

INVESTIGATION OF THE FINANCIAL CONDITION OF THE UNITED STATES

HEARINGS BEFORE THE COMMITTEE ON FINANCE UNITED STATES SENATE EIGHTY-FIFTH CONGRESS SECOND SESSION

APRIL 1 AND 2, 1958

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INVESTIGATION OF THE FINANCIAL CONDITION OF THE UNITED STATES

TUESDAY, APRIL 1, 1958

UNITED STATES SENATE,
COMMITTEE ON FINANCE,
Washington, D. C.

The committee met, pursuant to notice, at 10:30 a. m., in the caucus room, Senate Office Building, Senator Harry Flood Byrd (chairman) presiding.

Present: Senators Byrd, Kerr, Smathers, Anderson, Gore, Martin, Williams, Flanders, Malone, Carlson, and Bennett.

Also present: Elizabeth B. Springer, chief clerk; and Samuel D. McIlwain, special counsel.

The CHAIRMAN. The committee will come to order.

The Chair has been requested to announce that Senator Kerr and Senator Gore have been detained in another meeting, and will be about 15 minutes late.

The Chair now recognizes Senator Smathers.

Senator SMATHERS. Mr. Chairman, it is with much regret that I ask to be excused this morning as you know I am the Chairman of the Subcommittee on Surface Transportation of the Interstate and Foreign Commerce Committee. This morning we are having railroad hearings which our very esteemed witness knows a great deal about and I have to serve as chairman of that meeting.

There is no man for whom I have a greater respect as an economist, a statesman, and as a great patriot, than Mr. Baruch, and as I say, I exceedingly regret I will have to leave, but I will be back tomorrow at which time I hope we will have a chance to hear more of his testimony.

The CHAIRMAN. Senator Martin has requested the Chair to announce he also has been detained and will be 10 or 15 minutes late.

The Senate Finance Committee today reopens its investigation into the financial position of the United States.

The first witness is the Honorable Bernard Baruch, a man whose wisdom in public affairs is universally recognized. His great and varied patriotic service dates back to World War I. Since that time he has served his country with devotion and distinction in war and peace, in many different positions.

He made great contributions to our mobilization in both world wars. At the end of World War I he was connected with the American Commission to Negotiate Peace and at the end of World War II he worked with postwar adjustment policies.

We all remember his service as the United States Representative to the United Nations Atomic Energy Commission and his plan for control of atomic energy.

But perhaps his greatest service has been rendered in his unofficial position as adviser and close friend to Presidents of the United States.

In this capacity, I think he has served every President since Woodrow Wilson. With Mr. Baruch's experience in finance and Government, his keen intellect and his great reputation for constructive contributions to the public welfare, we could have no better witness on this occasion when we face so many problems and perils at home and abroad.

I am proud to say that Mr. Baruch has been my personal friend for a long time. I admire him tremendously. Personally and as chairman of this committee, I welcome him here and with pleasure I present him to the committee as the first witness in the reopening of these hearings.

Mr. Baruch, the committee will be pleased if you would proceed in your own way.

MR. BARUCH. Thank you very much, Senator, for your more than generous appraisal of my efforts.

STATEMENT OF BERNARD M. BARUCH

MR. BARUCH. Mr. Chairman and gentlemen of the committee, it is an honor to be asked to testify before this distinguished committee of the Senate. Although you are studying the financial condition of the United States, you know that our problems extend far beyond any narrow definition of finance. Tax policy, debt management, monetary controls affect not only our solvency and economic health, but our security against aggression.

Despite the symptoms of distress in our economic system, there is no cause for panic if we use experience and common sense. But if we seek recovery through get-well-quick prescriptions, we will surely face a far more difficult situation.

The principal thing we have to fear is our own folly.

In our concern over the present recession we must not forget that it is only one aspect of the basic problem before us. The challenge we face is to organize and employ our resources effectively, first, for the defense of our country and our liberties, and second, to provide our citizens with a rising standard of living free from the economic perils of inflation and unemployment.

So that those who run may read, let me give in capsule form what I think our present circumstances require.

1. We must strengthen our defenses and make certain of our supremacy in the science and technology of modern arms.

2. We must prevent further deterioration of the credit of the United States and encourage sound economic growth.

3. These goals demand that we reject all tax-reduction and pump-priming proposals which require deficit financing.

4. New Federal works programs should be placed on a self-liquidating basis. It is better that new works programs be sponsored at the local level.

5. We must end the price-wage spiral and curtail excessive profit margins.

6. We must restrain the abuse of credit—private and Government.

7. We must ameliorate the suffering of unemployment.

There is danger that our present economic difficulties may distract us from the requirements of national security and our responsibilities as leader of the free world. This could be fatal.

No economic program, no social plans, no so-called prosperity can have meaning while America's defenses are laggard and deficient. In this age of nuclear war and missiles, the price of unpreparedness may be sudden death. Considering all that is at stake, let us do more in building our defenses, rather than less.

I disagree entirely with those who claim that the American economy is not strong enough to meet the threat to our security. It met the demands of total war without seriously impairing the highest standard of living the world has ever known. Can we believe that it cannot support the defense program, our safety demands?

To be sure, effective defense requires high taxes. I like taxes no more than the next man, but there are worse burdens. It is infinitely cheaper to preserve peace than to fight a war. We can meet all our defense requirements and still provide all our needs, although maybe not all our wants.

While we can spend whatever is necessary for defense, prudent management can provide important savings. We must learn to manage our defense program more efficiently. We should eliminate the piecemeal approach—the costly starts and stops—which disorganize production and disrupt the economy.

In military expenditures, in fact for all spending, Congress should have the services of an expert staff, similar to the one the tax committees have. This staff could make a continuing running study of budgets and spending to ensure that we get full value for every dollar spent. This is something that should have been done long ago.

But, above all else, once and for all, we must relieve our defense program and our entire economy of the toll paid to inflation. Think of the planes we could have bought, the research we could have conducted, the extra benefits we could have provided our Armed Forces with the billions lost through inflation.

Inflation, gentlemen, is the most important economic fact of our time—the single greatest peril to our economic health. Its most important cause has been the tremendous expenditures for war—for non-productive goods and services—which were financed too largely through borrowing and too little through taxes.

Inflation is primarily responsible for our mountainous national debt, for our high tax rates, for our record high level of expenditures in what is called a time of peace. It has put our price structure on stilts and whittled down the purchasing power of the dollar.

As the Government and our citizens stumble under its burden, continuity of confidence is broken, and a growing concern serves as an added drag on our economic activity.

We are now suffering a hangover after a long inflationary binge. As is always the case with hangovers, we have only ourselves to blame. More of the "hair of the dog" is no remedy. It only increases suffering and delays recovery.

The inflation of our time flows from the selfish struggle for special advantage among pressure groups. Each seeks tax cuts or price increases, or wage raises for itself while urging the others to make the sacrifice, and with little regard for the national interest.

This was true in World War II and in the Korean war. In both wars, we ignored the lesson of experience which taught that the way to curb inflation and profiteering was to pay for war as nearly as possible out of taxes; to control prices, wages, profits, money, and credit, and, thus, provide a common standard fair to all.

Instead we invited inflation by controls to little and too late, and by concessions too much and too soon, to special interest groups. We mortgaged future generations by inadequate tax programs.

This was true after World War II when, instead of maintaining our strength until peace was assured, we prematurely disbanded our forces and abandoned necessary tax and other economic measures. And, after Korea, at the first sign of the inevitable post inflationary readjustment, we injected a fresh dose of inflation into our system by reducing taxes.

Now that we face the painful process of readjustment again, the same recourse to inflation is being urged. The same struggle for advantage is being repeated. Each group wants to shift the burden of dislocation to someone else. Each wants special consideration, arguing that its wages or prices or profits must be kept up to avoid depression.

All cry for tax reduction, deficit financing, pump priming—running to mother Government to “do something so we won’t have to pay for the mess we’ve made.”

Nothing is more dangerous than this notion that economic salvation lies through Government intercession. Government did not keep us from getting into our present condition. How can we rely upon it to get us out of it? Let us not turn always to the Government for succor, but remember rather that a free government depends always upon the people for sustenance. When I hear people demanding Government do this or that I wonder why those voices were so silent when inflation could have been controlled.

Government does have a responsibility and a role to perform in the present circumstances, particularly in regard to those who are victimized by unemployment. But its actions must be in harmony with sound economic principles. Government cannot repeal economic laws.

In the face of a tremendous national debt and expenditure, it is folly to talk of tax reductions.

I am dubious about the purchasing power a tax cut will generate. The value of any conjectured purchasing power is outweighed, however, by the jeopardy in which a tax cut will place all the programs supported by taxes—from national defense to welfare assistance.

A tax cut will increase the deficit, add to the debt, and further weaken the Government’s credit. To reduce revenues before our defenses are secure and our debt manageable is uneconomic and immoral.

Nor is this the time to embark on vast Federal works or other pump-priming programs requiring deficit financing. If we want dams and highways and new schoolhouses and other projects, we should be prepared to pay for them. Any new public-works program should be placed on a self-liquidating basis in the same manner as the present highway program—that is, it should be accompanied by a tax to pay for interest and amortization.

More effective than Federal action in this sphere, I believe, would be local action. Local governments can best survey their own situa-

tions, determine the idle resources of manpower, materials, and other facilities available, and balance them against the degree of need and their budgetary requirements. Such locally conceived and sponsored works programs should also be self-supporting.

Self-help is the best help.

A nation, no less than an individual, must keep its financial house in order. Its financial strength, no less than an individual's, will determine its capacity to withstand economic adversity. The credit of the United States Government is the foundation upon which our solvency and security rest. The strained condition of our credit handicaps our efforts to cope with the recession. We must prevent any further weakening of it by tax cuts or deficit spending or lifting the borrowing ceiling every time the debt presses against it.

We are not likely to enjoy surplus revenues soon. Yet there is no greater thing Congress could do to strengthen confidence and create jobs than to adopt now a long-range fiscal program designed to reduce our national debt.

Not until the Government puts its house in order will the people know how to bring order to their own affairs.

Debt management also has been made more difficult and expensive by the shortening of maturities. Now, more than \$80 billion, almost 30 percent of the debt outstanding, are on a short-term basis. I cannot understand why those in authority did not move earlier to refund the debt when the money market was easy. If private corporations could refund and borrow at rates as low as 2½%, why couldn't the Government?

We must face, however reluctantly, the truth that Government action is no nostrum for economic health. Nor it is a substitute for individual responsibility. The adjustment must be made by each of us, in our business, our job, on our farm. We must work harder, cut costs, save more.

Nothing would be more effective in turning the tide than to halt the never-ending spiral of wages and prices. The best stimulant to our economy would come from price reductions. The consumer, who has no lobby or bargaining agent, is belatedly rebelling against having every wage and cost increase passed on to him. If industry and labor continue to push up wage, price, and profit levels, they will price themselves out of the market. Consumer resistance will grow, further depressing economic activity and adding to unemployment. Foreign goods will enter our markets in increasing quantities, with unsettling effects on our domestic economy, our tariff policies and our allies and friends.

No one wishes to see a return to cut throat competition with its price wars and wage cuts. No one is more concerned to see labor preserve its gains than I am. But we must halt the wild, unmertry chase of prices, wages, and profits.

We prefer not to compel this by legislative fiat or executive order. We rely upon individual action, self-discipline, and enlightened selfishness of labor and industrial leaders. If they cannot recognize that self-interest requires concern for the national interest, then they and the nation as a whole will be made to suffer. If they will not adjust

voluntarily and in time to the law of supply and demand, the adjustment eventually forced on them will be much more painful.

It would be an inspiring and salutary thing if the leaders of our great labor unions and businesses would jointly pledge to the President that for 1 year there will be no increase in wages or prices or profit margins.

Individual self-restraint should be exercised, too, in the area of private credit. Its excessive growth has been one of the major factors in our present difficulties and is one of the weak links in our economic chain. When individual indebtedness alone rises above \$200 billion, we have reason to be concerned.

I have often been shocked by the lengths to which banks, merchants, and advertisers go to press credit upon the consumer with which to buy things they can be persuaded to want, but do not need. The susceptibility of the American public to these blandishments troubles me. The opportunity to vacation in Florida, California, or Latin America; to tour the Caribbean; or even visit the Taj Mahal for little or nothing down and a few dollars a week may not be easy to resist. But is it a proper use of credit?

In the last analysis, we face a test of character and commonsense. Have we so deluded ourselves that we take seriously the Alice in Wonderland notion that the cure for indebtedness lies in more debt; and that thrift is antisocial? Or do we have sufficient economic sense—and courage—to face the facts of our situation, recognize the mistakes we have made and correct them in time, without incurring the heavier penalties which delay and evasion will exact?

In summation, gentlemen, let me say:

First, that this recession is the inevitable aftermath of a period of inflation that could at least have been mitigated, if not prevented;

Second, that there is no cause for alarm if we will learn from our mistakes and call a halt to the practices which are responsible for this situation;

Third, that we can restore confidence along with economic health by sound measures which include:

(a) Determining the requirements of national security and doing all that is needed to meet them.

(b) Barring new inflationary adventures. Forgoing tax reductions. Avoiding deficit spending.

(c) Strengthening the credit of Government by refunding the debt on a long-term basis and planning definite amortization.

(d) Stopping the price-wage spiral and the abuse of credit.

Gentlemen, ours is a country of boundless natural and human resources, of scientific and technological skills that defy obstacles and frontiers. The future holds promise if only we have the wit and discipline to use them properly. And let us not complain about our surpluses of food, fiber, and metals. If we do not add to them but manage them intelligently, they will give us a reserve against any emergency of war or nature more precious than the gold of Fort Knox.

In closing I offer for your meditation a thought expressed by one of the wisest Americans, Benjamin Franklin, who said—and I quote:

The taxes are indeed very heavy, and if those laid by the Government were the only ones we had to pay, we might more easily discharge them; but we have many others, and more grievous to some of us.

We are taxed twice as much by our idleness, 3 times as much by our pride, and 4 times as much by our folly; and from these taxes the commissioners cannot ease or deliver us by allowing an abatement.

Thank you, gentlemen, for hearing me.

I will be glad to submit to questions, Senator. I am quite deaf and it would be better to relay them to me in writing or through my associate here, Mr. Harold Epstein.

The CHAIRMAN. I have a few questions here but I do not know whether all of the Senators have their questions in writing but I would suggest—can you hear me?

Mr. BARUCH. I can hear you now.

The CHAIRMAN. I want to first thank you, sir, for the very able and constructive contribution you have made to the difficulties that confront us, and I would like to announce at this time that Mr. Baruch will be before the committee tomorrow morning, and the Senators will all have a chance to interrogate him.

I have quite a few questions but I will only ask a few of them this morning so that the other Senators will have an opportunity.

Mr. Baruch, in your statement you say that inflation is the most important economic fact of our time.

Would you give the committee your definition of inflation?

Mr. BARUCH. Inflation is an abnormal and disproportionate increase of money and credit in relation to the production of goods and services. In simple terms it is a process of too many dollars competing for too few things. The result is rising prices, increased costs of living, and devalued dollars.

Inflation always accompanies war because of the huge expenditures for nonproductive goods and services financed largely through borrowing. War expenditures do not produce wealth. Historically it may also come as a result of increased business activity based on extensive credit expansion through banks.

It may also come as a result of Government deficit financing in time of financial difficulty.

The CHAIRMAN. Do you regard Federal deficit financing as one of the main factors in creating inflation?

Mr. BARUCH. Yes, sir. I think the main cause of inflation today was the deficit financing of war—the enormous borrowing in World War II and Korea. The war expenditures should have been accompanied by sufficient taxes to pay for them as nearly as possible and by controls on prices, profits and wages. A sound tax and control program has demanded not only by good economic sense but by a sense of justice. No one should be permitted to profiteer or gain special advantage while our young men are being sent off to war.

The CHAIRMAN. I estimate, Mr. Baruch, that the Treasury has overestimated the revenue for this next fiscal year, I think to the extent of about \$3 billion. I think next year expenditures will exceed the estimate by \$6 billion and with reduction in revenue under present rates a deficit of \$8 billion or \$9 billion is likely.

Now, if there is a general tax reduction, that tax loss will be certainly around \$8 billion. This would result in a deficit next year of approximately \$15 billion.

Would you care to make an expression as to the evil results from such a deficit from a long-range standpoint? Of course, if we have a deficit of that magnitude, it will not stop at 1 year. It will be

continued for many years to come; and I would like some expression, if you please, as to the disastrous results that would occur should we have a deficit of as much as \$15 billion in this next fiscal year by additional spending plus reduction of taxes.

Mr. BARUCH. Your inquiry, as I understand it, is, What will be the effect of further deficit financing?

The CHAIRMAN. My inquiry was along those lines.

Mr. BARUCH. Accompanied by additional borrowing?

