the year and issued reports on these hearings and corollary matters. The first hearings held were on February 5 and 6 and dealt with the President's message of January 29 requesting allocation and inventory control of grain for the production of ethyl alcohol. This hearing was required under a section in Public Law 395 (passed December 30, 1947) which provided:

> "Whenever the President shall determine that there is or threatens to be a critical shortage of any raw material, commodity, or product which jeopardizes the health or safety of the people of the United States or its national security or welfare and that there is no prospect that such critical shortage may soon be remedied by an increase in the available supply without additional governmental action and that the situation cannot be solved by voluntary agreement under the provisions of this act, he may prepare proposed measures for conserving such raw material, commodity, or product which he shall submit to the Congress. * * * Within 15 days after the submission of such proposed conservation measures, the Joint Committee on the Economic Report shall conduct public hearings thereon and shall make such recommendations to the Congress for legislative action as in its judgment the recommendations of the President and any additional information disclosed at the public hearings may require."

The hearings were held by a subcommittee consisting of Senators Flanders (chairman), Watkins and Sparkman; and Representatives Bender, Herter, and Hart. Members of the Senate Banking and Currency Subcommittee on Controls of Meat and Alcoholic Beverages also participated in the hearings. February 11 the committee issued its report on the Allocation and Inventory Control of Grain for the Production of Ethyl Alcohol (S. Rept. No. 888).

Following these hearings the committee next heard from representatives of Big Steel, Little Steel, and the independents on reasons for increases in steel prices.[2]

On March 14, 1948, the committee issued a final report of the western subcommittee on its investigations conducted in the fall of 1947 under Senate Concurrent Resolution 19 which had called for an inquiry into the high prices of consumer goods, the eastern subcommittee having issued a preliminary report November 14, 1947. A final report, which covered the findings and recommendations of all three subcommittees participating in the study, was issued June 9, as Senate Report No. 1565, High Prices of Consumer Goods.

Representatives of the Federal Reserve Board and the Treasury were heard from April 13–16, as the committee began its hearings on credit policies. These hearings were continued in May when Federal Reserve System spokesmen again appeared, followed by witnesses from private financial organizations.

The final hearings of the year were held on the subject of corporate profits by a subcommittee consisting of Senators Flanders (chairman), Watkins, and O'Mahoney; and Representatives Wolcott, Herter, Patman, and Huber. The hearings began December 6 and ended December 21. Expert witnesses were called from the economics and accounting professions and were followed by witnesses

[1] Sec. (b), part (3) of the act (Public Law 304, 79th Cong., 2d sess.), as amended, reads as follows: "It shall be the function of the joint committee * * * as a guide to the several committees of the Congress dealing with legislation relating to the Economic Report, not later than March 1 of each year (beginning with the year 1947) to file a report with the Senate and the House of Representatives containing its findings and recommendations with respect to each of the main recommendations made by the President in the Economic Report."

[2] Held March 2, 1948.

representing organized labor. The hearings were concluded with the appearance of witnesses from the petroleum, foods, automobile, steel, meat packing, and electrical-goods industries. The subcommittee reported the results of its findings, together with a detailed topical summary of the hearings in a committee print issued December 31.

COMMITTEE ACTIVITIES IN THE FIELD OF ECONOMIC STATISTICS

The committee has been vitally interested in economic statistics because of its continuing use of these materials. During the summer recess a committee print was issued on Current Gaps in Our Statistical Knowledge, a statement which the committee staff prepared in response to a request from one of the members for such data. In continuation of its work in this field, the committee issued a print on the Consumer's Price Index in December. This print was primarily a working memorandum designed to provide the committee members with an up-to-date digest and correlation of published materials on the methods of compilation composition, and presentation of the index.

During 1948 the committee also arranged to release each month as a committee print a collection of charts and statistical tables which were prepared by the Council of Economic Advisers and which present the latest figures for a selected group of statistical measures. At the same time the chairman introduced Senate Joint Resolution 226 which called for making this publication a permanent Government document, available on an annual subscription basis. Time did not permit final consideration of this measure which was passed by the Senate and approved by the Committee on House Administration.[3]

Appendix D

JOINT STAFFS' STATEMENT ON STATISTICAL GAPS

At the initiative of the members of the staff of the Joint Committee on the Economic Report, staff of the Division of Statistical Standards of the Budget Bureau and staff of the Council of Economic Advisers prepared the following statement as a supplement to the statistical programs outlined in the joint committee's report on current gaps. This statement shows rather concisely the present work being done and the plans for the immediate future.

