

STATEMENT OF HAROLD D. SMITH, DIRECTOR OF THE BUDGET,
ON THE FULL EMPLOYMENT BILL (H. R. 2202)
before the
HOUSE COMMITTEE ON EXPENDITURES IN THE EXECUTIVE DEPARTMENTS
SEPTEMBER 25, 1945

Mr. Chairman and Members of the Committee:

I am very glad that I have this opportunity to appear before this committee and to discuss with you some aspects of a piece of legislation that I believe is of historic importance. I address myself to the full employment bill as it is before you in H. R. 2202. Since a full employment bill was first presented for discussion ten months ago by Senators Murray and Truman, I have become more and more convinced of the urgent need for this kind of legislation. And in watching the full employment bill develop and improve as a result of continual discussion in Congress and throughout the country, I have likewise become more and more convinced that the bill, particularly as revised by the Senate Committee on Banking and Currency, can fill this need.

I have discussed details of the issues involved in this legislation in various letters addressed to Chairman Manasco and to Senators Murray and Wagner, and also in my testimony before the Senate subcommittee on full employment. All that material is on record. Today I propose to concentrate on the fundamentals of this bill rather than on the details.

The bill, I believe, can be summarized in two sentences:

1. The bill proposes that the Federal Government acknowledge that it has the responsibility to provide opportunities for full employment through private enterprise with whatever Government support is needed.
2. The bill provides for the legislative and executive mechanism for the formulation of policies designed to assure full employment opportunities.

I

The acknowledgement of the Government's responsibility to assure opportunities for full employment gives statutory expression to a demand that I believe is in the mind of practically every American, and particularly in the mind of every war veteran. It expresses in legislation the declarations of both Presidential candidates in the last election, and it gives the world assurance that we intend to carry out a pledge expressed in the Charter of the United Nations.

We have made tremendous progress in building up our productive capacity, in improving our technical efficiency, and in raising our standard of living. But we have not yet succeeded in overcoming the economic insecurity which has attended that progress. Our history has been checkered with wasteful and destructive slumps of production and employment. In recent history, we have experienced the speculative boom and the subsequent collapse following the first World War. We have seen the New Era prosperity that gave rise to a speculative boom and subsequently deteriorated into the worst depression in our history. We fought and have still to win our battle against wartime inflation. The job before us now is to avoid both the excesses of postwar speculation on one hand, and depression and mass unemployment on the other.

In the past people have accepted the ups and downs in employment and production, much as people in volcanic areas accept periodic earthquakes and expect their government to bring relief after the damage has been done. That attitude has now changed and is gone. The ups and downs in employment and production are no longer regarded as natural catastrophes.

They are recognized as man-made, and the government is held responsible for them. We have learned that when a market exists for the sale of all we can produce, we will produce it. The people will not be satisfied with anything short of full employment in peacetime. We have in this country the resources, the managerial "know-how," the skill and instinct for work. If any one thing is destructive to the pursuit of happiness, it is the frustration that follows from the lack of opportunities to use these gifts and to benefit from them.

There has been much discussion as to whether people have the "right to work," or whether they are "entitled to work," or whether the Government should "guarantee" opportunities to earn a living, or "assure" such opportunities. These are fine distinctions. But one thing is clear: The people of this country hold the Government fully responsible for action or lack of action that fails to assure everybody an opportunity to earn a decent living.

The bill declares that it is the policy of the Government to assure full employment opportunities through private enterprise with whatever support by Government is needed. This also expresses the wishes of the people. They want useful and remunerative jobs without having the Government tell the individual where to work, how to produce, or how to use his money. The people of this country have faith that we can solve our economic problems without Government regimentation.

I believe that the bill, in accepting the Government's responsibility, simply responds to a popular demand.