The CHAIRMAN. Yes, if we had—

Mr. BARUCH. Senator, from whom are we going to borrow this money? I mean who is going to buy the Government's bonds, if you reduce the Government's income and weaken its credit? If I recall correctly, our income was reduced by a tax cut after World War II—and over the veto of the President—by about \$6½ billion or more. Recently—that is, in the last 4 years—we cut taxes by another \$6½ billion. Now, when you have to borrow and people see that your income is less rather than more, they are going to look dubiously upon the securities which you are offering to them.

Deficit financing will only increase inflation and it won't cure the situation we are now facing. I do not know whether that answers your question.

The CHAIRMAN. Well, the question is, Should we have by a combination of increased spending and tax reduction a deficit of \$15 billion in the next fiscal year to be followed by other deficits, what would be the results?

Mr. BARUCH. I think it would start a spiral of destruction, Senator.

The CHAIRMAN. Yes, sir. That is about the same as another spiral of inflation, I should think.

Mr. BARUCH. Yes, sir.

The CHAIRMAN. I have just a couple of more questions.

You say, Mr. Baruch, in your statement that we must halt the chase of prices, wages, and profit, but we prefer not to do this by legislative fiat or Executive order.

What action by the Federal Government do you believe current economic conditions require?

Mr. BARUCH. As I understand your question, it is what action is required to stop the rise in prices. Is that your question, sir?

The CHAIRMAN. That is one part of it.

Mr. BARUCH. Let's get one at a time, Senator. I have got to do it that way because my hearing is so bad. I am sorry.

The CHAIRMAN. That is all right.

Well, you said in your statement that the chase of prices, wages, and profit should be halted. I was just wondering if you thought the Federal Government could and should do anything in that direction.

Mr. BARUCH. Well, the Federal Government has refused to do anything, has it not? If the Federal Government does not do anything, and if the producers and labor won't do anything to halt the chase of prices, wages, and profits, then the law of supply and demand will attend to it. And in the end we will have suffering greater than ever. Moreover, if we don't begin to bring prices down, we will see more and more steel and copper and lead and zinc and

automobiles and other manufactured goods come in from abroad. They will offer more and more competition to our own industries and set off demands for tariff revisions and other measures of that kind.

The CHAIRMAN. Another question: Since the end of World War II there have been two major reductions in Federal taxes, one in 1948 and another in 1954.

Do you think we should have cut taxes as we did in view of the size of our national debt?

Mr. BARUCH. Emphatically no. We should not have cut taxes until we got our Government debt in manageable shape and until we had peace. Until we have peace we can never know what may be required of the Government. When we cut our taxes and brought our troops home after World War II—when we scuttled and ran as I called it—we lost the opportunity to make peace, the kind of peace we should have.

The CHAIRMAN. Thank you, Mr. Baruch, I will have some further questions tomorrow.

Senator Kerr does not desire to ask any questions at this time and the Chair recognizes Senator Martin.

Senator MARTIN. Mr. Chairman, I apologize for not being here at the opening, but we had a conference. I wanted to make just this little statement of appreciation of the presence of this very distinguished American.

Mr. Baruch, you are very kind to come before our committee.

When we started this investigation last summer our attention was directed at a continuing and persistent inflation, coupled with mounting public and private debt and the growing problem of debt management.

Since then the dramatic launching of the Russian sputnik and a degree of economic recession have occurred, thereby compounding the difficulty and complexity of our original tasks. The need for a clearer understanding of our economic and defense problems is greater now than it was then.

Since last summer the economy-in-government mood seems to have completely disappeared. All kinds of programs are being pressed for legislative action. Some are new. Others are dusted off and dressed up to come to our economic, social, or spiritual rescue.

Spending and taxing proposals come from every quarter and legislation is being rushed through the Congress at wartime speed. It is timely, Mr. Chairman, that this committee under your leadership should now look carefully and calmly at the possible economic and social consequences of our actions.

We should beware of panaceas and cure-alls that promise economic utopia but which may pile up even greater problems after their drug-like effects have worn off.

In short, as a people we cannot afford the luxury of easy and painless temporary solutions. These only postpone, enlarge, and intensify the problems we would presently escape.

We need now to determine our true economic bearings as well as our direction and the speed we are traveling.

In this we need the best advice and counsel we can get to map our course. I am pleased that we have had this opportunity to hear from Mr. Baruch. For over 40 years he has availed himself to serve his

country during and after both world wars and at other times as well. From his broad experience in business and banking he has learned much of how our economic system works; its dependence on initiative, incentives, and rewards; on savings and investment; on improved technology and productivity; on sound governmental fiscal and monetary policy, and very importantly on an honest and stable currency.

He has today warned of the dangers inherent in governmental tinkering in broad economic areas as well as in the details of our everyday life.

Mr. Baruch, I congratulate you on the splendid, clear, and down-to-earth statement which you have given us.

In contrast to the preponderant economic proposals that are constantly drummed at us from every angle here in Washington, you are an unorthodox economist, indeed.

I am greatly encouraged by your views.

Mr. Baruch, on page 4 of the statement which I very carefully read yesterday afternoon, you stated that inflation is primarily responsible for our mountainous national debt, our high taxes, and our record high level of expenditures. Is it not, rather, that debt, taxes, and expenditures contributed to inflationary pressures?

Mr. BARUCH. Well, I think I stated—and I will restate again—that I think that our present inflation came as a result of the huge expenditures in World War II and our failure to promptly put on controls over prices, farm prices included, credit, wages, and everything else, with a tax sufficient to keep the credit of the Government strong.

Certainly debt, taxes, and expenditures contribute to inflation. Inflation is both cause and effect. It leads to higher prices and debt and they, in turn, feed inflation. It is a little like "Which came first, the egg or the chicken?"

Senator MARTIN. Mr. Chairman, as I understand, our distinguished American would favor, as far as possible, taxes enough to take care of governmental expenses, rather than deficit financing.

Mr. BARUCH. I certainly do, Senator.

Senator MARTIN. Mr. Chairman—

Mr. BARUCH. That does not prevent the issuing of bonds for proper purposes if accompanied by taxes that will pay the interest and amortization on them.

Senator MARTIN. Mr. Chairman, I think the distinguished witness has made his position very clear. I would like to ask, on page 5, the third paragraph of your statement, you state that we made a mistake in the 1954 tax reduction. I am not disagreeing with you, but, being a member of the committee at that time when we made that reduction, I would like a little further explanation, if you would care to make it.

Mr. BARUCH. Your question refers to reduction of taxes after Korea; is that it?

Senator MARTIN. Yes, in 1954; that is right.

Mr. BARUCH. I would not have reduced taxes until we had a sound and certain peace. Not until we have such a peace can we be sure of our security, and not until then should we relax our guard and lower our taxes. There should not have been a tax cut in 1948 or one in 1954.

Senator MARTIN. Mr. Chairman, Mr. Baruch, on page 7, the second paragraph of your statement, you suggest that it would be better for State and local governments to do the greater part of public-works

programs. Isn't it true that the United States takes the lion's share of the taxes, which makes it impossible for the States and local governments to do some of the things that we ought to have done during this period?

Mr. BARUCH. I think that some study and consideration has got to be given to the taxing powers of the localities vis-a-vis the Federal Government. I don't think that has been studied carefully yet, but something has to be done in order that each will know what are the proper areas of taxation.

Senator MARTIN. I think, Mr. Chairman, the distinguished witness is absolutely correct. There ought to be a very careful study made. I had also thought, and I know, Mr. Chairman, you have felt the same, and I think Senator Kerr, a former governor has had the same feeling, that there should be a proper allocation of taxes, and then an allocation of functions of government, and one level not encroach upon the other.

Mr. Baruch, on page 8, you refer to debt management as having been made more difficult and expensive by the shortening of maturities. Is not the constant threat of future inflation, because of fiscal and monetary policies, the reason that investors do not wish to tie up their funds in long-term investments?

Mr. BARUCH. Yes, sir; that has a very great effect. But, also, the fear of war or the doubt over when we are going to have peace. The public would like to see the Government go in some specific direction, definitely, and then they will follow.

Senator MARTIN. Mr. Chairman, I would like to ask Mr. Baruch how can we ever expect a leveling off in prices or any reduction in them with annual wage increases, escalator clauses, and similar arrangements between industry and labor.

Mr. BARUCH. The escalator clauses, I think, are inflationary. They help to hold up the price level. But business is, if I may say so, just as responsible as labor in this. Business doesn't much mind the escalator clause, because they just pass on the added cost, plus a little extra, to the consumer. And I must say that I think labor is impelled, and I think justly so, to meet higher costs of living by asking for more wages.

Senator MARTIN. Mr. Chairman, probably some of the other members of the committee would like to ask questions before the Senate goes into session, and I would like the privilege, probably, of asking further questions of him.

The CHAIRMAN. That opportunity will be given.

The Chair recognizes Senator Anderson.

Senator ANDERSON. Mr. Baruch, I want to start on page 3, at the bottom of the page. You suggest that, in military expenditures, in fact, all spending, Congress should have the services of an expert staff similar to the one the tax authorities have. We do have a National Security Council. Have you any comments to make on the need of having a National Economic Council?

Mr. BARUCH. Senator, I heard with a great deal of interest your suggestion at one of the previous meetings of this committee, and in that I concur, sir.

Senator ANDERSON. Well, thank you. It does seem to me, when we have these economic problems, we might spend time with them. Now, to go back to page 2, your third point is that these goals demand that

we reject all tax-reduction and pump-priming proposals which require deficit financing. There is a story on the news tickers that this year's deficit will be between \$2 billion and \$3 billion. My own guess, if I could make one, is that it will be on the other side, the upper side of \$3 billion.

On that basis, since we are already in a deficit position, would your statement not bar all tax reductions and all pump-priming?

Mr. BARUCH. Yes, sir. In the present circumstances, when we have such a tight fit, when there is the possibility, as I understand the chairman, of a deficit of \$15 billion, it would be unwise to issue bonds for new programs without providing the revenue to pay for the interest and amortization. To resort to deficit financing will only impede progress and only increase unemployment in the long run.

Does that answer your question, Senator?

Senator ANDERSON. Yes. But from the standpoint of the Congress now, we face a deficit next year of \$8 or \$9 billion as we now see it.

How would you meet that?

Mr. BARUCH. The next year?

Senator ANDERSON. Yes.

Mr. BARUCH. Well, we have got to cut our cloth accordingly. I want to know where you are going to get the money for added expenditures. If you are going to issue all these bonds, and you have a deficit, are you going to print money?

How are you going to meet these expenditures? Who is going to buy your bonds?

Senator ANDERSON. I was trying to ask you.

Mr. BARUCH. I say people will buy your bonds if you make provision for their interest and amortization. The people will have confidence in them and in the Government's credit. Otherwise you will have difficulty in getting the money.

Senator ANDERSON. But if the deficit is to run next year to \$8 billion or \$9 billion, you say you favor taxes rather than deficit financing.

Surely you could not hope to raise \$9 billion more by taxes in the time like this, could you?

Mr. BARUCH. I didn't understand it.

Senator ANDERSON. Well, I mean, it would be impossible for us to try to increase the tax burden \$9 billion.

Mr. BARUCH. Let me go over there. I am sorry to have to inconvenience you people.

Senator ANDERSON. We are the ones inconveniencing you. But if we say to you the deficit is likely to be \$9 billion—

Mr. BARUCH. You say that is going to be the deficit for next year?

Senator ANDERSON. Fiscal 1959, which is right close on us, you could not raise that by taxes. You would not favor raising the corporate tax above 52 percent, would you?

Mr. BARUCH. Why shouldn't you if you have to. What is there so sacred about that. Some individuals pay up to 90 percent. I do not want to seem to be in favor of urging that corporations pay up to 90 percent, but I don't see anything sacred about any taxes. However, there is really something very sacred about our defense and about doing something to relieve unemployment.

Senator ANDERSON. I only ask that question because I did want to find out which direction you would go.

Mr. BARUCH. Yes.

Senator ANDERSON. Now you have suggested in here that we must ameliorate the upsurge of unemployment.

How can you do that except by pump-priming?

Mr. BARUCH. Well, I think one way you can help relieve the situation is by extending unemployment benefits. But I believe this should be done by localities rather than by Federal Government.

Senator ANDERSON. But if the local communities won't pay this extra money for unemployment, it comes right back to the Federal Government; does it not?

Mr. BARUCH. Why should it? These communities have been advantaged—have prospered as a result of the growth and of the increased population which have come out of the farming districts and other districts. Why shouldn't the local communities meet their own difficulties that now confront them? Why should they ask another community to pay for it?

Senator ANDERSON. But, Mr. Baruch, many of those communities think they have been burdened by this expansion. They have had new problems for schools and many other things. I grant you there are advantages, but there are great difficulties, too, facing these growing towns. They will say, "We can't take care of unemployment," and we have established a pattern, perhaps unwisely, but nonetheless established it, that the Federal Government then tries to help to create jobs.

Isn't the creation of jobs about the only solution to unemployment?

Mr. BARUCH. Well, Senator, that is the generally held belief but I am just wondering how much the communities have really tried to do for themselves before asking the rest of the country to do something.

I am anxious to help the unemployed and I would favor anything that would really help them. But I do not favor action which would in the end increase unemployment and perhaps destroy the Government itself, and that is what can happen if we keep issuing bonds which weaken our credit, make it more difficult to borrow money except at higher rates of interest, and puts up the whole interest structure. I think we will have to find some other method of meeting the problem.

Senator ANDERSON. You have suggested we ought to end the price-wage spiral and curtail the excessive profit margins. How would you curtail this price-wage spiral if we should have a \$9 billion deficit, and hence inflation that comes along with it?

Mr. BARUCH. Well, of course, those high prices have helped make the deficit. The Government has to pay more for everything it buys.

I wonder if anybody has ever figured how much more the Government has had to pay when these prices go up, in steel, aluminum, and copper.

Senator ANDERSON. Yes, sir; there have been studies and they reveal it is a terrific amount.

Mr. BARUCH. And as a result the Government spends more all the time and gets less for its money.

Senator ANDERSON. The second part was to curtail excessive profit margins. You would not advocate governmental control of profits; would you?

Mr. BARUCH. Certainly I would in wartime.

Senator ANDERSON. In wartime?

Mr. BARUCH. Yes, sir. We didn't control profits in war and that is the basic cause of our trouble. And, Senator, underlying so many of the matters we are discussing here is this one question: Are we at war or peace now?

Senator ANDERSON. I agree with you, Mr. Baruch. I sit by the Senator from Tennessee, Mr. Gore, who introduced in World War II, in the House of Representatives—

Mr. BARUCH. He was one of the men who stood up.

Senator ANDERSON. I stood up with him.

Mr. BARUCH. Yes, sir.

Senator ANDERSON. The only trouble is, Senator Gore and I found that, since we didn't have a rollcall, there are now so many who admit that they stood with him the measure should have passed. I just don't know how it didn't pass.

Mr. BARUCH. Yes; Senator Gore was one of the men with a voice. I think we mustered 61 or 64 votes at that time. But that is past. Now we have a problem to deal with, and there is procrastination; we don't want to face the facts.

We have got to face these facts, gentlemen, and we just can't go on having all that we had before. We have all got to do with a little less, and I don't expect that the corporations are going to have sacred or privileged positions.

We have to pay for our mistakes. We can get out of this thing if we do that.

Senator ANDERSON. On page 8, Mr. Baruch, you mentioned debt management, and you suggest that—this is page 8.

Now more than \$80 billion, almost 30 percent of the debt outstanding, are on a short-term basis.

If we have a Government that has an \$8 billion or \$9 billion deficit next year, won't it be extremely hard to handle anything but short-term financing?

Mr. BARUCH. Yes, sir; I think the present Secretary of the Treasury is a very unfortunate young man. I think he has inherited the most difficult situation that any Secretary has ever faced. I don't know him. I never saw him.

Senator ANDERSON. He is a very fine man.

Mr. BARUCH. But if interest rates come down, the Government ought to be able to borrow money. I don't know why we didn't borrow it when money was 2 $\frac{3}{8}$ percent.

We ought to do everything we can to lengthen the maturities and reduce our short-time obligation.

Senator ANDERSON. I would say the only way to borrow money when you are in a very bad deficit situation is on a short-term basis. Your recommendation, then, is to economize so that you won't have to have the extra money. You want to economize so that you don't have to make these extra borrowings and sustain an \$8 billion deficit.

Mr. BARUCH. I think we can maintain the present deficit, and if we were certain it was not going to be increased, I think we would not have too much difficulty in financing it.

Senator ANDERSON. I want to just go back to page 2 and your second point for a minute, because I know there are others who wish to ask questions.

"We must prevent further deterioration of the credit of the United States, and encourage sound economic growth."

Can we, in your opinion, Mr. Baruch, have sound economic growth with either inflation or with \$9 billion deficits?