Progress Report on Statistical Gaps

Few of the major statistical projects listed last year in Statistical Gaps as needed for the determination of economic policy have been undertaken, but some work has been done to improve the information in these fields. The need for most of these data as prompt indicators of changes in our economic position is even greater today, when economic trends are not as clearly apparent.

There is one additional area, not included in Statistical Gaps, in which the lack of adequate data is serious. There is increasing need for the development of current monthly or quarterly statistics on personal incomes received in each State, supplementing the present annual estimates in this area. Such data would be of major value for several purposes. They would help indicate immediately and precisely where soft spots in the economy are developing. They are needed also for the efficient allocation of Federal grants and matching funds, for use by State agencies in evaluating tax potentials, and for the determination of business market areas and selling quotas. Collection of the data needed for these current estimates would be related to, and coordinated with, other data collections described in Statistical Gaps, for instance, Nos. 2, 3, and 4.

The present status of information in each of the fields included in Statistical Gaps is summarized briefly below.

(1) INDIVIDUAL CONSUMER INCOME, EXPENDITURES AND SAVINGS PATTERNS

One of the most serious gaps in our present statistical knowledge is in the field of consumer purchasing power and demand. Prior to the war, the Government's work in this field was limited to occasional and unrelated studies, made to meet special needs and usually very restricted in scope. In the fall of 1944, a systematic and coordinated statistical program was developed, providing for a continuing

[3] This legislation has been again introduced, by Senator O'Mahoney as S. J. Res. 55 and Representative Hart as H. J. Res. 163.

series of studies in which several Federal agencies participate. During the past 4 years, work has gone forward on some phases of this program, but in general the progress made has been far from commensurate with the need for information on this area of the economy.

Three lines of work are required in this field: First, the collection of data through annual field surveys of representative samples of urban and rural families, to show the incomes received during the preceding year and the expenditures and savings made from these incomes; second, the integration of these survey data with data from income-tax returns, the Commerce national-income series, and other sources, to provide reliable annual statistical series on the distribution of income and of consumer spending and saving among the Nation's families by income level and other relevant characteristics; and, third, the analysis of available data to determine current trends, to reveal the effect of changes in prices, taxes, and other factors on the real income of various groups of the population and on the way they spend their incomes, and to throw light on the stability and adequacy of current national levels of purchasing power and consumer demand.

Field surveys of consumer income

Considerable progress has been made since 1944 in the collection of data on consumer income from representative national samples of households. The Census Bureau has completed four such surveys, covering incomes received during 1944, 1945, 1946, and 1947, and in April of this year will obtain similar data for 1948. The Federal Reserve Board has also collected income data for several successive years, as part of its surveys of consumer finances; results for 1945, 1946, and 1947 have already been published, and field work for 1948 data is now under way. In addition, information on the income of farm operators' families was obtained by the Bureau of Agricultural Economics for 2 years—1945 and 1946—and data on urban-family incomes were collected by the Bureau of Labor Statistics for 1944.

The samples of households covered in all of these surveys were scientifically determined, and served admirably to show the statistical picture for the Nation as a whole. In none of these studies, however, was the sample of sufficient size to permit adequate subclassification by size and type of family, number of family earners, occupation and industry, geographic area, and other significant factors. The Census Bureau surveys ranged in size from 7,000 to 25,000 households, and those conducted by other agencies were even more limited in scope. Requests for funds for a large-scale income survey were submitted on three occasions, but the appropriations were not approved.

Present plans for the 1950 Census of Population and Agriculture, however, do provide for the collection of income data from an adequate sample of the Nation's households. The population schedule of the Census will include several simple questions on individual and family income received during 1949, to be asked on a 20-percent-sample basis; the agriculture schedule will cover questions on gross farm income for all farm operators and on selected types of farm expenses for a 20-percent sample.

These census data are essential for providing bench-mark statistics for small geographic areas and for detailed economic and demographic classifications of the population. They need to be supplemented, however, by more detailed income data collected by experienced enumerators in a follow-up survey. For this purpose, the proposal in Statistical Gaps suggested a sample of 100,000 households. It now seems, however, that a supplementary sample of 50,000 households, or even less, would probably be adequate, since it is expected that the income data from the population census as now planned will prove more satisfactory than was earlier anticipated. The costs of such a survey—roughly estimated at $10 per schedule—are not included in the 1950 budget.

