

EXECUTIVE OFFICE OF THE PRESIDENT
COUNCIL OF ECONOMIC ADVISERS
WASHINGTON 25, D. C.

EDWIN G. NOURSE, CHAIRMAN
LEON H. KEYSERLING, VICE CHAIRMAN
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Dear Mr. President:

The materials which we are handing you today as the result of Council and staff work since we were organized on October 14 is in the form of a tentative draft of the President's Economic Report to the Congress. We expect to continue our Council deliberations and the work of our staff as the preparation of your Economic Report goes forward. We shall probably wish to make some changes in the form of our statement or possibly additions or deletions. However, we believe that this work can proceed better after we have had the benefit of your reaction to this tentative draft.

Our findings as to the state of the economy at the present indicate high levels of employment; levels of production that, though high, are not fully commensurate with our productive resources in use; and a situation as to purchasing power which presents serious concern as to the future. Our economy is highly dynamic and in its fluctuations we see maladjustments which may become serious. The two situations which we find most threatening are (a) the relations between wages, prices, and profits, highlighted by the pressing demands for higher wages and (b) the strained labor-management relations which interfere with the use of collective bargaining in good faith as a means of finding peaceful ways of adjusting these relations.

The forecast, so often heard, that a business recession will occur in 1947, is largely based upon the idea that the purchasing power of the mass of the people will be further restricted by rising prices and that before long the consumers will be unable to buy all of the goods produced.

The policy to meet this danger which some people propose would be to encourage the enlargement of the incomes of consumers, already fully employed, by wage advances. We do not recommend this policy. The Council recognizes that many workers have not received increases in wages comparable to those increases obtained in the principal occupations and we believe that their situation must be improved. But for the stability of the economy and for the security of labor it is far more desirable to halt the inflationary spiral than it is to have a general increase in wage rates at this time.

The policy which the Council recommends is to adopt all available policies to restrain further price advances and, where possible, to bring about lowering of prices. Success in this effort would forestall a business recession caused by a collapse in market demand for goods, and it would strike at the very root of the problem responsible for labor unrest and for work stoppages which would seriously interfere with production and employment.

While we propose a modest schedule of Government action, much of it administrative rather than legislative in character, which can be utilized to bring some adjustment of prices, we find that the normal processes of competition do not prevail in many important fields of business and that whether prices are reduced will depend largely upon the deliberate decision of businessmen who realize the importance of halting the price-wage spiral. This leads us to emphasize, as a major item among our recommendations, the intensification of the antitrust drive and the study of legislation to stop the further concentration of economic power.

We see the demand for wage increases, and the resulting labor controversies, as an offshoot of mounting prices. Adjustment of prices will restore better labor-management relations, and we propose as the policy relating to labor disputes generally the establishment of a sound process of collective bargaining outside of Government control, but with Government assistance in mediation and conciliation.

We recognize, however, that in the immediate future labor controversies will not be easily settled and there may arise another emergency in which wilful men on one side or the other may precipitate a national crisis in which the Government must intervene. We propose that the Congress express now the national will that the President shall act in such a contingency.

A third major proposal is that through affirmative and comprehensive legislation the expansion of house building and especially of rental housing be facilitated. While this is a long-range program, its immediate adoption is important because an increase in investment in housing is necessary in order to furnish the additional demand for goods and services which will be needed to maintain full employment and production in 1947, when the final bottlenecks of the reconversion period will have been cleared away.

Our fourth major recommendation is that taxes be maintained at a level and expenditures held down to a level that will provide a budget surplus for debt retirement of at least \$3 to \$5 billion annually during

these years of great business activity. We endorse the continuance of the Government's policy of low interest rates and point out certain issues for the future with reference to debt management.

Our other recommendations relate to long-term programs, most of which you have already approved.

Respectfully yours,

(Chairman)

(Vice-Chairman)

The President,

The White House