Mr. BARUCH. No, sir.

Senator ANDERSON. Yes.

Mr. BARUCH. Senator, I want you to understand I appreciate the difficulties of this Government, and I realize the difficulty that the gentlemen of this committee have to encounter in meeting the problem. I know that probably nothing concerns you more than seeing a man out of a job who wants to work.

But if we are to get out of this difficult situation, all of us have got to give up something. I appreciate all of the problems you have before you. I don't want to go into what caused them any further. The only reason I go into their causes is because I don't want to repeat the mistakes which led us into the situation that we find ourselves in.

Senator ANDERSON. But this man who is out of work, who is unemployed, he can't eat a balanced budget. That is the trouble.

Mr. BARUCH. A tax cut won't do him any good either.

Senator ANDERSON. Thank you very much.

The CHAIRMAN. Senator Flanders is recognized.

Senator FLANDERS. Well, we will see, Mr. Baruch, whether you can understand me. Do you?

Mr. BARUCH. I can understand you if I can hear you, sir. It is a terrible handicap for me, I didn't want to come here and appear very stupid. I am stupid, but not as I appear here, sir. [Laughter.]

Senator FLANDERS. I thought that was a compliment when you said if you could hear me you could understand me.

Mr. BARUCH. It is meant as a compliment.

Senator FLANDERS. Thank you, sir, and I also would like to pay you the same compliment and say that when you can hear we get something from your replies.

Now the situation, Mr. Baruch, which meets us here in the finance committee is that we have got to decide whether to do something about a situation and if so, what to do.

In other words, we are faced with the necessity for deciding on action or inaction. So that it gets down to a very practical question.

Now if we are faced in the next fiscal year with a deficit of \$9 billion with which we seem to be threatened, what shall we do about it?

Some of that \$9 billion presumably will come from expenditures to meet the unemployment situation. I take it that your advice on that is not to do anything about it.

Is that right?

Mr. BARUCH. No, sir.

Senator FLANDERS. So far as money expenditure is concerned?

Mr. BARUCH. Now, first of all, I am not in a position to know but I do not accept other peoples' judgment until I have all the facts.

For instance, are we really faced with \$9 billion?

Cannot we make it less than that, that is the first question?

Senator FLANDERS. Yes.

Mr. BARUCH. And that, of course, Senator, goes into a great many questions on defense, foreign relations, unemployment relief, tariffs, monetary controls, the price we have to pay for money, and so on.

You have a better opportunity to see those things than I do but I am not satisfied that we must have a \$9 billion deficit. I believe—and I have had some experience with expenditures—that there are ways of cutting down those expenditures in peacetime as well as in war.

Senator FLANDERS. Mr. Baruch, you are a step ahead of me. I was going to inquire whether we must accept these defense expenditures greatly increased, whether we must accept all the elements of foreign aid, whether we must accept other expenditures for the maintenance of agricultural prices, whether we must accept these major expenses as being necessary or whether it is proper for us to examine each of them critically.

Mr. BARUCH. Yes; I would go into them very critically to find out if they were necessary, and if savings could be made. You mentioned agricultural support and I would like to say that I have been interested in the farm problem since 1919 when Mr. Mohler, the Secretary of the Kansas Board of Agriculture, invited my views on the farmer's problems. The surplus has always been a problem, but I believe that we are wringing our hands too much about them.

Now we are stockpiling everything—lead, zinc, copper, rubber, machine tools, and so forth. Why should we not take these farm surpluses out of the market by stockpiling them in the same manner. In this way you remove the pressure they exert on the market. Farm prices would then improve and you could reduce the prop, so to speak, on agriculture, and in that way you would require a good deal less money.

I do not believe in going around wringing our hands and begging everybody to take those agricultural products off our hands.

They are too valuable to us. We may need them in a war or because of the vicissitudes of nature.

You see each one of these things, I think, has to be examined separately.

Senator FLANDERS. I think you and I, Mr. Baruch, might have a very sympathetic discussion of agricultural price supports but that is not, of course, in our terms of reference.

Mr. BARUCH. No, but you brought it up.

Senator FLANDERS. I have to apologize to everybody in the room for bringing it up.

Mr. BARUCH. You don't have to apologize. It just shows how difficult it is unless we determine what we are talking about.

Senator FLANDERS. But you do feel there is nothing sacred even in defense expenditures against careful analysis?

Mr. BARUCH. Yes, sir. But when in doubt with defense, when in doubt, I would spend.

Senator FLANDERS. Yes.

Mr. BARUCH. That is the only thing that I would say that about.

Senator FLANDERS. Now, if careful analysis seems to require greatly increased expenditures and some considerable portion of this threatened \$9 billion deficit seems to face us, do I understand that you would in that situation say that we should increase our taxes to meet it?

Mr. BARUCH. I certainly would not decrease them. I am suggesting that if you borrow money to undertake any additional expenditures for new projects that you provide the revenue to pay for the interest and amortization for these borrowings.

The increased taxes I would agree to or at least that I would suggest would be to pay for the cost of borrowing for new projects.

Senator FLANDERS. Yes.

Mr. BARUCH. In other words in the manner of the road program.

Senator FLANDERS. We supposedly handled the road program, and some of us tried to keep it within the pay as you go limits.

However, there is a hole in the dike now and no one has yet stuck his finger into it.

Mr. BARUCH. Well, aren't you going to get that money anyhow?

Senator FLANDERS. We are going to get it anyhow.

Mr. BARUCH. In other words, you provided the money in the future anyhow. If you do the same with these other things there will be no objection.

Senator FLANDERS. Well, now, I think I have my answers to this first series of questions, except I might inquire of you if it became necessary to raise taxes on account of new elements of increased necessary expenditure would you want at this time to say just what kind of taxes you would raise?

Mr. BARUCH. No, sir; I cannot fix all the problems, I would have to study that. I don't know enough about it. You have got this committee to decide that. And then I would like to join with those who criticize. [Laughter.]

Senator FLANDERS. I think you have placed yourself, sir, in a very enviable position which we cannot occupy.

Mr. BARUCH. We cannot what?

Senator FLANDERS. That we cannot occupy that position in which you place yourself.

Mr. BARUCH. Well, I am turning to the results of my experience and perhaps if we do these things that we are talking about, this thing will resolve itself. Because this is still a great country and the American people are still a great people. If they will try to work themselves out of it, and if we give them a chance and do not try to work them into any more inflationary measures, perhaps this might work out.

Senator FLANDERS. Well, you and I, and I hope everyone in this room, have confidence in the future of this country.

Mr. BARUCH. I have got confidence if we just use half the sense that God gave us.

Senator FLANDERS. Yes.

Now there is one other line of questions which I wish to touch on, I hope briefly: the wage-price-profit spiral seems to be the machinery of inflation.

Mr. BARUCH. It certainly is the result of it.

Senator FLANDERS. Does it cause it?

Mr. BARUCH. Well, it is like the chicken and the egg, Senator.

Senator FLANDERS. All right. I just wanted to know whether it was cause as well as result. It looks to me more like cause than result, but I may be wrong.

Mr. BARUCH. It certainly keeps up the aftermath of inflation.

Senator FLANDERS. Yes. The result of the wage-price-profit spiral is increased cost of things which again requires—again starts a new price-wage-profit spiral.

Now what can we do about it?

Mr. BARUCH. The individual can do something.

Senator FLANDERS. Yes.

Mr. BARUCH. He does not need to buy another automobile or something else. But the Government unfortunately cannot do anything because it did not do anything to stop it in the beginning.

The Government has to go on with its expenditures doesn't it? But the individual does not. And the individual is taking his stand now.

He is just going to put off buying things and sooner or later the law of supply will work out.

Senator FLANDERS. There never was any government in the world that was strong enough finally to overcome the law of supply and demand.

Senator FLANDERS. Well, you take it, then, that the present sad state of the automobile market is a remedial measure on the part of American buyers?

Mr. BARUCH. Yes; that is, the consumer says he will not buy a car now or he will buy a foreign car; it is easier to operate; it costs less. I am not recommending it, because I would like to see people buy American products. But I know you cannot exhort people to go and spend money for things they do not need, especially when they can get it cheaper elsewhere.

Senator FLANDERS. Putting 8 lights on the front end and 8 lights on the back end and a half ton of chrome does not answer the problem, does it?

Mr. BARUCH. I did not get that.

Senator FLANDERS. Trying to make sales appeal by putting 8 lights on the front end of the car and 8 lights on the back end of the car and an immense amount of chrome on the sides is not the answer?

Mr. BARUCH. Well, I do not exactly know that, but I know a man is going to buy a car that costs less yet does the work, even if it is not so pretty.

Senator FLANDERS. Yes. Well, now, would you say that this is a proper use of the increased returns from increased productivity? I have said a number of times, publicly, that increased productivity, the benefits from it should be shared 3 ways—1 share in higher wages, 1 share in higher profits, and 1 share in lower prices.

Does that sound reasonable to you?

Mr. BARUCH. It sounds reasonable. Increased profits are sound, though only when they come from increased production and from a spreading of the benefits of increased production. That increases the standard of living which is the important thing.

Senator FLANDERS. Yes. Now, that increased profit goes, also, to the benefit of the wage earner because it makes it possible to install still more labor-saving machinery, and so that again—

Mr. BARUCH. You mean that goes to the corporation, the installation of the machinery? It goes to the corporation, and not labor.

Senator FLANDERS. So, the corporation spends it, again increasing the production of labor per hour, and then we would get a new round of a spiral which would result in lower prices instead of our present round which results in higher prices.

Mr. BARUCH. Hold on; let's see where we are going.

Senator FLANDERS. All right; let's see where we are going.

Mr. BARUCH. Are you claiming that the corporations or the producers ought to get more money to put into production in order to increase the production?

Senator FLANDERS. Not increase the production, but decrease the cost of production.

Mr. BARUCH. Yes, but in the recent years we did not get lower prices; they gave us higher prices all the time.

Senator FLANDERS. That is just why I am objecting to the wage earner and the manufacturer, between them, taking all of the benefits of increased hourly production.

Mr. BARUCH. I second that motion, sir.

Senator FLANDERS. And not putting part of it into lower prices. If they put part of it into lower prices, we could have a decreasing spiral instead of an increasing one.

Mr. BARUCH. I am agreeing with you, Senator, on that point.

Senator FLANDERS. Thank you. But do you know how to do it by law?

Mr. BARUCH. I know how to stop it from starting by law, and it started in World War II. In World War I we got the experience.

Senator FLANDERS. Yes.

Mr. BARUCH. After World War I, the Federal Reserve Bank of New York and the Bank of England under Mr. Norman made an agreement to increase credit. That started an inflation. Then it went on from one thing to another. But always the prices went up against the consumer. And you know the consumer has no lobby.

Senator FLANDERS. He has no lobby. Now, Mr. Baruch, I think that if we agree that a part of the increased product, production per labor, ought to go into lower prices, that is as far as you and I can go this morning and, frankly, I don't know what Government can do about that.

Mr. BARUCH. Well, I do not think that legislation can cure the follies of mankind. It is only in war that we can control our economy. Now I have always questioned taking off controls after World War II, because it was evident, at Potsdam and after, that we had no peace but, rather, a new kind of a war, the cold war. I do not think it is necessary to put on controls now, because some prices have come down, and those prices which have not will come down, too; it is only a question of time.

Senator FLANDERS. Thank you. That will be all, Mr. Chairman.

The CHAIRMAN. Senator Carlson, would you prefer to wait until tomorrow morning?

Senator CARLSON. Whichever you wish, Mr. Chairman.

The CHAIRMAN. Senator Carlson is recognized.

Senator CARLSON. Mr. Baruch, I want to state that I appreciate very much your appearance here this morning. You have made an excellent statement, and I have been looking forward to this appearance of yours for some time when it was first announced.

Mr. BARUCH. Thank you very much, Senator.

Senator CARLSON. You have for many years demonstrated your interest in our economic problems, and the future welfare of our great Nation, and in preparation for your coming I began to check some of your past speeches, and I noticed in 1954, as a matter of fact, on May 11, you made a somewhat similar speech or an address rather at the Bernard M. Baruch School of Business and Public Administration in the City College.

Mr. BARUCH. Yes, sir.

Senator CARLSON. In New York City; it is a very splendid statement and, Mr. Chairman, I do not believe it would encumber the record to have this included at the same time.

The CHAIRMAN. Without objection, the speech will be included.
(The material referred to follows:)

MAKING ECONOMIC WEATHER

(Second of series of three lectures given by Mr. Bernard M. Baruch at the Bernard M. Baruch School of Business and Public Administration, City College on May 11, 1954)

Last week the question was asked why man is able to perform such scientific and technological wonders as splitting the atom or conquering disease, and yet finds it so difficult to manage his own human affairs.

When it comes to sciences like medicine, astronomy, or physics we seem like supermen. But with government and economics our fumbblings are more like those of children.

Partly it is because we have not advanced as far in understanding the human sciences. In reading history one is struck by how certain patterns keep repeating themselves—such as the abuses that come from any man being given too much power, or how tinkering with the value of money always ends up as a failure, or those curious madresses which sweep over a whole people, like John Law's Mississippi Bubble, or, in our own day, the 1929 stock market craze.

As we learn to distill the salt of wisdom from the vast ocean of man's experience, I believe we will discover that these patterns were clues to the natural laws that govern human affairs.

NOT IN OUR STARS

But more unfortunate than the gaps in our knowledge are our own shortcomings. Even where we have known of these natural laws and how they operate we still have failed to work in harmony with them. Often we grab greedily what we can for the day, letting the morrow bring what it will. We put off doing what we know is necessary because it seems unpleasant or unpopular. Yet, particularly in these times when our whole civilization is under constant attack, neglect is one thing that never seems to go down in price.

We saw that in China and now in Indochina. I hope we and our allies will learn the lesson in time to bring the European Defense Treaty into existence, instead of repeating there the cycle of tragedy through failing to act in time.

A CASE HISTORY

In this talk today, I want to concentrate upon economic problems, on booms and busts. This subject could be approached from many different angles. My approach will be by reexamining something we are all familiar with—the law of supply and demand.

This is the most basic of all economic laws. It holds the key to the threat of another depression. Yet how well understood is it? And why, when so much is at stake, do we find it so difficult to discipline ourselves to what this law requires of us?

To begin with, just how does supply and demand really work? Any number of you students here may be itching to rattle off an answer to that question. Your reply probably would run like this:

When demand rises, prices go up. This stimulates production. With good profits being earned, new producers enter into competition, adding to the supply. Substitutes come onto the market. As prices rise, consumers also buy less. In time, as demand lessens and supply increases, a balance is struck and prices start coming down.

CHAIN OF REACTIONS

With this fall in prices, the processes of adjustment reverse themselves. The newest or highest cost producers are forced out of production or they lower their output. As prices fall, substitutes disappear from the market. Lower prices also stimulate demand. People go out to buy that automobile or house or new clothes which they put off buying when prices were high. Again, in time, as demand expands and supply shrinks, a new balance is found and prices start up again.

All of this is true but it skips over two crucial factors which are easily forgotten.

First, the workings of supply and demand never stop. They form an endless process of adjustment which is always going on. This means that the workings of supply and demand must always be seen as part of a whole and not as piecemeal, spasmodic happenings. It is largely because this truth is neglected, as we shall see later on, that so many attempts to influence the workings of supply and demand fail.

TRAGEDY OF OUR AGE

Second, these adjustments take time. Supply and demand cannot be brought into balance with a presto push of the button. Often a whole year must pass before the ground can be cleared of one harvest and planted to another.

And what if we do not have enough time for these slow workings of supply and demand, as is the case during war?

Here we come to the most tragic, single failure of economic understanding in our lifetimes.

Nothing—may I repeat—nothing has cost this country and the rest of the world more, except the losses and maimings of war itself, than the failure to grasp the enormous difference in the workings of supply and demand under conditions of war and under conditions of peace.

WHAT IS NORMAL?

Since 1914 we have either been going into a war or coming out of one. Twice—and this does not include the lesser ordeal of Korea—we have had to turn our economy inside out to meet the needs of war, and, when the shooting was over, to turn the economy outside in to meet the needs of peace.

In that entire period, which more than covers your own lifetimes, hardly a year could be considered free of the pressures or shadow of war or postwar adjustment. Yet through this period most economic thinking assumed that we were dealing with peacetime problems.

There are two main differences between the economics of peace and those of war. First, in war there is no time. What is needed—guns and equipment for the men called to the front—must be furnished with the least possible delay. Time means lives. Time can mean the difference between victory and defeat.

War also requires a drastic redirection of the uses of a nation's resources. Instead of producing to improve living conditions, we must shift our emphasis to produce what is needed for survival.

WHAT WAR TAUGHT

To try to meet the requirements of survival through the peacetime working of supply and demand would lose us the war.

