February 4, 1949

Nourse dissent p 2

Dear Mr. President:

Having in mind the fact that the great danger in inflation, as you have frequently warned the people, is that it is usually ended by a crisis and business collapse which sounds no alarm, we have carefully considered the situation at the end of January to determine how far it may have changed from that described in our Annual Economic Review of last month and in our letter to you on December 7 last, when we said:

> "Market demand is very strong, despite the appearance of soft spots in some commodities, and costs of production continue to rise slowly. Full employment is establishing high income in the hands of consumers and at the same time is creating a tight labor market in which it is possible for labor to gain wage advances. Business investment has been running at record levels, and high profits supply the incentive for the continued accumulation and use of large capital funds. A budget of around $45 billion will create a Treasury deficit unless taxes are raised.
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> "In the opinion of the Council, the economic situation in the coming months will be inflationary unless action is taken by the government to halt price advances. Price increases might become really threatening if wage increases were large and produced the price reflexes customary in a boom economy, or if the expenditures by the government were expanded greatly. There are differences of opinion as to the strength of the inflationary forces at this time and these lead to some disagreement about the measures to counteract inflation which should now be requested."

In the two past months, divergent price movements have continued. The index of prices of consumers' goods, which we use to measure changes in the cost of living, continued the slow decline from the all-time peak reached last September, when it was more than 70percent above the prewar level. In December it was about 2 percent below the September figure. The fall was due almost entirely to the larger decrease in food prices, which has been following the decline in farm prices as they approach the price support level.

The wholesale prices of goods other than farm and food items have shown notable firmness while farm and food prices have been falling, and in January the indexof wholesale prices of about 700 of these commodities advanced steadily until the end of the month when it again reached the postwar peak level of last September. The difference in the forces at work in the two main commodity divisions is indicated by the following table drawn from the price index of the Bureau of Labor Statistics, showing the percentage changes between the week ending December 28, 1948, and the week ending January 25, 1949:

Farm products	6.3% down
Foods	6.1% down
All other than farm products and foods	0.7% up
Textiles	1.0% down
Fuel and lighting materials	0.4% up
Metals and metal products	2.4% up
Building materials	0.3% up
All other	0.4% up

The recent course of employment is shown in chart C-1 of "The Economy in Operation." Although certain events early in November which upset the expectations of many business managers were said to have disturbed business confidence, business employed 57,414,000 workers in January 1949, which was more than were employed in January 1948 when the business boom was rolling at high speed and employed them at higher wages. The usual seasonal changes in employment after Christmas led to a 720,000 increase in unemployment compared with an increase of 420,000 a year ago, raising the number unemployed in January to 2,664,000.

This increase in unemployment must not be discounted until there is further information about the circumstances under which it has occurred and we can learn whether it is only another example of that increasing return of seasonal influences to the economy which has been noted in many other connections. The figure of unemployment is not large. It was about the same in February a year ago and in several months in 1946, and it was more than twice as large throughout the year 1941, when the labor force was much smaller.

Mr. Nourse believes that there are other facts than those cited above, additional developments not yet reducible to a statistical basis, and questions of business attitudes which lead him to an interpretation materially different from that contained in the remaining paragraphs of this memorandum. In a word, he does not believe there are clear indications that inflationary pressures are increasing or unabated, although developments are conceivable which might renew the process of inflation.

Applying to economic developments in the past two months, the type of analysis which we used in our December 7 report to you, we find that national income and the disposable income of consumers are at new peak levels, creating a great buying power which is being supplemented by growing expenditures of federal, state and local governments. Business investment continues to be large, because capital does not go on sit-down strikes when profits are as lush as they are now. Market demand continues so strong that the wholesale price index for other than farm and food products has been steadily trending upward notwithstanding the contrary performance of farm and food prices. In the case of metals and metal products, where we have found the special inflationary conditions which we have repeatedly called to your attention, the price situation seems to have been becoming worse rather than better. In the second half of 1947 that price index rose 6.7 percent. In the first half of 1948 it rose 4.6 percent. In the last half of 1948 another 9.7 percent rise was poured on top of the preceding ones and the accelerated pace was continued in January 1949.

This is not the performance of a softening economy. The situation is strong, and there will now come into it the demands of labor for wage increases. The reduction in the cost of living would be important if it had proceeded far enough to restore workers to their position a year ago, but it has fallen considerably short of that mark and there is nothing in that situation to pull the eye of labor away from the figures of high business profits which are now being revealed.

This is not the first time since the war when the economy has been in a situation of relative stability, with some prices falling. Wise policies of government might then have damped the latent forces of inflation and afforded our nation the unusual good fortune of resolving a postwar boom into steady prosperity without an intervening depression. Each time, complacency arising from the talk about the inflation being over has met the call for government action, and each time the inflationary movement has been resumed. In our opinion, that will probably happen again if prudent action is not taken to counteract pressures which will be appearing in the near future as wage contracts are negotiated, government expenditures are increasing, and the Treasury surplus is no longer accumulating.

Respectfully submitted,

Edwin G. Nourse, Chairman

Leon H. Keyserling, Vice Chairman

John D. Clark

The President

The White House