Field surveys of consumer spending and saving

Progress in the collection of data on consumer expenditures and savings has unfortunately lagged far behind recent developments in the income field. The Federal Reserve Board surveys of consumer finances, mentioned above, provide the only information covering national samples of both urban and rural households since the small Study of Family Spending and Saving in Wartime made in 1942. While the Federal Reserve Board surveys supply exceedingly valuable data on consumer savings and on the demand for certain types of durable goods, they do not cover the full array of consumer expenditures, and they are limited in sample-size to some 3,000 to 3,500 households. A number of small detailed surveys of family expenditures and savings (with data also on incomes) have recently been made by the Bureau of Labor Statistics and the Bureau of Human Nutrition and Home Economics, but—with the exception of the 1944 BLS survey already mentioned—these have been restricted to families living in selected cities or rural areas.

Requests for funds for large-scale surveys of consumer spending and saving, covering national samples of families, were submitted in November 1944 and January 1945, but not approved. No such request is included in the 1950 budget. The proposals for bench-mark surveys in this field included in Statistical Gaps still appear essential for adequate information.

Annual series on distribution of income, spending, and saving

While data collected in house-to-house surveys are an indispensable part of an adequate program of consumer statistics, they are known to reflect certain biases and deficiencies which cannot be fully avoided, even with the most careful planning and skillful administration of the field enumeration. To provide reliable estimates of the distribution of income, spending and saving among the Nation's consumers, the results of such field surveys must be combined and reconciled with statistical data from other sources.

Work is now actively under way on the preparation of such an adjusted statistical series on the distribution of family and individual income by income level. This project was recently initiated as a joint undertaking by the Office of Business Economics, the Bureau of Agricultural Economics, and the Bureau of Labor Statistics, under the guidance of an interdepartmental technical committee. Distribution estimates for family incomes are nearly completed for 1944, the first year of the new series, and are in process for 1945, 1946, and 1947. The rate of progress on this project, however, has been disappointingly slow, because of limitations in staff within the cooperating agencies. The cost estimates included in the Statistical Gaps report called for a total staff of 30 persons for fiscal 1950, with additional funds for special tabulations and a total budget of $240,000. Actual expenditures as now contemplated will amount to about one-tenth of this figure.

A parallel statistical series is also urgently needed on the distribution of consumer expenditures and savings by income level, reconciling the data from field surveys, the Commerce national expenditure series, the Securities and Exchange Commission series on individual savings, and other sources. The cost of such a project for fiscal 1950 was estimated at $90,000 in the report on Statistical Gaps. Work in this field, however, has not yet been initiated.

Analytical work on current estimates and trends

For purposes of economic analysis and determination of economic policy, perhaps the most urgent need in the consumer-statistics field is for a systematic program of analytical work on current estimates and trends, throwing light on the current situation and on prospective changes in consumer purchasing power and demand. A program of this kind would utilize, in addition to current statistics, the data from field surveys and from the adjusted distribution series for preceding years.

Such a program has not yet been undertaken by any Government agency. Its costs were estimated in the Statistical Gaps report at $50,000 for staff salaries and $20,000 for special tabulations for the first year, with smaller amounts thereafter. These relatively small outlays would make it possible to place the estimates of income distribution and of spending and saving patterns on a fully current basis, to study the weak spots in the current consumer picture and the crucial factors influencing consumer demand and savings, and to aid in stabilizing and expanding the domestic consumer market.

(2) EMPLOYMENT AND EARNINGS OF EMPLOYEES NOT COVERED BY SOCIAL SECURITY

Our estimates of national income still need more satisfactory current information on agricultural workers, domestic servants, and employees of nonprofit institutions, and no programs to obtain these data are included in the 1950 budget. For agricultural workers, the need is for quarterly data in place of the present annual data. For domestic servants and employees of nonprofit institutions we still need to develop procedures for obtaining the data, either in connection with existing programs or as new surveys. It is now apparent that data on domestic service could not be obtained through the current population survey unless that survey were very greatly expanded. For employees of nonprofit institutions it is possible that the data needed for national income estimates might be obtained through revision of existing programs, especially in view of the interests of other groups (such as the Joint Committee on Internal Revenue Taxation) in this area.