That was one lesson impressed upon me by my experience during the First World War, as Chairman of the War Industries Board. Never before had the United States been mobilized for a modern war. We had to feel our way through trial and error. We quickly learned that, if the economy were left alone as in peacetime, defense production would be obstructed. While some profiteered, our soldiers and their families would suffer.

It was not always easy to make that clear to all of the leaders of American industry, many of whom believed the Government had no right to interfere with how they ran their businesses. I remember how Judge Gary of United States Steel balked over the price we set for steel; also how some auto manufacturers raged when we told them that three-fourths of their capacity would have to go for war. But we held firm. Only by curtailing civilian demand could military demand be met.

After that war was over, when I looked back upon our experiences, I realized that for wartime mobilization to be effective, supply and demand as it operates under peacetime conditions, must be suspended. But that does not mean the principles of supply and demand can be ignored. Quite to the contrary.

FIRST THINGS FIRST

A sound mobilization requires that every aspect of the law of supply and demand be reproduced and adapted to the needs of war. Where during peacetime we look to the free workings of buying and selling to bring the economy into balance, in wartime the balance must be achieved through conscious direction.

Everything we tried to do in mobilizing America for World War I was really just that—a search for the wartime equivalent of supply and demand.

Instead of letting prices decide what was to be produced, the Government said where the Nation's resources were to go so that first things would come first. This necessitated not only increasing the production of all scarce resources, but lessening the demand for these resources by curtailing less essential uses, halting construction and other activities that could be postponed, encouraging the use of substitutes. We saved precious resources of material and labor by standardizing the number of models and through conservation—by making old things do.

Had the lessons that we learned in World War I been applied in World War II, the second war could have been shortened by a full year or more, with all the saving in lives and treasure. But instead of starting with a fully worked out mobilization, we proceeded in faltering steps, repeating the old trials and errors of advisory commissions and competing boards until we finally ended up where we should have begun.

PRICE WE STILL PAY

This neglect has been particularly evident in efforts to control inflation. Experience has shown that the fairest and most effective way of preventing inflation and profiteering is to couple, along with taxation to the limit and other money controls, a general ceiling across the entire economy, over all wages, all prices and all other costs. This should be done at the very outset of the emergency, before the economy has gotten out of hand. With the economy kept in balance, then all the necessary adjustments can be made to meet war needs.

Yet in both of the last two war emergencies—World War II and Korea—although what needed to be done was clear—action was delayed until too late and not before prices had jumped over the moon.

The failure to impose effective controls at the outset of World War II increased the cost of that war by perhaps \$100 billion. The repetition of this failure when the Korean war broke out has added at least \$40 billion to defense costs since then. Taken together, in other words, more than half of our national debt, which burdens us so heavily today, represents the needless tribute exacted by inflations which could have been largely prevented.

WALKING ON STILTS

As a result of these inflations, millions of persons with low or fixed incomes have been cruelly squeezed. The budgets of all our governmental units, colleges, hospitals and other institutions have been deranged. Here in New York City the subway fare is increased but the additional revenue is swallowed almost in one gulp by higher operating costs. Teachers, firemen and others, whose incomes lagged in the inflationary race, clamor for relief and justifiably so.

The inflation of the war and afterwar years also pushed our whole price structure up onto stilts, far above levels that can be maintained under ordinarily competitive conditions. Now we face the painful process of readjusting those prices and costs, wages and rents.

As these adjustments take place people worry whether the whole structure will collapse unto another depression. There is much agitation over the Government's responsibility to forestall or prevent such a depression. But hardly anyone explains how is the Government to discharge such a responsibility unless it first has learned to prevent the inflationary booms which cause the busts?

Can we just inflate, inflate and inflate and then, having run the whole gamut of economic sins, turn around and like a penitent child, say, "We want to behave now. Do something so we won't have to pay for the mess we have made."

WHEN THE LIGHTS WENT OUT

When I read or hear of someone demanding that the Government take this or that action, I ask myself why were those voices so silent when we were fighting the battle to halt inflation before it had rocketed out of hand?

The inflation of recent years was caused largely by a selfish struggle for special advantages among various pressure groups. Instead of accepting a common standard fair to all and which would have kept down all costs and prices, each group tried to keep its prices or wages or profits free, even while arguing, "control the other fellow."

This same contest for special advantage is being repeated now in the process of readjustment. Each group seems bent upon having the burden of dislocation borne by someone else. Each wants tax relief for itself but not for others. Each argues that "to avoid a depression" its wages or its prices or its profits must be kept up, and that it is the other fellow's income which should come down first.

WE CAN PREVENT COLLAPSE

Now, I do not believe that the readjustment of costs and prices currently underway must bring on a collapse. Certainly, under no condition is there any reason for going through what happened after 1929. Still, we will have to pay some price of adjustment for the inflationary neglects of the past. How heavy that price may be will depend mainly on two things, on our success in subordinating to the higher national interest this battle for selfish advantage now raging among the various segments of our economy and upon our skill in adjusting to the changed conditions of supply and demand all over the world.

The postwar sellers market is gone. New competitive conditions confront us everywhere. The adjustments to these new conditions cannot be made by the Government. They must be made by individuals—by each of us in our businesses, on our jobs, on our farms. We must cut costs, work harder, sell harder. If we lose one market, we must find another. If what we produce has been outstripped technologically by some new development we must find new uses for our product or shift to what is in demand.

NO KING CANUTES

The sooner these adjustments are made the better.

At the same time we cannot—and need not—let these adjustments go too far. Adjust, yes. Bust, no.

I have long maintained that in our complex, urbanized society a floor had to be kept under our economy at all times. But that is quite different from contending, as some do today, that there should be no downward adjustment from sky-high ceilings.

The simple reality we face is that even if it wished to do so, the Government could not keep prices at levels which reflected the shortage conditions of war and of the immediate postwar years. The adjustments to the changed conditions of supply and demand cannot be stopped, no more than King Canute could halt the tide.

The real choice before us is shall we ease these adjustments by working in harmony with them or shall we make things worse by fighting them?

EQUALITY FOR FARMERS

I have never believed in abandoning our economy to the ruthless workings of the market place, regardless of the human suffering that might be caused. During the 1920's I joined with George N. Peek and others in the fight to give farmers economic equality. As it turned out, when the last war came we needed all the food that could be raised, including the output of the millions of farmers who might have been forced out of production had they not been helped.

Nor am I alarmed at the so-called surpluses we now have. These surpluses are genuine wealth whose real value eludes us only because we have not learned how to manage them to raise consumption and living levels.

In the present farm situation I do feel that all of us should be content to pay something as insurance against poor crop years. But the incentives to greater production which might have been necessary in wartime should not be retained. During the war the habitual sources of food for many peoples were cut off. Our production had to be expanded to make up the difference. With most of these sources of supply restored to production—and this holds true for many other things besides food—price supports must be made more flexible.

NO TAX CUTS

Many farmers fear that their costs will not decline while farm prices do go down. We should strive to keep the various segments of the economy in balance. This really means approaching the problem in terms of what is good for the whole country and not in terms of any specific pressure group.

I have opposed all tax reductions until first, the needs of national security are fully met and, second, the budget is brought into balance. To reduce taxes with

an unbalanced budget and so swollen a national debt is both uneconomic and immoral. It puts a premium on efforts to escape bearing a fair share of the heavy cost of the cold war.

Nor is this the time for Government to embark on vast public works programs or to pump more money into the economic system, as some demand. Before we ask the cook in the White House to bake us up a new inflationary pie, let us try to digest the inflation already loose in our system and to restore the value of earnings and savings. I think the time has come to stop the lending by governments to governments and to give private investment the opportunity to show what it can do. It is also time that the currencies of the world were freed. Until they are it is futile to talk of reducing tariffs.

LIKE THE WEATHER

What is needed, in short, is for each of us to rediscover and reapply the law of supply and demand, making it our ally, not enemy, in the adjustments that lie ahead. The workings of supply and demand, as we have seen, are those of a never-ending chain reaction of adjustments. Whatever is done in one direction inspires some counterbalancing, compensatory action by other parts of the economy. Many acts of Government intervention in the field of economics fail for just this reason, that they are taken as isolated, piecemeal moves instead of being fitted into the whole economy.

Supply and demand are really like the weather, always with us, inescapable. Despite the efforts of rainmakers, we cannot decide when the sun will shine or the skies will cloud over. But that does not mean, despite what Mark Twain said, that we can do nothing about the weather. The clothes we wear and the houses which shelter us are examples of our adjustments to the weather, so are umbrellas, air-conditioning, electric blankets, refrigerators. By studying the experience and records of the past, we can predict in advance what kind of weather we are likely to have and how best to prepare for the weather, fair or foul.

And so it must be with our efforts to improve upon the economic weather. We cannot eliminate the workings of supply and demand. We can only adjust its workings to our needs and ourselves to its principles. If we want to prevent depressions we must first learn how to prevent inflation and how to adjust to the changed workings of supply and demand under conditions of war and peace.

Even as we must have sense enough to know when to come in out of the rain, we must learn when it is wise for the Government to step into things—and when it should step out.

THE MORE THINGS CHANGE

In conclusion, as we glance around us today, all of us must be struck by the extent to which the old philosophy of "leave things alone" has been replaced by Government intervention.

If we look abroad we find more restrictions against the free flow of trade than ever before—quotas and tariffs, export subsidies, and currency controls.

Washington is full of regulatory commissions—the Federal Reserve, the Interstate Commerce Commission, the Federal Trade Commission, the Securities and Exchange Commission, and others. We have antitrust laws to stimulate competition and fair-trade laws to restrict competition. In almost no field are supply and demand being permitted to work without interference.

It would be tragic if all this benevolent intervention led anyone to believe that we have freed ourselves from the basic economic laws that govern human behavior. If anything, the more deeply the Government intervenes in economic affairs, the more important these laws become.

Not only in economics but in every phase of life, the revolutionary transformation in the role of government that has taken place in recent years has only sharpened our need to discipline ourselves to the basic truths and laws of human experience. How and why that is so is something I would like to develop more fully in next week's talk.

Senator CARLSON. It was a very timely statement at that time and if I remember correctly in 1954 we were also having some problems.

Mr. BARUCH. Yes, sir.

Senator CARLSON. And here you appear again today in 1958, and with somewhat similar situations as far as unemployment is concerned, as far as the problems of industry, labor, and agriculture.

And I would like to refer back to at least one statement. I am not going to keep you very long, I assure you. But you were kind enough to mention—in interrogation by Senator Flanders—Mr. Jake Mohler of Kansas who was one of the great agriculturists and great Secretaries of Agriculture of our State.

Mr. BARUCH. A very clearheaded man, too.

Senator CARLSON. And I know of some of the work that you did in connection with his programs and his work, and I was interested in your comment to Mr. Flanders.

You said you would take, as I got your answer, the agricultural products out of the market.

Now, do I understand by that that you are suggesting that we might freeze some of these surpluses?

Mr. BARUCH. Yes, sir. Do you want me to comment further upon that?

Senator CARLSON. Yes; I wondered if you would. Because we still have an agricultural problem, I assure you.

Mr. BARUCH. Of course, we have an agricultural problem.

My thought was that if we are stockpiling lead and zinc and copper why can't we stockpile farm commodities?

Now King Tut put wheat away and it was good for 2,000 years. Why can't we, with modern methods, put some of our agricultural products away instead of going around wringing our hands and telling everybody they ought to take them off our hands? I believe if we stored these commodities away that people who wanted them for nothing would soon find some way of buying and paying for them. Then you would relieve the pressure of these surpluses that are hanging over the market. Then we would be doing something to end the Government policy which encourages the farmer to produce more than he would otherwise produce and sell profitably.

Senator CARLSON. Well, I think—

Mr. BARUCH. I think that a policy of stockpiling farm commodities would help the present farm situation and would add to the safety of this country.

Senator CARLSON. Well, if I understand you correctly, you would suggest that we freeze these surpluses we have and then let the farm prices find their solution based on supply and demand?

Mr. BARUCH. I think I would gradually lower all the flexible supports until you set prices free entirely.

Now the original idea of men like Capper of your State and Kenyon and McNary, and Ladd of North Dakota, and Peek and Johnson—with all of whom I was associated—was not to ask the Government to come in and do for agriculture which it is now doing but to let agriculture help itself. For example, the central idea of the McNary-Haugen plan was to permit farmers, on their own, to take advantage of the tariff.

Now, I would like to get the Government out of the position of supporting farm prices as soon as we can. But it must be prepared to provide a floor under the farmers so that they do not sink into a condition similar to the one we had in the 1920's and 1930's.

Senator CARLSON. I can assure you that the farmer, too, would like to get out from under the present situation, but I think everyone realizes that we just cannot drop price supports all at once because it would be disastrous.

Mr. BARUCH. There is no reason to drop them all at once, but I think you ought to lower them. I see a good deal of farming down in the district where I live. We raise cotton, tobacco, and corn and things like that, and they all seem to be better off this year than last year.

Senator CARLSON. You would not mind then, I suppose, if I would read what you said in your statement on May 11, 1954, about agriculture?

Mr. BARUCH. I don't want to change a word of it.

Senator CARLSON. No, I think it is very good and I would like to read it. You entitled it "Equality for Farmers"—

I have never believed in abandoning our economy to the ruthless workings of the market place regardless of the human suffering that might be caused.

During the 1920's I joined with George N. Peek and others in the fight to give farmers economic equality. As it turned out, when the last war came we needed all the food that could be raised including the output of millions of farmers who might have been forced out of production had they not been helped.

Nor am I alarmed at the so-called surpluses we now have. These surpluses are genuine wealth whose real value eludes us only because we have not learned how to manage them to raise consumption and living level.

In the present farm situation, I do feel that all of us should be content to pay something as insurance against poor crop years, but the incentives to greater production which might have been necessary in wartime should not be retained.

During the war the habitual sources of food for many people were cut off. Our production had to be expanded to make up the difference.

With most of these sources of supply restored to production, and this holds true for many other things besides food, price supports must be made more flexible.

Many farmers fear that their costs will not decline while farm prices go down.

We should strike to keep the various segments of the economy in balance. This really means approaching the problem in the terms of what is good for the whole country and not in terms of any specific pressure group.

Mr. Baruch, I think that is a very fine statement that was good in 1954. I think it is good today, and I am glad you made it.

Mr. BARUCH. That is what I had in mind, Senator, in my opening statement but I did not want to go into it too much. I wanted to make the statement short enough so that you gentlemen would not be bored.

Senator CARLSON. Well, I can assure you that no one is going to be bored when we discuss any one phase of our economy, and agriculture is an important one at this time, and one of the farm problems is this cost-price squeeze that you mentioned.

Now I think the farmer can take care of himself if he is in position to bargain in the open market places and secure a parity so to speak, for the goods that he sells, at least that portion that is domestically consumed.

I made a statement the other day that farm income is up \$800 million from 1947 to 1957 but farm costs are up \$6 billion, and that is the difficulty of the farm situation today, and if we could follow your suggestion of keeping labor, industry, and agriculture on a balanced basis, I think we would have less grief, at least less than we have at present.

Mr. BARUCH. It would take a little time—time and patience and courage.

Senator CARLSON. I thank you, Mr. Baruch.

Mr. BARUCH. It won't be done overnight.

Senator CARLSON. Thank you very kindly.

The CHAIRMAN. Senator Bennett, do you desire to continue today?

Senator BENNETT. I think that should be entirely up to Mr. Baruch.

I will do whatever he likes.

The CHAIRMAN. It is about time to adjourn.

Mr. BARUCH. I can go another round, Senator.

The CHAIRMAN. The Senate is meeting very shortly.

So, Senator Bennett, I think we had better adjourn now and start tomorrow morning at 10:30.

The Senate is going to be in session at 12 o'clock.

The CHAIRMAN. Then the committee will recess until 10:30 tomorrow morning.

(Whereupon, at 12 noon, the committee was adjourned, to reconvene at 10:30 a. m., Wednesday, April 2, 1958.)

INVESTIGATION OF THE FINANCIAL CONDITION OF THE UNITED STATES

WEDNESDAY, APRIL 2, 1958

UNITED STATES SENATE,
COMMITTEE ON FINANCE,
Washington, D. C.

The committee met, pursuant to recess, at 10:30 a. m., in the caucus room, Senate Office Building, Senator Harry Flood Byrd (chairman) presiding.

Present: Senators Byrd, Frear, Gore, Martin, Williams, Flanders, Malone, Carlson, and Bennett.

Also present: Senator Symington.

Elizabeth B. Springer, chief clerk; and Samuel D. McIlwain, special counsel.

The CHAIRMAN. The committee will come to order.

The CHAIRMAN. Senator Bennett?

Senator Bennett had the floor when we recessed yesterday so the Chair recognizes Senator Bennett.

Senator BENNETT. Thank you, Mr. Chairman.

I am happy that we can have such a distinguished economist and statesman as Mr. Bernard M. Baruch appear first in this second series and keynote the resumed hearings of the committee with regard to the financial condition of the United States.