II

The second objective of the bill is to provide a legislative and administrative mechanism for the formulation of policies designed to assure full employment. I regard this bill as a logical further step in a development that began with the Budget and Accounting Act of 1921. Prior to the Budget and Accounting Act, appropriations for the various Government agencies were considered separately by several committees of Congress. There was no possibility of formulating and reviewing a consistent program for the Federal establishment as a whole. The Budget and Accounting Act gave us such a procedure. At that time Federal budgets amounted to about 5 billion dollars. They will be several times that in the postwar years. Expenditures and revenues of a 25-billion-dollar magnitude, and the management of a 275-billion-dollar debt, must have a profound effect on our economy. Not because of any specific theory or ideology, but simply because of the size of present-day Federal operations, the budget must be considered with all its impact upon the national economy.

The bill before you establishes a procedure for presenting to Congress the Federal budget in its general economic setting. It requires the President to transmit to Congress not only the Federal budget, but also the Nation's budget of which the Federal budget is a part. The Budget and Accounting Act required the President to transmit such estimates and recommendations concerning Government programs as were then held necessary for the work of the appropriations and revenue committees. This bill provides that Congress is to be furnished all the economic data necessary for an adequate appraisal of the President's recommendations for his entire economic and fiscal program.

The bill also requires the President to recommend such legislation pertaining to economic and fiscal policies as will be needed in order to assure full employment opportunities. Elements of fiscal and economic legislation are still discussed and acted upon today in the same way as appropriations were discussed and acted upon before passage of the Budget and Accounting Act. Pieces of legislation too often have to be considered without sufficient regard for the consistency of the Government program as a whole.

A great variety of Government activities and policies influence business and employment conditions every day. I have submitted to the Senate Committee on Banking and Currency a catalogue of activities of the Federal Government—a "tool chest" of Government policies—which directly or indirectly affect the size of the active labor force, productivity, individual consumption, individual and corporate savings, business investments, and foreign trade. Looking over this list you will probably be impressed as much as I am by the fact that the Federal Government has very powerful tools with which it, directly or indirectly, can support employment and production policies—if they are all applied in a well-coordinated manner.

A major objective of this bill is to bring about a better coordination of all Government policies. It requires the President to transmit a coordinated program annually in the National Budget, and establishes a Joint Congressional Committee on the National Budget to consider the program as a whole and to make general recommendations before various parts of it go to the committees concerned. The establishment of a joint committee will, in my judgment, greatly facilitate adoption of a unified legislative program.

Some critics say that no law is needed to authorize the President to transmit estimates of the Nation's budget and recommendations for a coordinated program. They say that the President can transmit and, as a matter of fact, has transmitted estimates of the Nation's budget and policy recommendations under existing power and authority. It is true that recent Presidential budget messages have moved in the direction of the requirements of this bill. This proves, not that the bill is superfluous, but that it is in line with present needs and developments. The appraisals and recommendations required by this bill are of such importance that, in my judgment, they should be transmitted not merely at the discretion of the President, but should become part of his statutory responsibility.

The procedure established by this bill simply provides what is demanded by good government in our time. It assures that a coherent program will be transmitted to Congress based on all pertinent facts and estimates. It gives Congress an opportunity to survey the Government's program in all its economic implications. This, I believe, is just what is needed today.

III

Now that I have stated what I think is, in essence, the content of the bill, let me say briefly what I believe is not in the bill.

First of all, "full employment opportunities" does not mean that the bill assures that there never will be any unemployment. So long as we have progress, there always will be individuals looking for jobs at the same time as employers will be looking for employees. Supply of and demand for labor in particular regions and industries can never balance exactly. We shall have what has been called "frictional" unemployment. The size of that "frictional"

unemployment will be largest in periods of rapid change in agriculture and industry. It will certainly be large in the transition from war to peace. Therefore, a full employment policy does not supersede the need for unemployment benefits or other measures of social security.