(3) RETURNS TO CAPITAL AND MANAGEMENT OF UNINCORPORATED BUSINESSES

No further exploratory work has been undertaken on means of obtaining this information, and no funds for this purpose are provided either in the current year or in the 1950 budget. This project is closely related to the program of business financial reports described below (No. 5).

(4) EXTENSION OF EMPLOYMENT AND UNEMPLOYMENT STATISTICS

The 1950 decennial census, as planned, will collect detailed data on labor force participation, including occupations and characteristics of the unemployed, for all areas. It is not expected, however, that these data will be kept up to date except through the national totals derived from the current population surveys. This may not be too serious until the unemployment totals are substantially above current levels. No plans are now under consideration for expansion of the national sample of the current population surveys to provide employment and unemployment totals for major regions and greater detail on the characteristics of the unemployed, and no annual surveys presenting geographic detail for metropolitan areas have been made since fiscal year 1947.

The third item proposed in this section, however, is in the 1950 budget. The funds for the Bureau of Labor Statistics contain an increase of a little over $500,000 to cover (1) extension and improvement of cooperative arrangements with State agencies to provide data on employment, hours and earnings by major industry divisions and by important manufacturing industries in each of the States (also representing assumption by BLS of a greater share of the cost of the State employment statistics program which has been financed jointly by the Bureau of Employment Security in Social Security and the BLS); and (2) obtaining data on employment, hours and earnings for approximately 100 industrial areas, also in cooperation with the State agencies and the Bureau of Employment Security. About $350,000 for this integrated program to supply current employment statistics for each State and important metropolitan area is also contained in the item for the Bureau of Employment Security. In this case, however, the funds do not represent an increase, but are roughly equivalent to funds now being expended for labor market reporting, which will no longer be required with the establishment of the joint program.

(5) FINANCIAL TRENDS OF BUSINESS

We have, in this area, a number of independent series which supplement each other but which do not, taken all together, completely cover the field. The biggest total gap is in the area of unincorporated businesses. Study is going ahead on better integration of the various series, but there is considerable work yet to be done, and development to a satisfactory degree of completeness and accuracy will involve some expensive additional collections.

The most highly developed segment in this area is the FTC-SEC industrial financial report, which is now limited to brief quarterly reports from manufacturing corporations. No funds are contained in the 1950 budget either for the more detailed annual reports or for extension of the program to cover a sample of retail, wholesale, and mining corporations or unincorporated manufacturing companies.

It should be mentioned that completion of this coordinated program, as planned, might serve as the basis for obtaining some of the data needed on returns to capital and management of unincorporated businesses (No. 3), improved inventory statistics (No. 9), and fuller information on anticipated capital expenditures (No. 11).

(6) PERIODIC CENSUSES OF WHOLESALE AND RETAIL TRADE AND SERVICES

Plans for the first business census of wholesale, retail, and service trades since 1939 are now under way. As reported in Statistical Gaps, 1.8 million dollars was appropriated last year for preparatory work for the Census of Business. A request for $11,950,000 to complete the census is now pending before the Congress. It is expected that this census will be taken this spring, covering calendar year 1948.

(7) DEVELOPMENT OF MORE SATISFACTORY MEASURES OF PRODUCTIVITY

It should be possible to restore productivity indexes based upon secondary sources to the approximate prewar coverage of 60 industries by using 1947 Census of Manufactures data now becoming available.

The 1950 budget contains an increase of about $100,000 for BLS for work on productivity, mainly for measures of current productivity changes. This increase is designed to extend indexes derived from the direct reports program to another 10 to 12 industries.

While the Conference on Productivity is continuing work on the conceptual problems of measuring productivity, many of the problems cannot be solved until solutions are found to such matters as production measures, man-hour data, and price deflators, as pointed out in the committee report.

(8) DEVELOPMENT OF DATA ON CONSTRUCTION

(*a*) Construction costs: The 1950 budget contains an increase of about $128,000 for the BLS to conduct studies of the elements of cost (labor, materials, overhead, and profit) in constructing single-family dwellings and to obtain data on selling prices or rentals of newly completed homes in 20 areas. No funds are included for the preparation of construction cost indexes, but the studies proposed for 1950 are considered a necessary preliminary step to the construction of adequate indexes.