We can take a lesson from the return to basic fundamentals as outlined by Mr. Baruch yesterday.

His levelheaded view of our present situation and the potential dangers of a panicked government deserve careful thought.

I especially appreciate his emphasis that government cannot repeal economic laws. Nothing is more dangerous than the notion that economic salvation lies through Government intersession.

Certainly I agree with him that self-help is the best help.

Mr. Baruch rightfully pointed out that overreaching ourselves in Government make-work programs can bring another round of inflation that will without doubt do more harm than good.

Although our emphasis at this time is on recession cures, it is vital that we recognize that excessive Government deficits will through the resulting inflation eat away the very gains we might make. And I believe that such a program will set up the next inflation and the next recession.

It is interesting to observe, Mr. Chairman, that we have had a recession every 4 years since the end of the war 1949, 1953, 1957, and probably 1961 or 1962.

Who wants to buy Government bonds issued to finance these spending programs when in turn the very act for which the bonds were

issued tend to erode away the value of the bonds by the inflation they create?

Mr. Chairman, I have given Mr. Baruch a dozen questions, and in order that he may have the easiest opportunity to understand and answer them, he has a copy of them in his hands, but for the benefit of the people in the audience and the record, I would like to read the questions I am asking of Mr. Baruch.

My first question, Mr. Baruch, is, Do you believe that the present recession is being fed at least in part by a psychology among consumers of "wait and see," perhaps prices will come down soon?

STATEMENT OF BERNARD M. BARUCH—Resumed

Mr. BARUCH. I thought I answered that in my statement, but I will be glad to repeat it.

Belatedly the consumer who, as I said, has no lobby or pressure group working for him, has made up his mind that prices are too high. He has decided that he will wait before spending his money. I think that he will continue to wait until he thinks prices have been properly adjusted.

Senator BENNETT. Question No. 2, which is related to No. 1: Do you believe that by lowering prices we can cure the present recession?

I should like to put in the record this interesting observation: last year consumer spending was \$280 billion. A 2-percent reduction in the consumer price level would be equivalent to an increase of \$5.6 billion in purchasing power, which incidentally is approximately equal to the majority of tax-cut proposals that have been made.

Now to return to my question: Do you believe that at least as part of the cure for the present recession consumers—the lowering of prices will be helpful?

Mr. BARUCH. Undoubtedly, Senator. Extremely high prices reached a peak about a year ago. As always happens under the working of the law of supply and demand these prices, brought about an increase in production and a decrease of purchasing power. They are also bringing into the market substitutes, particularly in the field of raw materials, which will inevitably result, no matter what Government may or may not do, in lowering prices. I think it is a healthy thing for excessive prices to come down and in that way increase purchasing power and therefore enable standards of living to be improved.

Senator BENNETT. Incidentally, of course, I think you and I agree that if there is ever so minor a general price reduction, we are also moving against inflation.

If prices come down 2 percent, we will have wiped out much of the inflationary force of the last 12 months.

Mr. BARUCH. And of course that is also an aftermath of inflation and it is kind of a self-curative process.

Senator BENNETT. That is right.

Mr. BARUCH. It is unpleasant to go through, but it is a natural process.

Senator BENNETT. Mr. Baruch, I have been in business, and I realize that if you get to a point where your sales will not hold up, your total revenue is going to come down either by a reduction in the

price per unit of what you have to sell or by a reduction in the number of units you sell.

Mr. BARUCH. Quite right, sir.

Senator BENNETT. And you might just as well be a statesman and adjust your prices voluntarily to the situation as hang on and get the same effect anyway.

Mr. BARUCH. That is quite right, sir.

Senator BENNETT. At the present time, do you see any signs that we are coming out of the present recession?

Mr. BARUCH. Well, I have no crystal ball or radar to look into the future, but the sooner we adjust ourselves to natural forces the better off we will be. But I would not care to make my predictions.

I stuck my neck out after World War II when everybody thought we were going to have 10 million unemployed; and I said no matter what the Government did or did not do, that we would have 5 to 7 years of terrific prosperity. I was wrong; it lasted longer than that. [Laughter.]

I do not feel able at this time to make any predictions that I would care to express or have anybody base their future upon.

Senator BENNETT. Let me try you from another point of view then, Mr. Baruch.

Mr. BARUCH. I would like to say, Senator, as I said yesterday, if we just used half the sense God gave us, we will get out of this without any great trouble.

Senator BENNETT. Well, I hope we have the wit to use more than half of our wit. [Laughter.]

My next question, which relates back to the preceding one: In your judgment, is this recession likely to deepen into a general depression such as we had in the thirties; do you see any signs of that?

Mr. BARUCH. I will tell you, my answer to that is the same as to your previous question.

There is no reason for us getting into a panic. You cannot tell what a mass delusion or madness will do, but I see no reason for it.

Senator BENNETT. You see no necessity for it?

Mr. BARUCH. Certainly no necessity for it, nor reason either.

Senator BENNETT. Thank you.

Do you have any ideas of what we as a nation or as a government can do to attempt to prevent these recurring periods of boom and bust; in other words, is it possible to eliminate the cycle?

Mr. BARUCH. Well, I dealt with that rather fully in the lecture which I sent you called Making Economic Weather.

There are certain things that government can do and should do, and it can do a good many things.

There is a very strong relationship between government and business. But their functions ought to be kept apart as much as possible. The Government is for the purpose of preventing injustices. Business is a system of profit and loss and individual effort.

At times Government has to intervene. Sometimes it does it wisely and sometimes unwisely. But we are dealing with imperfect beings in ourselves. We have had great delusions and crowd madneses which have sometimes unsettled the whole world. You are familiar, of course, with the tulip craze, the Mississippi bubble and the South Sea bubble, and the Florida boom, and the 1929 bust. We are fearful

that something like that may come again. We have endeavored to try to build in, so to speak, what were called "thank-you-ma'ams" when I was a boy, a little place to relieve the bumping of the wagons when coming downhill or going uphill. We have learned to control economic weather to some extent.

I think a good deal depends upon the mood of the people, and I might say something that is perhaps well known to you gentlemen, that a good deal depends upon the nearness of political campaigns.

Senator BENNETT. I think there is no question about that, sir.

You have given us several historical examples of almost complete hysteria, almost complete economic irresponsibility that first led to a tremendous boom and then to an automatic and necessary readjustment.

Isn't it fair to say that much of our economic difficulty essentially arises out of our own personal weakness, our lack of judgment, our eagerness to overreach ourselves, and that part of this problem, maybe most of it, is the development of a kind of economic maturity in the minds and hearts of the people so that we won't go so high in the first place and thus avoid going so low in the necessary compensating period?

Mr. BARUCH. I could not have said it as well, Senator.

Senator BENNETT. Thank you very much.

I am coming to realize that more than ever we are trying to deal here essentially with the weaknesses of human beings, and then we are trying to use government to correct the results and effects of those weaknesses.

Mr. BARUCH. You are quite right, Senator. I think that although we are trying to make these changes all the time in order to get a more stable condition, we have first got to get stability within ourselves. That is a pretty difficult thing because each one of us has great trials and tribulations and has pressures brought upon us. Yet with all our faults, I think we in this country have done pretty well. We are not perfect and we have our ups and downs and we pay for them and we go on and start all over again. But I hope that we will find some way of avoiding these great booms and busts.

Senator BENNETT. One of the things I got out of your statement yesterday is the feeling that you realize, as I think I do, that, when we do have these periods of boom, these periods of excess and overreaching events, usually they have to be paid for and we cannot escape the consequences of our lack of wisdom.

Mr. BARUCH. You are quite right, sir.

Senator BENNETT. Mr. Baruch, do you think that the inflation to which you referred is ever valuable in stimulating economic growth?

Mr. BARUCH. Well, it stimulates speculation, but it carries with it its own cure. When you have inflation you have got to pay the cost of it. I do not believe in the inflation which comes from the too rapid and imprudent increase of money over productive capacity and productive wealth.

Senator BENNETT. We are now in a period of recession. You would not recommend a deliberate program of inflation in order to pull us out of this program?

Mr. BARUCH. I thought I made it clear yesterday that I do not believe in lowering taxes. And if the Government must do some-

thing in the way of public works—which I would prefer to see done on the local level—its borrowing should be accompanied by taxes to pay for the interest and amortization on the bonds. That is sound and safe.

Senator BENNETT. I am sure it is.

Mr. BARUCH. I spoke about the necessity of relieving unemployment. We must do something about it, but what we do should be sound and sensible.

Senator BENNETT. In the preceding question, I am about to repeat myself in my list of questions: Do you think we can, by adopting these built-in economic stabilizers, fill in the valleys of the cycle without leveling out the peaks? I ask that question because just about 3 weeks ago I met a group of business executives here in the Senate Office Building, and among the questions asked of me was "Senator, can't you fill in the valleys without leveling out the peaks?"

Mr. BARUCH. Well, I would answer them by telling them, "If you would help us, or if you would furnish the tractor when we need the filling in, then we can do it." But business cannot expect to go to great excesses, raise these profits, and keep these enormous profits on lessened units of production, without asking for a reckoning. I do not object to profits. We must have the profit system. If we didn't have the profit motive, we would have to invent it.

But business has got to look ahead and realize that they cannot push prices up forever. When they have to raise wages, for example, they must realize that this added cost must come out of profits, to some extent. In the end they can get that profit back by greater production. I think labor has matured in its statesmanship and that they will agree, too, that increased wages must be accompanied by increased productivity.

Senator BENNETT. I agree with you. I have watched them build roads in my country, out in the Far West where they are not more than 100 years old. For some, they went along the contour of the ground. For others, they level off the peaks to fill in the valleys, so it is you cannot have stability without paying as much attention to the peaks as you do to the valleys.

Mr. BARUCH. You are quite right, sir.

Senator BENNETT. Yesterday, you made it very clear that you do not feel that a program of deficit spending is a cure for a recession; that you would not recommend at this time a program of public works which would increase the deficit and increase the debt burden of the country.

Mr. BARUCH. I do not object at all, Senator, to any public-works program, like the road program, provided you will provide sufficient taxes to pay for the interest and amortization of those activities.

Senator BENNETT. Yes; you made it clear that you are in favor of any program that can pay its way as it goes along.

Mr. BARUCH. Yes, sir.

Senator BENNETT. Or approximately so.

Mr. BARUCH. Yes, sir.

Senator BENNETT. But for quite a while in this country, almost a full generation, we have come to accept the idea that when we get into trouble we should borrow our way out of it.

Mr. BARUCH. Well, that is when we had a smaller debt.

Senator BENNETT. But we are still trying to do that. As the chairman suggested yesterday, we may be facing deficits of \$15 billion in 1959. Do you think that would be a high or a fair price to pay for any benefit we could get in this present recession?

Mr. BARUCH. Are you asking me a question, sir?

Senator BENNETT. Yes. Don't you think a deficit of \$15 billion in 1 year, which is equivalent to all the deficits piled up from 1933 to 1937 in attempting to solve the recession of the thirties, is a pretty high price to pay for some current improvements?

Mr. BARUCH. In addition to that, it will not bring it. We will be paying for something we will not get, in my opinion.

Senator BENNETT. We would pay the price and would not get the result. Mr. Baruch, do you have any comment on the relationship between interest rates and prosperity?

Mr. BARUCH. Well, you have to consider all the time, Senator, in discussing these questions, whether we are at war or at peace. Today it would be difficult to answer that question. We are surely not at peace.

Now, therefore, I think that, in peacetime, interest rates would have a very considerable effect. There are some very erudite and scholarly Members of the Senate who believe that, in wartime, by putting up money alone, you can keep prices down. But it will not. A woman who has children to feed is going to go out and get that food at any price. A businessman with a chance at a lucrative contract is not going to balk at paying a little more for money. Therefore, I think that you have to have other controls besides money controls. You must control prices and wages and profits and so on. It is a question of whether you do it in peace or whether you do it in war.

Senator BENNETT. Well, my question related specifically to interest. Do you think it is a wise policy deliberately to hold interest rates down at a time like this and even at the expense of eliminating, largely, a free market for money?

Mr. BARUCH. Well, of course, there is not the demand for money now that there was. Supply and demand will take care of that, whether the Government wants to do it or not. I think the interest rates went up because everybody wanted money.

Senator BENNETT. That is right.

Mr. BARUCH. And then there is another side of this question. What becomes of all the people who save their money and put it into banks? Should the Government punish them—cut the earnings on their savings by reducing the interest rates? I believe that the Federal Reserve System, which has charge of this whole question, was a well-conceived idea. It is simply a question of the intelligence with which we use it.

In peacetime it can be much more effective than in times like this when we are going in and out of war.

Senator BENNETT. I am tempted to ask you another question that is not on the list.

Let's turn to question 10 first.

How important are low interest rates as a stimulus to business investment as compared to expected profits?

Mr. BARUCH. Well, interest is a component part of the cost of production, and the cheaper interest is the more inclined a man would be to borrow. But he has got to see a profit. He adds up his labor and his costs and he says, "Now am I going to sell that at a profit?"

If he can sell it with a profit he will go in and borrow.

Senator BENNETT. But a low interest rate does not operate in the absence of a prospect of a profit.

It is not an incentive?

Mr. BARUCH. It never has with me. I do not know how it would be with anybody else.

Senator BENNETT. It never has with me either.

Do you think that lately labor has been paying less attention to real wages and too much attention to money wages?

Mr. BARUCH. Well, as I said, I think that what originally caused the present inflation, was that we did not control things in the war. In addition we have this debt which has been more or less monetized. Now the cost of living has naturally gone up. As it went up labor naturally wanted to protect itself and at least maintain the purchasing power for its services.

I do not know how much thought labor has given to the matter but it is doubtful if wage increases have given them any really increased purchasing power. Actually to the extent that wage increases without accompanying increase in productivity contribute to inflation and price increases, labor is contributing to its own hardship. It is contributing to the increase of foreign imports—automobiles and even raw materials, and textiles and things of that kind. Unless labor is sensible and statesmanlike in its wage demands it may someday be guilty of unionizing unemployment.

I know that is not labor's object. And I know that in order to meet the rising cost of living they have had to press for more wages. But neither labor nor business can have all it wants.

Senator BENNETT. Would not they be better off, would not all working men and women be better off in the end if they worked to develop a stable price level and then attempted to get wage gains against that stability rather than trying to get the wage gains first without regard to its effect on the price level?

Mr. BARUCH. Well, you are asking them to be something more than human and you might put that up to our manufacturing friends as well.

Senator BENNETT. I think that is right.

Mr. BARUCH. I think it is a case of 50-50. The wage earner has a more difficult time I think than the manufacturer has. But they both ought to show a little, you might say, instead of statesmanship, enlightened selfishness.

Senator BENNETT. The result of the other program has been inflation that has robbed both of them.

There is another angle to this effect of inflation on the net purchasing power of wage earners that I sometimes wonder if they have considered.

We have a graduated system of personal income taxes in this country, and inflation has actually increased the taxes of everybody.

Take the wage earner who has found his wages doubled over the last 20 years because of inflation. He still does not have the same purchasing power assuming that his wages just kept balance with the inflation.

He actually has less, because he has been moved up into a higher tax bracket.

Mr. BARUCH. Well, yes, that is true. But at the same time let's get the facts. I like to be guided by Huxley's maxim: "God give me the strength to face a fact though it may slay me."

This country is enjoying a better standard of living than it ever has and it is more widely shared. That is something, I think, that we are all agreed should be continued if it can be.

We must remember that the high cost of living reflects not only increased prices but the higher cost of better living.

I think this whole country is living better, and I think that is one of the things that has been worth paying for if we do not have to pay too dearly for it.

Senator BENNETT. Do you think the inflation has contributed to that betterment?

Mr. BARUCH. No, I do not think so. I think we would have been even better off without it.

Senator BENNETT. Without it?

Mr. BARUCH. And we are dealing now not so much with inflation as with the results of inflation. But what we are trying to do is not to make the same mistakes all over again.

Senator BENNETT. Well, Mr. Baruch, unfortunately it has not stopped yet.

Mr. BARUCH. What was that?

Senator BENNETT. Unfortunately the inflation has not stopped yet. The price levels are still rising in spite of the recession.

Mr. BARUCH. Well, that may be due partly to what I called the increased price of better living conditions. But I am opposed to anything that will result in inflation because I know we will have to pay for it and pay very dearly for it.

Senator BENNETT. I think that is the heart of the whole thing: inflation itself is never a benefit.

Whatever temporary benefits it seems to bring us must in the end be paid for.

Mr. BARUCH. Those prices which are too high, are going to come down; I do not care whether the Government tries to keep them up or not. I have seen governments almost go broke trying to keep prices up. I saw Brazil practically go broke trying to keep up the price of coffee. They burned it and tried to do all sorts of things. But nature and the law of supply and demand intervened.