Furthermore, the bill does not guarantee specific jobs. Assurance of full employment opportunities neither removes the hazards involved in progress nor the responsibility of the individual to seek the job for which he is best suited. The bill is designed to create conditions under which hazards can be met and to provide a promise for those who strive for their own betterment.

This bill, as I understand it, is not a spending bill. I believe it was the intention of the authors to reach the objective--full employment--with maximum reliance on private enterprise and minimum reliance on Government spending. It is my conviction that a policy designed to prevent depression and unemployment is the best contribution we can make to hold down Government expenditures and the debt burden.

The greatest waste, in social, economic, and financial terms, occurs when depression and unemployment are permitted to develop. It is not necessary that we allow depressions to develop to the point where they throw public as well as private budgets out of gear.

Fiscal policy will be one of our major weapons both in avoiding depressions and in combatting inflation. I believe that fiscal policy, both on the revenue and the expenditure sides, is the most potent weapon we have for influencing markets and employment, especially when we need quick results. It is also the means of action most consistent with free enterprise. Public

finance must be our servant and not our master.

By assuring business that the Government will take whatever steps are needed to prevent a depression, we make the greatest contribution toward supporting the confidence of business in sustained markets, and thereby permit business to make its own greatest contribution for the maintenance of full employment.

This bill does not provide for the detailed administration of the job that has to be done in collecting statistical facts and estimates and in preparing the economic program for the President. It only states that the estimates and recommendations shall be prepared under the direction of the President on the basis of material furnished by the agencies of the Federal Government. I believe that these general provisions are in accord both with the constitutional position of the President and with the requirements of practical administration. It should be left to the President to determine such administrative arrangements as are necessary to discharge this function. I am glad that the revised version of the bill makes it mandatory to consult with industry, agriculture, labor, consumers, State and local governments, and others in the preparation of the statistical estimates and policy recommendations. If we are to have full employment, it must result, indeed, from cooperation of all the people; we must mobilize the best minds in the Nation and create a rallying-point for those concerned with the general welfare.

This bill, finally, does not contain specific programs for full employment. We should frankly face the fact that this bill does not answer the question of what specific Government programs will prevent either inflation or unemployment in any specific period. Neither did the Budget and

Accounting Act say how much money the Government should spend for the Department of Agriculture or for public works. It only provided a mechanism by which such programs could be effectively formulated and enacted. In a similar way, this bill does not say what the Government policies for full employment ought to be in each situation, but it provides a procedure for the formulation of adequate programs at the right time.

Frankly, I can better understand those critics who say there is not enough substance in this bill than those who say that it provides for too much. Still, I think it is wise to refrain from the inclusion of specific Government programs in this legislation. This legislation will stand up over the decades just as the Budget and Accounting Act has done. The framers of the Budget and Accounting Act certainly could not foresee what Government programs would be needed in future years.

We are living in a period of rapid change, and it would be a great mistake now to attempt to freeze the policies by which we seek to attain our objectives. Policies must be formulated on the basis of current data and foreseeable trends. Policy programs must be adapted to changing economic conditions.

We may face inflationary dangers, or we may suffer from a chronic lack of demand for our production. We cannot foresee the course of our international trade and investment beyond a limited period of time. We are not yet aware of the ultimate effects that the technological changes, made during the war, will have on our peacetime production. We may

experience an increase in the productivity of labor that will pose entirely new problems for employment policy. Who can know what the economic implications of the use of atomic energy will be?

This bill does not attempt to solve any of these problems. It recognizes that we need legislation in many fields. We have witnessed undreamed-of human and material destruction. There is a prospect of undreamed-of human progress if we learn to use our material and intellectual resources wisely. There may be a period of frustration, unrest, and new destruction if the Government fails to adopt suitable procedures for its great task.

I support the full employment bill because Congress, by its enactment, assures the people that the Government is aware of its responsibility, and because it provides a sound procedure that will enable the Government to discharge that responsibility. It will help the people to build a sound economic foundation for peaceful progress.