(*b*) Construction volume: The 1950 budget requests an increase of about $115,000 for the BLS to survey new residential construction in approximately 20 industrial areas. This work will also improve the total estimates. As compared with the program outlined in Statistical Gaps, this will make possible separate figures for 20 instead of 180 metropolitan areas, and will be limited to residential construction. It will provide some information on the physical and dollar volume of new work started and the value of work put in place, and on characteristics of new residential units, but it will provide no information on the cost of maintenance and repair work put in place, the number and cost of residential units added by conversion, or the number of units demolished.

The special committee studying the data on volume of construction has completed its formulation of the type of program needed and is now attempting to find the least costly means of obtaining the data. Recommendations of major changes in this area will not be made until the committee has completed its inquiry in the fall of 1949.

(9) IMPROVEMENT OF INVENTORY STATISTICS

Considerable work has been done in improving the accuracy of existing series, but new funds would be required for exploratory work to develop the type of program described in Statistical Gaps. No new funds are available for this purpose in the current year or contained in the 1950 budget. This project is related to the program of business financial reports (No. 5).

(10) DATA ON MATERIALS REQUIREMENTS IN RELATION TO PRODUCTION

The National Security Resources Board is currently developing procedures whereby product and materials requirements data will be compiled, utilizing existing information and facilities of other Federal agencies. In addition, special studies are being undertaken to provide information on availability of supply facilities in selected areas. The 1950 budget request of the Board contains an amount of $750,000 for contract studies by the Board.

An Executive Office committee, composed of representatives of the National Security Resources Board, Council of Economic Advisers and Budget Bureau, has been examining the project developed by the BLS for study of inter-industry relations. The committee is recommending that funds be made available to BLS (1) for organizing more current data into the consistent framework required for this project; and (2) under the direction of the committee, for exploratory studies of concepts and procedures and for study of the problems involved in the collection of the additional data needed for substantial expansion of this approach.

(11) BUSINESS INTENTIONS WITH REGARD TO CAPITAL EXPENDITURES

Efforts are being made to expand the present data-collection program relating to business intentions with regard to capital expenditures in terms of items covered (e. g., obtaining anticipated sales), within the limitations of current budgetary provisions. However, development of the type of program on anticipated capital expenditures described in Statistical Gaps would require new funds. No such funds are available in the current year or contained in the 1950 budget.

(12) STATE AND LOCAL GOVERNMENT EXPENDITURES

A reduction in appropriations for the current fiscal year has interrupted the plans which the Governments Division of the Bureau of the Census was developing for annual reporting on aggregate government expenditures. This reduction has also necessitated the elimination of reports on county finances. While some progress has been made in reducing the lag in annual reports on State and city finances for the last completed fiscal year, no effort is being made to project Government revenues and expenditures for the current or future years.

ADDENDUM

BUSINESS STRUCTURE AND BEHAVIOR

Among the most important fields for which present statistical information is gravely inadequate is in the general area of business structure and behavior. Of the numerous types of statistical data which should be secured in this field, two are of prime importance. These are, first, data on the general level and trend of economic concentration, and second, data on unit costs.

In regard to the first, Congress, the administrative agencies and the general public should be supplied with a continuing body of information which would show the level or extent of economic concentration in the various industries, as well as the changes which have occurred and are constantly taking place. Data of this type are essential to formulate and implement policies and programs in this area. For this item additional study of the possibility of securing measures from available statistics is necessary but undoubtedly more information on developments in the structure of business organization will be needed.

In regard to the second, there has been a long-standing need in both Government and private industry for objective data on unit costs. The projects thus far undertaken have almost invariably suffered from two serious limitations: First, they have generally related only to one specific industry or another which at the time has presented some important economic problem; and, second, the data have generally been obtained for a particular period of time and have not been maintained on a continuing basis. Better information would be of value to the Government in the appraisal of economic conditions. It would provide individual firms with a yardstick with which to compare their own costs and operations with those of the industry as a whole. It would aid both industry and labor in the settling of labor disputes. It would provide background data, as in the analysis of the relationship between size and efficiency, which would be of great value to the development of sound and consistent programs relating to procurement, location and size of plants essential for military production, antitrust activity, promotion of small business, regional development, etc. As with item 7 (better measures of productivity), it will be necessary for a great deal of study and research to be done before satisfactory measures can be secured on a recurrent statistical basis. However, the need for these data makes it desirable for intensive work in this area to be started.

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