Senator BENNETT. I think you said nothing more important yesterday than the statement which I repeated earlier today that Congress cannot repeal basic economic laws. We can postpone their effects occasionally for a short time, but—

Mr. BARUCH. Unfortunately it cannot repeal human nature.

Senator BENNETT. No, that is right too. We cannot repeal that, either.

Mr. Chairman, I appreciate the opportunity for this colloquy with Mr. Baruch. I think there is no one in America whose influence for sound economic thinking is more valuable, and I am delighted that this committee is having the opportunity of his judgment, his wisdom, and his sound advice, and I am grateful for the opportunity of visiting with you for a minute or two, Mr. Baruch.

Mr. BARUCH. You are very generous, Senator.

Senator BENNETT. Thank you.

The CHAIRMAN. The Chair recognizes Senator Williams.

Senator WILLIAMS. Mr. Baruch, do you think the Federal Reserve Board acted wisely a couple of years ago when they inaugurated a higher interest policy to control inflation?

Mr. BARUCH. You are referring to the action of the Federal Reserve System?

Senator WILLIAMS. Yes.

Mr. BARUCH. In my opinion, they did not raise the interest rates; they followed the interest rates.

Senator WILLIAMS. Yes.

Mr. BARUCH. Everybody wanted money. Everybody went into the production of manufactured and raw materials.

People went all over the world searching for raw materials; naturally this created a big demand for money. Interest rates had to go up whether Government wanted it or not. It's supply and demand. Of course I was in hopes that the Government would get out of the banks while money was cheap.

Senator WILLIAMS. And you feel that the higher rates of a couple of years ago or last year and the lower rates today are the result of the law of supply and demand rather than any intended action?

Mr. BARUCH. Yes, sir.

Senator WILLIAMS. Do you think under our free-enterprise system it is possible for any Government in power to regulate our economy in a manner to eliminate the so-called booms and depressions?

Mr. BARUCH. Unfortunately Governments get carried away by the same emotions as the populace. I mean we are all human beings. The people who hold office, whether executive or legislative, are human beings too. And they really have more pressure put on them than anybody else by reason of their position. It is very hard to sit tight and hold on when everybody is getting panicky and jumping overboard.

But this is a question of human nature, and of trying to learn from the past, from which very few of us have learned.

Senator WILLIAMS. You feel that oftentimes the action of the Government, itself, is more of a contributing factor than it is a deterrent in either instance?

Mr. BARUCH. It depends upon what action they take. I think that the establishment of the Federal Reserve was a good thing. The establishment of the various regulatory commissions have been well thought out. But it is a question of administration. In these days when things have become so entangled, it is hard to say what things come first. You gentlemen have to decide that and in that decision you have so many different contending influences. You have to deal not alone with facts but you have human nature. Good government and good statesmanship and good politics is trying to blend facts and human nature together.

Senator WILLIAMS. Thank you.

Mr. BARUCH. I think the Government can do things but it also can do bad things as well as good things.

Senator WILLIAMS. Did I understand you correctly yesterday, that you felt that both the 1948 tax reduction and also the post-Korean tax reduction were unwise?

Mr. BARUCH. Yes, sir.

Senator WILLIAMS. What conditions would you say should be met before it would be safe for, or desirable to reduce taxes?

Mr. BARUCH. It was perfectly apparent in 1948 that our hopes about peace and good relationships with our former ally, Russia, were not going to be realized. I felt we ought to keep ourselves in a strong position and stand pat until we had peace and more orderly conditions in the world.

I felt when we were reducing our taxes, we were unnecessarily weakening ourselves.

Senator WILLIAMS. What conditions should there be to reduce taxes?

Mr. BARUCH. First of all, I think we must have an end of the cold war—which means peace. This will bring more orderly conditions at home and then we can better weigh the various factors affecting us unfavorably.

That is No. 1. It was No. 1 in 1948 and in 1954 when you had the second reduction.

Senator WILLIAMS. 1954, yes.

Do you believe our present income-tax scale has a tendency to destroy initiative and thereby curtail a maximum effort by many of those most qualified to produce these forms of goods and services?

Mr. BARUCH. Well, of course, all taxes have a tendency to affect individual activities. But we seem to do quite well under them. I think the prime thing, as I said before, is to get this country in a strong physical and financial condition. That is more important than anything else. I think that it is the most important thing that our people ought to consider. They have got to realize that we have to have sufficient means to meet a threat which is not only military, but political and economic as well.

Senator WILLIAMS. You would feel it would be advisable even when we have a surplus at times to start an orderly reduction of the debt rather than pass it on in tax reductions?

Mr. BARUCH. Yes, sir; nothing would be so stimulating. And it would be beneficial, too, if we did not go through that \$280 billion debt ceiling.

In other words, as soon as the Government gets its house in order you are going to have a confidence that will thrill the whole world.

Senator WILLIAMS. I am not disagreeing with you. I am just asking these questions.

Now I would be interested to know, Mr. Baruch, in your many years of interest and experience and travel around the world, have you ever learned of any system of taxation that is more equitable as a whole than that under which we are operating today?

Mr. BARUCH. No, sir; I do not think so, and I have never known a system that anybody likes. [Laughter.]

I never knew of any taxes that somebody did not call unjust and unfair and argue that somebody else ought to bear the burden. That is very natural.

Senator WILLIAMS. Now, you mentioned a moment ago the ceiling on the national debt and, of course, one of the ways that Congress has helped to keep down Government spending is by placing a ceiling on the public debt.

Do you think that the committees of the Congress itself should make a determined effort to hold this ceiling in line?

Mr. BARUCH. Oh, yes, sir.

One of the things that I talked about but nobody seems to have paid much attention to is this: I think when these budgets are made up, that the Congress ought to have an expert staff to study them, perhaps even be present when they are making up the budgets. This staff wouldn't interfere, of course, with the military, for instance. But they could tell when there was padding in the budget.

I have seen a lot of this life. There is a tendency to ask for a little more than you need. Also in the expenditure of the money, if there was this staff that I propose, they could see that the contracts were properly made and the conditions properly met and all that kind of thing. I think it would result in a savings of 5 percent or more, and 5 percent on \$40 billion, which is the military budget, is a lot of money. I also think the people would feel more satisfied if there was that kind of a constant watchfulness over the intake and payment of the money.

Senator WILLIAMS. Earlier this year Congress was asked, and agreed to increase the national debt by \$5 billion.

There is talk now that perhaps we will be asked again either during this year or next year to increase the debt further. What would be your opinion as to action we should take in compliance with that?

Mr. BARUCH. I think it would be a most disastrous thing.

Senator WILLIAMS. You think it should be rejected as I understand it.

Mr. BARUCH. We would have to meet that situation by some very drastic measures, because the Government must pay its debts. If the Government does not pay its debts you have not got any Government.

Senator WILLIAMS. But you feel we should approach the method of payment of those debts in some other manner than by borrowing the money; is that correct?

Mr. BARUCH. Yes, sir. Maybe we do not have to do all of these things. Maybe we can postpone some projects and expenditures.

Let first things come first. Let's tend to the first things and get them done. There are a lot of things that have been brought forward by Congress that are very worthwhile, but the question to ask just like a private individual asks is: Can you afford them?

Can we postpone some of them until some other time, until the economy has gotten into a different state, and we are safe behind our ramparts that we built for peace?

Senator WILLIAMS. Then you think we should take into consideration in authorizing these various programs whether we have got the money to pay for them at the time?

Mr. BARUCH. Yes, sir; whether we can afford them.

Senator WILLIAMS. Yes.

Mr. BARUCH. We want them, and desire them, of course. But can we afford them?

Senator WILLIAMS. Do you think—we have on the statutes a law proposed to promote full employment, do you think that the attempt of a government to promote continuous full employment would create inflation, or continue inflation?

Do you think it is possible for any government to promote full employment at all times?

Mr. BARUCH. Of course you never will have full employment. You cannot, because there are always people shifting from one thing to another. In asking people to go to some program somewhere, you have got to think about their moving their families; you have got to think about schools and hygiene.

Now your question was, Senator—I may have gotten off in my answer there.

Senator WILLIAMS. The question was do you think that the Government is in position to accept a responsibility for promoting full employment at all times?

Mr. BARUCH. Well, unfortunately whether you like it or not, you have accepted it now, haven't you?

Senator WILLIAMS. Yes, as far as legal authority is concerned.

Mr. BARUCH. You know, it is like the bartender who asked the proprietor "Is Mike good for a drink?" The proprietor says, "Has he had it?"—and the bartender says, "Yes." "Well, then, he's good for it," says the proprietor.

You have got to live with that until you find you cannot.

Senator WILLIAMS. In your——

Mr. BARUCH. You have decided that question for yourself, yes.

Senator WILLIAMS. In your opening statement——

Mr. BARUCH. You are going to have difficulty in doing it.

Senator WILLIAMS. Well, do you have any suggestions as to how we should carry it out?

Mr. BARUCH. No, sir, I was talking to a friend of mine—and I do not mean to be ribald—about this. We got talking about these various laws, and he says, "There is just one law we ought to pass," and I said, "What is that?"

He said, "Changing human nature and making it retroactive to the Garden of Eden."

You are dealing with human nature, and not with perfection because none of us is perfect.

Nature has put into us a desire to take care of our future. The squirrel gets a lot of nuts and puts them in a tree. A dog buries a bone. We try to get money because we know that with it we can buy various things we need. It is the drive of nature that gets us to try to get it, and get at least as much as we can to take care of our needs and help us survive.

But as civilization has grown, our nobler instincts have grown too, including a concern to look after our fellowman. This of course is all to the good and to the advantage of all of us.

That is a little homily which probably should not have been brought in here.

Senator MARTIN. That is all right, it is very good.

Senator WILLIAMS. What prompted the question, is, I noted on page 6 of your statement you said the Government has a responsibility in regard to those who are victimized by unemployment and that its actions must be in harmony with sound economic principles, and I was just wondering what sound economic principles they are to which you refer, that was the question.

Mr. BARUCH. Well, we have insurance against unemployment and sickness and various other problems. If this recession or whatever you call it continues longer we will have to find some means of meeting it. We have gotten far away from the little mercy of men and I believe happily so. But I believe that help ought to be carried out in the localities where the unemployment occurs, where they know the reasons for it. Furthermore these localities have gained from the work and the taxes and contribution which their citizens have made and they ought to do something first.

Now, most of them can and most of them will get money a good deal cheaper than the Government can get it.

In addition, there is no reason at all why the Government should not go ahead with programs like the road-improvement program where we are being taxed for it and will pay for the thing in the end.

Senator WILLIAMS. You made an important statement a moment ago that human nature must always be taken into consideration in any of our actions.

Mr. BARUCH. Yes, sir.

Senator WILLIAMS. You also referred to the possibility that enlightened self-interest on the part of management and labor could check this price-wage spiral. What hopes do you have that this can be brought about under existing circumstances?

Mr. BARUCH. What hope, you say?

Senator WILLIAMS. Yes.

Mr. BARUCH. I think both sides have got to grow up and mature a little bit and pretty soon, because if they do not the adjustment that has to be made will be made for them by the law of supply and demand only it will be more painful.

Senator WILLIAMS. Thank you very much, Mr. Chairman, this completes my questions.

The CHAIRMAN. The Chair recognizes Senator Gore.

Senator GORE. How do you do, Mr. Baruch?

Mr. BARUCH. How do you do, Senator Gore?

Senator GORE. Mr. Baruch, my mail indicates that smaller businessmen have not experienced or enjoyed a reduction in interest rates yet. The high interest rate structure that has been fastened upon the country remains quite a burden for them to carry.

Now coupled with that I read in this morning's edition of the New York Times, which I will hand you, the Guaranty Trust Company of New York increased its net operating earnings after taxes \$1,126,952 or 14.9 percent for the first 3 months of 1958, compared with the like 1957 period.

I would like for you to comment, if you would, on the record profits of the Guaranty Trust Co. while small-businessmen are experiencing the largest numbers of bankruptcies in the history of the country.

Mr. BARUCH. Well, of course the smaller the man the less credit he gets.

Senator GORE. And the higher interest rate he pays?

Mr. BARUCH. Yes. And, of course, that is the way it is with all of us. We go to the man we think is best fitted to do the job. I am quite sure that you and Mrs. Gore, when you think about the children and dentists, and doctors, and schools, you think about that. I know I do, because that is human nature.

But what puzzles me, Senator, is the way banks in New York advertise. They go out and grab a man by the arm and twist it to get him to borrow money. They do not have to grab the arms of the big fellow, but they seem to have so much money that they go out and get the little fellow to borrow. But I do not know whether the borrowers realize what they have to pay for it.

I think if a man has standing and character, he can get money. But the little fellow is always going to have it a little more difficult whether he is a manufacturer or whether he is a borrower and that is where Government, Senator, comes in. Government has to see to the enforcement of the antitrust laws and that combinations do not get too big so that they can fix prices. Another thing, you have made it possible for all these banks to make these profits, because they do not have to pay anything for the deposits.

You do not let a bank pay interest on all these billions they have got on deposit except those in savings accounts.

In making the war and postwar report, Senator, which Mr. Byrnes asked John Hancock and me to make, we proposed that a separate agency be set up with capital of, I think, \$100 million with which to guarantee small-business loans. This was to get the big banks to make loans to small business. These loans could have amounted to \$500 million. But nothing was ever done about our proposal.

Big men, men with big credit, can always get their money. But even they are paying a little more for it than they used to pay.

I am not defending the advantage the big fellow has over the small one. But apart from the suggestion I made in the War and Postwar Report, I just do not see how else you can meet the situation.

But contrary to what you might say is the fact those banks in New York City are advertising every day for small borrowers.

"Come in and arrange a loan," they say. "You only pay so much every month." It is a practice which I think is unwise. I do not know whether that answers your question or not, but it is——

Senator GORE. Well, I only asked you to comment upon the predicament that——

Mr. BARUCH. Is that a predicament of the Guaranty or the predicament of the borrower?

Senator GORE. Well, I think it is a predicament of the whole country when we have those who profit by the high interest rates structure making record profits while those who have to pay the high rates are suffering the highest rate of business failure since the 1930's.

Mr. BARUCH. I have had a great many discussions with my banking friends. I have taken a position more or less like the one you have taken in discussing these things to see if they could do something to help the small man and do away with undesirable practices. And they have got one answer that is pretty hard to meet.

Of course, banks and trust companies have larger deposits. The margin of profit may not be as big, but these enormous deposits, which run up into the billions, yield big profits even on small margins.

Senator GORE. Well, you know——

Mr. BARUCH. I am not trying to defend them, I am trying to give you their answers when I have talked to them.

Senator GORE. Well, I am not particularly concerned with their answers.

Mr. BARUCH. Well, I think we ought to know what the other fellow says in order that we can meet the problem we desire to meet.

Senator GORE. I think we ought to also know what the other fellow does.

Mr. BARUCH. Yes, and why.

Senator GORE. As the interest rates were pushed up, the interest rate in my own small business went up successively until, eventually, I was paying 50 percent higher interest rates. I still am. The relaxation of the tight-money policy has not reached my business yet.

Mr. BARUCH. Senator, on your record you ought to be a pretty good risk. [Laughter.]

Senator GORE. Thank you. I have not been turned down for a loan yet, but the interest rate has not come down any. How long do you think it will be before the small-business man experiences the benefits of relaxation of credit?

Mr. BARUCH. Well, I think that the small-business man will eventually get what he is entitled to. But he will not get it so easily as the man whose credit is established or has a big business. You know, sometimes banks get stuck with those big-business loans, too. I think this is a study in human nature, which I cannot solve for you. I tried to solve it, or part of it, in my report on war and postwar policies by establishing this fund out of the Federal Reserve's profit on gold, as I told you. They would have been able to lend up to \$500 million to small business to guarantee a certain percent of loans, and the banks would have been very glad to lend money with this kind of insurance reducing their risk.

Senator GORE. Well, I understand there is in the making a demand by South Africa and, perhaps, other producers, to pressure the United States into increasing the price of gold. How useful do you think this practice is, of the United States buying gold from South Africa and other places and burying it in the mountains down in Kentucky?

Mr. BARUCH. What was the last, Senator?

Senator GORE. Burying it in the ground down in Kentucky.

Mr. BARUCH. Well, that is a question about which I have thought a great deal. I think we ought to try to confine ourselves to getting ourselves in a more orderly condition before we try to cure all of the various, you might say, "peculiarities" that have come into the situation. Senator Malone is probably as well versed on the subject as anyone. He was good enough to send me a book last night which, unfortunately, I have not had a chance to read yet, but which I am going to read, Senator, and am going to give you whatever opinion I have of it.

Senator GORE. I recommend it to you. I tried to read it the other night and it put me to sleep quickly.

Mr. BARUCH. I am going to go back to your gold now. [Laughter.]

When I was asked some time ago by the authorities about raising the price of gold and having a free market for it, I said it's all right to have a free market for gold, but the United States must not stand there with a bag and take everything offered at \$35. If we are going to have a free market of gold, let us be free to bid what we want and sell what we want.

The first thing you have got to have is a free market for currency, and then you have got to have a free market for gold. Let's see

where everybody stands, and then, perhaps, we can proceed to not alone a discussion, but a determination of the question.

Undoubtedly, the gold standard has been a deterring effect in the past against inflation, but it is easy enough to pass a law against the gold standard, as we found. I believe that this question has got to be looked into more thoroughly, and a decision cannot be reached until we have got into a more orderly condition as regards our safety and our over-all finances.

Senator GORE. One other question. I notice you gave a definition yesterday of inflation. There is no shortage of steel now, is there?

Mr. BARUCH. No, sir. And I tell you the steel manufacturers are finding it out, because it is tumbling in from the other side, just like automobiles and everything else.

Senator GORE. But the price at which they will sell steel is the highest on record. Where is the effect of the law of supply and demand to be found?

Mr. BARUCH. It will find its way, Senator. I don't care what the steel people and labor people or the Government do; it will find its level. That is my opinion, sir. Steel is coming in now. One of the important men in the steel companies told me the other day, "You know, they are selling some forms of steel at \$20 a ton less than we can make it." I said, "You brought it upon yourself. If you want to sell steel or anything else, you have got to sell it at a price people can afford to pay." The high price on automobiles is already bringing in a lot of automobiles, is it not?

Senator GORE. It is your opinion that the law of supply and demand will eventually bring down the price of steel in this country?

Mr. BARUCH. Surely. Surely.

Senator GORE. You think the experience for the last two decades will bear out your—

Mr. BARUCH. We have had nothing but war in the last two decades. It was during war when the price of steel went up; and no one knows better than you, Senator, how we tried to keep the prices of everything down.

Senator GORE. But the best I recall was that steel had another price increase last year.

Mr. BARUCH. What was that? You recall what?

Senator GORE. The price of steel was increased last year.

Mr. BARUCH. Oh, yes, sir, they have increased prices every time labor has made demands. I think it would have been wiser to have taken wage increases partly out of their profits.

Senator GORE. Well, then, the inflation we have been experiencing and the kind which we are still experiencing would seem to me not of the classical sort when there is excess purchasing power and shortage of goods, materials, and services, but rather, a price and wage inflation brought about by organized groups.

Mr. BARUCH. But inflation caused these organized groups to act. It was the expenditures in war for nonproductive goods, for destructive purposes, without having control of the prices we had to pay, and without raising taxes high enough to help pay for those nonproductive uses, that first caused the inflation and that encouraged the pressure groups. Now we have the aftermath, of inflation and both sides should be brought to account before the situation is made worse.

And they will be brought to account by the law of supply and demand, sooner or later. But it takes time for it to work, unfortunately.

Senator GORE. I usually find myself in agreement with you, but I do not believe it is quite that simple at this time.

In 1956, there was capital expansion of corporations in the country of \$35 billion. Approximately \$25 billion of that was financed internally, that is, by increased prices on consumers, not by the sale of debentures, not by the investment of equity capital, but by increased prices imposed upon the consumers.

Now is it fair for the consumers of the country to have to pay for the undue enrichment of the corporate structure of the country?

Mr. BARUCH. I think the corporations went too far.

Senator GORE. So do I. And in so doing—

Mr. BARUCH. I think they will find that out, and I say the law of supply and demand will correct that. But in the meantime, we have to go through the difficulties which we now experience and which are affecting our defense program.

Senator GORE. I think it is perfectly in order for reasonable expansion to be financed through legitimate profits, but when you find the United States Steel Corp. making a firm and fixed determination over a period of years to finance an enormous expansion purely out of price increases, I think it is something to which the Government needs to give its attention.

Mr. BARUCH. I think your honorable chairman has put a finger on something which I think has been stopped, that is the excessive tax writeoffs which were granted even though we were not in a shooting war. Those writeoffs made it possible for business to use their profits for expansion without paying taxes.

Senator GORE. Well, speaking of taxes reminds me, this theory of the economists that we ought to increase taxes in good times and lower taxes in difficult times seems not to work very well, in that Congress is never ready to increase taxes, no matter how good the times.

Mr. BARUCH. It never worked very well because they never worked it. You cannot get a thing to work well when you do not work it.

The economist, when he says this, is a hundred percent right, but he actually never does it. I have had a lot of discussions on that subject. When business is high you want to put taxes up, when business is low you lower them.

But always you kept putting taxes down. If I remember correctly, I think that after World War II, Congress passed a bill over the President's veto to cut taxes. I opposed that reduction. I appeared before the committees—

Senator GORE. Well, I opposed the tax reduction in 1954. I cannot think of a more unwise action that the Congress has taken than that so-called tax reform of 1954.

Mr. BARUCH. Well, you know my opinion on that. I have expressed time and again that I thought it was both economically unsound and immoral. That was my statement on it.

Senator GORE. This is not the first time I have found myself in agreement with you.

One of the present steel magnates of the country was our former Secretary of the Treasury. Last fall he testified to this committee that—well, let me read you his statement:

The reason that these inflationary pressures are on us now is because of the great prosperity which the country is enjoying at the present time. It is the demand for building, it is the demand for goods, it is the demand for all sorts of things that are exceeding the supply, and that is what is putting the pressures, the inflationary pressures, on us today.

Now, Senator Kerr asked him to state some of the scarcities.

Mr. BARUCH. Price some of the scarcities?

Senator GORE. To name, to list some of the scarcities. And the best I can recall, after 2 days, he was only able to suggest a shortage in line pipe.

The former Secretary had diagnosed the country as having high blood pressure when, as a matter of fact, it seemed to have been entirely something else.

Mr. BARUCH. That happens often with experts. [Laughter.]

Senator GORE. Well, are you attempting thereby to classify the former Secretary as an expert?

Mr. BARUCH. No. I was saying that he was giving what he thought was expert testimony, but I said that often experts are wrong.

Senator GORE. We did not have then, nor do we have now, the textbook type of inflation. It would seem to me we had a price and wage inflation, an administered inflation, not an inflation brought about by scarcities of services, scarcities of labor, scarcities of materials.

Now with steel production down to about 50 percent of capacity, automobile production off 30 percent, more than 5 million people unemployed, we still have the highest price on steel in history, the highest price on automobiles, the highest cost of living in the history of our country.

The only item in great production now, the only factory I know of that is working overtime, is the aspirin factory.

Mr. BARUCH. The aspirin?

Senator GORE. Yes.

Mr. BARUCH. Well, Senator, I have tried in my statement to differentiate between inflation and its causes, and its aftermath. Now we are dealing with its aftermath, when everybody is trying to keep the results of inflation which they think are beneficial to themselves.

I opposed the decrease in taxes. I did not think it was necessary. You may recall a breakfast you were good enough to arrange for me at which I spoke of the conditions which the new administration would meet and how they would meet them.

It cannot be any surprise to you, but it happened. The former Secretary is a very fine man and a very good businessman, but he went out and got supposedly the best experts to advise him and he followed their advice. I did not happen to agree with them.

But I do agree with you that these prices have been held up by pressure groups over which there has been no control.

As you know, I tried to control them and wanted to keep the controls there. I even argued to continue controls after World War II.

Senator GORE. At least we are not in a very happy state now, are we?

Mr. BARUCH. No, sir; we are not. But you have got to find some way of getting out of it without making it worse. I think we can

if we just don't get panicky about it and don't try to do too many things at once, but one thing at a time, and first things first.

Senator GORE. How do you think the unemployed would be helped by a big tax reduction, which some people are advocating now?

Mr. BARUCH. Well, they are not employed. What good is it going to do them?

Senator GORE. They have no tax liability.

Mr. BARUCH. No, sir.

Senator GORE. What they need is a job.

Mr. BARUCH. That is right, sir.

Senator GORE. With part of your statement yesterday, I found myself in disagreement. I think we have a national policy, the Full Employment Act, which recognizes that the whole society does have a responsibility to create conditions in which an individual can find an opportunity to earn a living.

I am one of those who thinks it is not good for either the country or the individual to give people something for nothing, that is, able-bodied people. But I do think while every man has a responsibility to earn his bread by the sweat of his brow, he is entitled to an opportunity to do so.

Mr. BARUCH. You just misunderstood my position, Senator.

Senator GORE. Well, good.

Mr. BARUCH. What I said was this: I have no objection to your providing work, providing at the same time you pay for the interest and amortization on your borrowing.

Senator GORE. Well, I recommended that, and I supported that in the highway bill of 2 years ago, and the members of this committee likewise endorsed that principle. We are in a position now in which the human elements deserve and require consideration.

When the cost of living is at an all-time high, men, able-bodied men, come to me with anguish in their heart, sometimes tears in their eyes, and say they don't want to join a relief line. They want a job in which they can do an honest day's work to provide a living for their families.

How does this society of ours, interdependent and complex as it is, create the conditions under which these people can go back to work?

Mr. BARUCH. Of course, the past is a prologue of the future. We know where we made the mistakes in the past. Let's hope we do not repeat the mistakes of the past.

I have no objection whatsoever to undertaking work programs. But you should put on a tax which will pay for the interest and amortization on what you borrow for these programs. I see no objection to that. But what I object to is the deficit financing, which in the end will destroy the credit of the Government and make it more difficult for these people to get work and eventually add more unemployment.

Senator GORE. Of course, we could increase the revenue of the Government quite considerably by removing some of the tax favoritism in the law now.

Mr. BARUCH. Well, I can go along with you on some of those things.

Senator GORE. Of course, we might disagree on a definition now and then.

Mr. BARUCH. Sir?

Senator GORE. We might find ourselves disagreeing on a definition now and then.

Thank you, Mr. Chairman.

The CHAIRMAN. The Chair recognizes Senator Malone.

Senator MALONE. Mr. Chairman, I want to say to Mr. Baruch that you have many fine friends in the State of Nevada, which you already know. You have invested money in our State at different times, and they consider you a fine businessman and admire you for standing up for what you believe, even in the face of severe criticism.

And I want to say that as long as the book which I sent you has been mentioned, it could be that one of the things that ails the country is that the people in responsible positions go to sleep trying to learn about economic problems. [Laughter.]

Mr. BARUCH. Senator, say that again, but slowly so I am sure to get it. That was good, so I want to get it, too.

Senator GORE. That was for my benefit.

Senator MALONE. Yes, I will admit it was for Senator Gore's benefit. [Laughter.]

One of the things which might be wrong with our country is that the people in office, in high position, go to sleep reading about economic problems and trying to understand them.

Mr. BARUCH. They have been taking Miltown pills.

Senator MALONE. Now, Mr. Baruch, I certainly admire you, at your age, for what you are doing today. You remember the early thirties when Congress repealed the law of supply and demand; do you not remember that?

Mr. BARUCH. Well, they may have tried to repeal it, but they didn't give anything in its place. They tried to repeal it, you mean.

Senator MALONE. Well, they kept it repealed a while, with war and preparation for war. You can make the repeal stick as long as someone picks up the check, can you not? As long as someone pays the bill you can keep the law of supply and demand in abeyance. Is that about it? As long you can collect enough from the taxpayer to pay the deficits then you can keep the law of supply and demand at least in abeyance.

Mr. BARUCH. Supply and demand will work anyhow, I don't care what happens. You can't get around it, you can't get away from it. You can only put it off temporarily, in my opinion.

Senator MALONE. You are absolutely correct. It catches up with individuals almost at once—and the government when the money runs out.

Mr. BARUCH. We would only be fooling ourselves.

Senator MALONE. Mr. Chairman, I did write Mr. Baruch a letter yesterday because I could see it would be helpful to him if he knew the ground I intended to cover, and I ask that this letter be made a part of the record at this point so that we may cover the ground, but with the understanding that Mr. Baruch might answer the questions more fully later for the record.

The CHAIRMAN. Without objection, the letter written to Mr. Baruch by Senator Malone will be inserted in the record.

(The letter referred to follows:)

APRIL 1, 1958.

Mr. BERNARD BARUCH,
Sheraton-Carlton Hotel, Washington, D. C.

DEAR MR. BARUCH: I think you made a fine general statement this morning before our Senate Finance Committee. I am a member of this committee, but because of a previous commitment I had to leave the committee hearing early. However, I will be in attendance tomorrow morning.

You have many friends in my State of Nevada. They have always appreciated your interest in mining and other interests and industries of the State.

There are some specific factors affecting our national economy upon which I would like to have your opinion, and I am sending you this note so that you may know in advance what I would like to ask you when my turn comes on the committee.

You will remember, of course, when, under the urging of President Roosevelt for special legislation, Congress repealed the law of supply and demand and, of course, from your testimony I know you agree that that natural law will only stay repealed as long as someone picks up the check.

I would like your definite opinion on the following subjects:

1. We left the gold standard in 1933, and very soon thereafter were priced out of the world markets through inflation.

The testimony of Mr. McChesney Martin, Chairman of the Federal Reserve Board, on August 19, 1957, under my questioning, showed that if all of the foreign dollar balances which could be converted to nations' dollar credits were presented within a reasonable time, out of our \$22,400 million in our storage vaults, we would have \$5.7 billion in our gold reserve.

Should we return to the gold standard and, if so, what procedure could we follow to make it effective?

Can we return to the gold standard on \$35 gold or should we determine the free market value before returning to the gold standard?

I have introduced two gold bills. The first, S. 1775, to create a free market for gold in this country so that our citizens might buy and sell it freely to determine what the people think it is worth, and second, S. 1897, to return to the gold standard.

2. Under my questioning, part III of the hearings, on August 19, Mr. Martin testified that he can judge how much money ought to be in circulation for "a sustained economic growth" of the economy. In short, he can regulate the amount of money in circulation, either increase it or decrease it in accordance with what he thinks the economy will need during the ensuing year or 2 years. He also testified he can regulate the stock-market margin and the rediscount rate.

I would like to know what you think of this power in the hands of a Federal Reserve Board of seven men when the Constitution says that Congress shall coin money and fix the value thereof?

What should Congress do, if anything, in this situation?

3. The Constitution of the United States pointedly separates the regulation of foreign trade and the fixing of foreign policy, the first in article I, section 8, which says specifically that Congress shall regulate foreign commerce and adjust the duties, imposts, and excises which we call tariffs. The Constitution is just as specific in placing the fixing of foreign policy in the hands of the Executive.

The 1934 Trade Agreements Act—so-called reciprocal trade—tied the two together in the hand of the Executive. Secretary Dulles testified, under my questioning, before the Senate Finance Committee that the President may, at his discretion, trade a part or all of any industry to further his foreign policy through the simple expedient of refusing to adjust such duties or tariffs regardless of what the Tariff Commission may recommend.

The 1934 Trade Agreements Act, as extended, expires on June 30, and that power would automatically revert to the Tariff Commission, an agent of Congress under the 1930 Tariff Act, to adjust the flexible duties or tariffs on a basis of fair and reasonable competition; that is, to make up the difference in the costs of production, should the 1934 Trade Agreements Act not be renewed by this Congress as the President has recommended.

You know that former Secretary of State and his assistant, Willard Thorpe, testified before the Senate Finance Committee that it is no longer possible to separate our domestic economy and the fixing of our foreign policy.

It was George Washington who said in his Farewell Address that: "If in the opinion of the people, the distribution or modification of the constitutional powers be in any particular wrong, let it be corrected by an amendment in the way in which the Constitution designates. But let there be no change by usurpation; for though this, in one instance, may be the instrument of good, it is the customary weapon by which free governments are destroyed."

If you believe that the regulation of foreign commerce and the national economy, through the adjustment of duties or tariffs, should be regulated by the Executive, should the Constitution be amended to transfer such regulation of foreign commerce and the national economy to the Executive?

You will remember that I have discussed these matters with you before. One occasion was in the Sheraton-Carlton Hotel 3 or 4 years ago; and, if I recall accurately, your position was that the duties or tariffs should be regulated to represent that difference in the effective wages and the costs of doing business in this Nation and the chief competing country on each product, such flexible duty being lowered in accordance with any rise in that foreign nation's living standard; and, when their wages and costs of doing business were practically the same as ours, free imports or free trade would be almost automatic and immediate.

The people of this Nation are entitled to the benefit of your long experience; and after this hearing is over, or at some future time, I would appreciate an opportunity to visit with you on several of the pressing problems.

I am enclosing an autographed copy of the first edition of my book *Mainline*. While over my 30 years in engineering, before I came to the Senate in 1947, I have written many reports, this is my first venture into the editorial field.

I will appreciate it very much if you have the time to review it and write me a critical letter.

I will look forward to seeing you tomorrow morning.

Sincerely,

GEORGE W. MALONE,
United States Senator.

Senator MALONE. I will ask some questions now.

Mr. BARUCH. Senator, may I say I got your letter and read it just as I was turning in last night. And, for the first time, I believe that maybe age was catching up with me. Though I read the letter, I could not read the book. [Laughter.]

And I want to say this: This is a very thoughtful letter, something I know you have been working on continually for a very long time. But it is difficult to answer these questions until we get more orderly conditions in which reason and intelligence prevail.

And I think, until we get that, it is going to be difficult to answer the questions properly, even for a man as well posted as you are.

I have thought about the things you discussed in this letter, and I feel I cannot give definite answers to them until we get a more orderly condition. I do not know why it is not generally realized—perhaps we have been going to sleep or taking these tranquilizer pills—but we are engaged in a great struggle—political, psychological and economic. Our enemies are ruthless and they are very clever. You cannot deny the fact they are very able people with whom we are dealing and dedicated to their beliefs. I think many of these questions, Senator, ought to be made the subject of separate study. I do not think we can come to a conclusion now, Senator, which would be of any value. I know I could not be of much help in answering these questions—until we have a more orderly condition to face.

That is my general answer to all of them, sir.

Senator MALONE. Yes, sir.

Mr. BARUCH. I am afraid I will not be very helpful. I am sorry. I would be glad indeed to devote a considerable amount of time where we could have a give and take and could go over these things and per-

haps work out something. Perhaps there ought to be a body of men connected with the Congress or an advisory body to go over these things in an orderly manner. But you can't really consider them when they are mixed up with not only the war and peace, but with political considerations of various kinds.

As I say, I know how deeply you have thought about these things, and it is a very thoughtful letter, but I cannot help you much, Senator.

I answered most or part of the question when my friend, Senator Gore, asked about gold.

With that understanding, I will be glad to do what I can, but I think we would be better off if we could work under different conditions.

Senator MALONE. Mr. Baruch, I have been a member of this Senate for 12 years, and I see no sign that "intelligence is going to prevail" until sufficient pressure comes from the grassroots, from the people themselves. I am convinced that it will come—but the people cannot yet believe what the Congress has done to them in the past 24 years.

I have even been criticized in my own State of Nevada for telling even the truth about our economic system. We must make our own economic system work before we can successfully criticize anybody else. We cannot support the world, and we cannot import the products of the world's cheap labor without destroying our own workingmen and investors.

Therefore, some believe I am criticizing our administration. I am not criticizing our administration. I am very fond of our President.

I wanted to ask you about our money base: When we went off the gold standard in 1933, we very quickly priced ourselves out of all the markets of the world, did we not, through inflation?

Mr. BARUCH. You mean by sales or purchases?

Senator MALONE. In sales.

Mr. BARUCH. In sales?

Senator MALONE. Throughout the world.

Mr. BARUCH. I don't just recall. I know that we were already in a very uncomfortable position. They forced us off the gold standard. I did not agree with the policy, Senator, and when we went off the gold standard I felt we ought to pay the promises at the market price.

In other words, the gold went to a premium of about a dollar an ounce, and that was about 5 percent. I think we ought to have paid the people the market price for gold, and that where you had bonds or obligations which were payable in gold, they ought to have been paid 105 percent, or whatever it was.

I believe that the Government ought to have carried out its obligations although it has the power to cancel them.

I know that in wartime—I learned this in World War I—when we went to seize something, the courts would always rule that you had to pay the market price.

Senator MALONE. Then I would like to ask you, Mr. Baruch, is there any way to stop inflation except to return to the "hard" money standard—tie the money to something?

Mr. BARUCH. Repeat that. Until we tie the money to something?

Senator MALONE. Tie our paper money to gold or silver, or something which is stable. Can you stop inflation without doing that?

Mr. BARUCH. You left out one thing, and that is reason and intelligence, which is at a discount these days. Reason and intelligence must operate in these things.

Some fellows argue, "Why do we have gold?"

Well, as I argue with them, as probably you do, I say "Well, gold is indestructible. It is beautiful. It has been valuable ever since the beginning of time."

I am not a biblical scholar, but it has been drawn to my attention in the second chapter of Genesis in the twelfth verse it says, referring to Egypt, "And the gold of that land is good." And, as James G. Blaine said, it has been good ever since.

But curiously the labor which has been put into gold has always had some relationship to the labor which has been put into the thing which you purchased with gold.

I hope that answers your question partly, anyhow.

Senator MALONE. The reason, of course, that gold and silver are valuable is because it is indestructible and half the world used silver and half the world used gold for over 2,000 years, as you have said. So you can buy ham and eggs with it anywhere in the world whether it has the stamp of a nation on it or not.

Paper is only worth what the nation back of it is worth, and in relation to the amount that nation prints, but gold and silver do not depreciate, actually.

So I know of no other stable thing you can tie a currency to. Do you?

Mr. BARUCH. No. I have thought about it a great deal, Senator, long before we went off the gold standard. I appeared before a committee of the Senate on that—long before we went off the gold standard.

What puzzles me and makes this whole question very intricate, is the condition in which we find ourselves. I want to work out of that first. I think it would be wise for those who believe in the gold standard or other very legitimate ideas, to wait until we get a more orderly condition; let us say until we can get more stability within ourselves.

You cannot have stability in Government until you have internal stability, and though I see the various good points in your ideas, I am not satisfied yet just what the procedure should be, Senator.

Senator MALONE. Mr. Baruch, I have two gold bills; one for a free market for gold to let the people determine what it is worth, and the other one is to go on the gold standard because there is no better system. I voted against raising the debt limit. If Congress cannot print the money it cannot spend it, and I am still against raising it. Now, Mr. Baruch, you said something about printing money. Mr. Martin of the Federal Reserve Board who testified before our committee said that his Board could print money in whatever amount, in their judgment was necessary for a sustained economic growth.

Mr. BARUCH. Wait a second until I get my hearing aid on here so I can hear you. Now, sir—

Senator MALONE. Mr. Martin testified that his Board, the Federal Reserve Board, could print money, \$2 billion or in fact any amount needed for a sustained economic growth. Now, a seven-man Board with a Chairman is a very small group of men to judge the thousands of intricate factors which affect the future economy of this Nation.

Men go broke trying to do that, using their own money in their business so you can break a Government doing that, too, could you not?

Mr. BARUCH. Yes, sir; that is where reason comes in, where there is need for knowledge and intelligence.

Senator MALONE. Now then, Mr. Martin also testified that he could fix the stock-market margins at anything from 98 percent to 10 percent. He testified that he could fix the rediscount rate. Then, with those three things, printing new money, regulating stock market margins and adjusting the rediscount rate—is not that a completely managed currency?

Mr. BARUCH. Pretty close to it.

Senator MALONE. A managed currency means a managed economy. One more question.

Mr. BARUCH. But there is one thing he cannot do; he cannot overcome the law of supply and demand.

Senator MALONE. No; he cannot but he has tried—and will be successful to a degree as long as he can pick up that check with new money.

Mr. BARUCH. He tries to?

Senator MALONE. He has tried, and he has now failed. Mr. Baruch, I would like to ask you another question, prefacing it by saying that the Constitution of the United States definitely separates the regulation of the national economy through adjusting the duties or tariffs from the fixing of foreign policy.

It put the first in the hands of the legislative body, under article I, section 8, of the Constitution, where it says Congress shall fix the duties, excises, imposts, that we call tariffs, and shall regulate foreign commerce. Article 2 of the Constitution says that the President shall fix the foreign policy.

In 1934, the Congress of the United States, under the whiplash of a very aggressive President, tied the two definitely together in the executive branch. Do you think that is a good thing?

Mr. BARUCH. The Congress has done that, and now the question is: Is it wise to change it now? Now, we have given to the Commander in Chief the power to meet this cold war. We have placed in his hands some powers which you and I may not agree on—I have not agreed with all of them.

When I was asked to appear before your good friend Senator Vandenberg's committee on the Marshall plan, I made certain reservations, one of which was that I would prefer to buy any nonperishable, even what others could not sell for 5 or 10 years.

I realized that if we guaranteed a market they would be able to sell everything. I preferred not to lend money to governments, but to lend it to individuals, with government guaranteeing the loans. But the Congress felt differently.

Senator MALONE. Mr. Baruch, that is another question. That was the policy of sending billions to Europe and Asia. We have developed a surprising long list of "star boarders."

What I am talking about is regulating foreign trade and fixing the duties or excises that we call tariffs. The Constitution fixes that responsibility in the legislative branch.

Mr. BARUCH. But you have given that also to the President.

Senator MALONE. Congress did just that in 1934. Under that act, the President can trade a part or all of any industry to foreign nations if he believes it furthers his foreign policy. That is the testimony of Secretary Dulles before this committee in 1955 and the resulting imports are causing your depressed areas.

Then the State Department sponsors a bill which has been introduced in the Senate several times to appropriate taxpayers money to train for different jobs these workingmen whose jobs are dried up by cheap-labor imports, and then transport them to different areas. Also to compensate the owners of such plants or mines.

I traveled 14,000 miles in Russia in 1955. They do that kind of a job there but they do not need legislation. I do not like to adopt the system here.

Do you?

Mr. BARUCH. Well, I do not like it, but I do not know what to do in present circumstances, however.

Senator MALONE. All the Congress has to do is sit still and not extend the 1934 Trade Agreements Act then on the 30th of June the regulation of foreign trade and the national economy reverts to the Tariff Commission.

Mr. BARUCH. Well, that is a very serious decision that you have to make.

Senator MALONE. That is right, and it is getting more serious by the hour.

Mr. BARUCH. And you would have to give it careful study.

Senator MALONE. We will.

Mr. BARUCH. I am glad I am not in your position, but, if I had to be, I would give serious consideration, keeping in mind the overall picture.

Senator MALONE. Thank you, Mr. Baruch, and I will appreciate it if you will study my letter and give as complete answers as you conveniently can.

Mr. BARUCH. I will be glad to do so, Senator, and I hope that we will have an opportunity to discuss this thing under different circumstances.

Senator MALONE. It will be at your pleasure, Mr. Baruch; any time you invite me to meet you, we will meet. I hope you will read my book, Mainline, and write me a critical letter.

The CHAIRMAN. Mr. Baruch, on behalf of the committee, I want to extend to you the appreciation of every member of this committee for the very splendid testimony that you have given. It has been very frank and informative. When it is published, I am certain it will be studied throughout the country.

I have a few questions here that I would like to give to you, not to be answered now but for the record.

Mr. BARUCH. I will be glad to take them, Senator.

(The questions referred to and Mr. Baruch's answers follow:)

1. INFLATION

The CHAIRMAN. Do you agree that deficit financing by Government is, in fact, a postponement of taxes?

Mr. BARUCH. Of course. If the deficit is ever to be made up it will have to be made up out of taxes in the future. Deficit financing is

worse than the postponement of taxes. It has the same effect as printing money.

The CHAIRMAN. If we allow the inflation spiral to be renewed and continued, what do you foresee as the results in the next 1, 2, or 3 years?

Mr. BARUCH. If the inflationary spiral is resumed we will see a continued rise in prices; a progressively larger national debt; a dollar shrunken even more than it is now; the continued reduction in value of all savings, pensions, insurance; the scaling down and eventually the possibility of the repudiation of all debts.

2. PARADOX

The CHAIRMAN. There is something strange about the situation we are experiencing. We are in a recession but there is inflation. Consumer prices are rising when employment, production, and sales are falling. How do you account for this?

Mr. BARUCH. It is true that consumer prices have not come down yet despite the decline in employment and production. But consumer prices are traditionally slow in coming down. If the recession continues, however, prices will fall. The price level is being held up partly as a result of curtailed production which some people characterize as administered prices. High wages and unemployment insurance help keep up food prices. Reduced buying and consequent price declines in food are the last things to come. I am certain of one thing; in the end prices will have to respond to the law of supply and demand.

The CHAIRMAN. You have said it would be inspiring and salutary if labor leaders and businessmen would jointly pledge to the President that for 1 year there would be no increase in wages or prices, and that profit margins would be frozen, and if individual self-restraint were exercised in the area of private credit. Practically speaking, how could we achieve this end, and how best could we create the opportunity for such a pledge to be made?

Mr. BARUCH. In the present circumstances, only by voluntary action. If we could not get Congress to adopt effective controls in time of war or enact standby control legislation when war threatened, we cannot expect the Government to assume direct control of the economy now. The need and the opportunity for labor and business to halt the price-wage spiral is clear. The President has already asked for a pledge of such action. The pressure of enlightened public opinion and forceful leadership may help. But in the light of past experience I am not sanguine. As yet, I see no evidence that labor or business is aware of what is required of them.

The CHAIRMAN. What do you think is the major problem the United States must meet if it is to fulfill its real economic potential?

Mr. BARUCH. First and above all else, before the United States can achieve its real economic potential, we must have a secure peace. Until peace is attained, and all the world shares in it, we cannot even know our economic potential. Until we have peace we must remain strong economically and militarily. If we could bring about peaceful conditions in the world and devote all our resources to peaceful pursuits, we could enjoy a rising standard of living and so could the rest of the world.

3. RAPID AMORTIZATION

The CHAIRMAN. I take it you are generally familiar with the so-called policy of rapid amortization, its purposes, and its history. Do you think maladministration of the rapid amortization policy by the Office of Defense Mobilization since the end of the Korean war contributed materially to inflation?

Mr. BARUCH. Yes.

The CHAIRMAN. Do you think it should be repealed completely?

Mr. BARUCH. Rapid amortization should be used only in an unmistakable crisis.

4. EXPENDITURE REDUCTION

The CHAIRMAN. You have testified as to the imprudence of tax reduction and deficit financing at this time. I agree with your views. In effect, does this mean that you advocate a balanced budget?

Mr. BARUCH. A balanced budget is most desirable. It is not always feasible, as in war, but it is an objective we should always keep in mind.

The CHAIRMAN. You said yesterday that we can "come out of this thing"—this recession or whatever it is—if we are willing to sacrifice a little. May we assume that you would include the sacrifice of a little Federal Government largesse, among other things?

Mr. BARUCH. Absolutely.

The CHAIRMAN. In order to avoid deficit financing, do you think there are some nonessential—or even some less essential—Federal expenditures which could be eliminated or reduced?

Mr. BARUCH. In the vast Federal budget there are always items that can be eliminated or reduced. Savings can always be made by prudent management.

Tomes could be written in reply to all these questions. I believe that we can find the answers to them and to the problems that confront us in the lessons of history. As Santayana said, "Those who cannot remember the past are condemned to repeat it." We cannot go on repeating the mistakes of the past.

I should like to reiterate a suggestion I have made: To improve our overall policy planning we ought to create one central "think-body" which would coordinate all the many complex problems into one unified policy. The National Security Council is supposed to do this. Its members, however, are too burdened with other responsibilities to devote their time to thinking through our overall problems. I believe that the National Security Council ought to have the assistance of a group of the most experienced men in the country whose only task would be to think through and advise on overall policies.

I cannot forbear to quote a few paragraphs which I recently wrote which may sum up my views on the present situation: "Most of our economic problems have had their origins in the dislocations of war. Twice in our lifetime we have had to turn our economy inside out to meet the needs of war, and then to go back to peaceful ways.

"In our governmental skills we never really have caught up with the forces and problems unloosed by two world wars. Whatever has been done, more remained to be done. It has been as if we were chasing a train which we never seem able to catch.

"We must look upon the crucial trial we now face as, in essence, a test of our ability to govern ourselves. We do not suffer from any lack of material resources. What we lack is the ability to control and direct these vast productive resources which are ours.

"This test of our ability to govern ourselves is really threefold.

"First, it is a test of values, of what things we will give up in order to make other things secure.

"Second, it is a test of our reasoning powers, of whether we have the wit to think our problems through to an effective solution.

"Third, it is a test of self-discipline, of our ability to stand by our values and see our policies through, whatever the personal cost."

Senator MARTIN. Mr. Chairman, would you yield there?

The CHAIRMAN. I yield to Senator Martin.

Senator MARTIN. Mr. Chairman, as the senior member of the minority party, I want to publicly express to you, sir, your fairness as chairman and your foresightedness in securing before this committee a man of the outstanding ability and patriotism of Mr. Baruch. I sincerely trust that the people of the United States will very carefully read and study the matters he has presented to this committee.

Mr. BARUCH. Thank you very much.

The CHAIRMAN. The hearings will be published promptly because these problems are imminent, and their proper solution is vital.

We thank you again, sir.

Mr. BARUCH. Thank you, Senator, and just one last word. This is a great country still, a great people. Let us use our wisdom. We do not have to fear our enemies. No matter what they will do we will rise up again. It is up to the people themselves. I have no fear of the future if we will just use a part of that sense, 50 percent, just half of it, if we will just use the sense and the experiences we have had.

Thank you.

The CHAIRMAN. Thank you, Mr. Baruch.

The committee is now adjourned.

(Whereupon, at 12:05 p. m. the committee was adjourned.)

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