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MEMORANDUM

April 17, 1950

To: The President

From: The Council of Economic Advisers

Subject: Quarterly Report on the Economic Situation

In mid-1949, when pessimism threatened the business community, the Council of Economic Advisers maintained its confidence in the fundamental strength of the economic outlook. We recommended against drastic revisions in public policy to counteract the "depression" which some thought was on the way. In January 1950, we found further evidence of this fundamental strength, and foresaw a good business outlook for at least the first half of this year. In each Monthly Report to the President since January, we were not turned away from this appraisal even by such events as serious work stoppages. Instead, we continued to underscore the prevailing elements of strength.

In this Quarterly Report to the President, we reach the conclusion that the prospect for good and even improving economic conditions may now be extended well beyond the middle of the year. This prospect should carry through much more permanently, if the business community accepts in the future as it seems to have accepted in the recent past the confident and aggressive approach which we have urged. The economic "outlook" is made by what our business system does. In the favorable economic climate which now prevails, improved as it is by a wide range of sound governmental policies, we should continue to expect the business community to move still further, at a more stable rate of progress, toward maximum levels of activity.

In its Monthly Report to the President in March, the Council tempered its optimistic outlook until the effect of the recent coal strike was more definitely disclosed. The rapid rebound of industrial production since February has now demonstrated that the coal stoppage caused no serious deterioration of the basic forces of economic activity. At the close of the first quarter, the earlier optimism has not abated. In fact, those who expressed doubt that the upward trend of the economy would continue beyond the middle of the year are now extending the favorable outlook to include the third quarter. Mqny of these persons are now looking even further ahead, and expressing greater confidence that our economy is strong and elastic enough to develop new market demands to compensate for those which may decline. This is accompanied by a strong disposition to re-evaluate some of the market demands which had been classified as "temporary."

The Council always emphasizes this attitude in the business community because, of all the domestic factors which determine the course of the economy, business attitudes are most subject to changes which could have important consequences. The desired expansion of the economy, to solve the disturbing problems of uneumployment and of fiscal imbalance, will occur only if businessmen lift their sights in response to favorable prospects for expanding markets and reasonable profits. These businessmen found the outlook sufficiently promising in the closing months of 1949 to increase new capital investment in the fourth quarter contrasted with the third. Continuing confidence led to considerably larger new capital investment in the first quarter of 1950 than had been planned earlier.

Confidence not based upon reality could turn out to be a snare and a delusion. But we find basis in economic fact for the strong sentiment which has been displayed. More than that, we think that these economic facts justify and therefore call for an even more expansionary attitude on the part of business leadership.

In this Quarterly Report, we shall first set forth the predominant favorable factors which should continue to influence the business community. Then we shall set forth some of the problems which have not yet met with satisfactory solution, and which call for augmented effort by business and by Government. And finally, we shall recapitulate the outstanding policy considerations calling most urgently for attention at this time.

1. Elements of Strength

High total output. In the first quarter of 1950, the total national output of goods and services is estimated at an annual rate of about 258 billion dollars, contrasted with an annual rate of 255 billion in the fourth quarter of last year. This is a near record level, exceeded only during the period running from the second quarter of 1948 through the first quarter of 1949. In fact, when allowances are made for changes in the price level, it is probable that we have almost reached or are about to exceed any previous peacetime record of real output of goods and services.

<u>The industrial comeback</u>. Our economy is predominantly industrial, and therefore the strength shown in this sector is of particular significance.

The recovery of the total index of industrial production, from 161 in July 1949 to 184 in March 1950, regained more than two-thirds of the original decline manifested in the 1949 recession. While improvement was slight <u>during</u> the first quarter of this year, due largely to the coal strike, industrial production during the quarter as a whole was 5 percent higher than in the last quarter of 1949. Moreover, the gain of 4 points in the index from February to March more than overcame the drop of 3 points in the index from January to February.

A further increase of only 6 percent above the March level would be needed to match the record set in October and November 1948. Actually, a complete recovery in the production of nondurable goods was reached in the quarter just closed. The slower recovery in durable goods was due mainly to strikes. The outlook for further progress for the immediate future seems bright, although the prospects are differentiated in the two areas. The production of durable goods should increase substantially, as industrial and commercial construction expand. If equipment buying by railroads is resumed, and if inventories of manufacturers' materials remain stable or are enlarged, progress will be even greater. All of these expansionary movements are now encouraged by the generally favorable environment and sentiment. On the other hand, perhaps the most that can be expected of production of nondurable goods is that it remain close to the current level until increased consumer income enlarges the market demand.

The production of steel and automobiles may be expected to become even stronger during the second quarter of the year, for the output of cars has been limited by the Chrysler strike and the accumulating orders for steel are pressing against the capacity of that industry. The outlook for construction, which is not included in the industrial production index, is also bright. The volume of private nonfarm residential construction rose from an annual rate of 8.1 billion dollars in the first quarter of 1949 to 10.3 billion in the last quarter and to a record-breaking level of 11.5 billion in the first quarter of 1950. Surveys indicate the maintenance or surpassing of these record levels during this year.

<u>Relative price stability</u>. Another factor making for favorable conditions is the relative price stability which has been achieved. That part of the wholesale price index of the Bureau of Labor Statistics which relates to hundreds of products

other than food and farm products reached a postwar peak of 153.9 in the middle of December 1948, and then declined to 145.7 in the middle of June 1949. There have been many diverse movements of prices of these goods since last June, but the index for the entire group has fluctuated within a range of less than 1 percent. The low was 144.7 in November, and the high 145.6 at the end of March 1950.

The course of prices of farm and food products was irregularly downward during 1949, with a moderate recovery in February 1950. The influence of the drop in retail food prices was great enough to overcome the moderate increase in rents and some other items in the cost of living. The consumers' price index fluctuated within a very narrow range until near the end of the year, when it dropped from 168.6 last November to 166.5 in February 1950. In the absence of a change in the economic trend, the course of industrial prices is apt to be slightly upward rather than downward. If there is a further decline in the consumers' price index it will, we may assume, be due to a drop in farm prices. These are now close to support levels where they should stabilize.

Business profits and investments. The decline in corporate profits after taxes began in the fourth quarter of 1948, and reached the low point in the second quarter of 1949. Improvement was substantial in the third quarter of 1949 and since then has been continuous, lifting corporate profits after taxes (according to our estimate) to an annual rate of 18.3 billion dollars in the first quarter of 1950. This contrasts with 17.2 billion for 1949 as a whole, and a low of 15.8 billion for the second quarter of that year. This rate for the first quarter of 1950 is about 3 billion dollars below the level of profits in 1948, but it is less than 5 percent below the level of corporate profits after taxes in 1947, and 32 percent higher than the level of profits in 1946. These comparisons with 1946 and 1947 are important because corporate profits in those years were high enough, in a period of business expansion, to induce corporate managers to enter upon programs of large new investment.

We are again in a period of expanding business, and current profits are so large that we should expect corporate managers to enlarge their programs of new investment. Expenditures for new plant and equipment for the fourth quarter of 1949 were larger than the estimate of the Department of Commerce based upon the reports made to the Department and to the Securities and Exchange Commission concerning investment plans. The volume of anticipated investment in new plant and equipment in the first quarter of 1950 indicated by the surveys made by the Department and by the Commission early in the year was 8 percent larger than the volume indicated by surveys made late in 1949.

Personal income and expenditure. The income of consumers is much the largest element in the market demand which is an absolute requisite to the continuance of production. Estimates of personal income for the first quarter of 1950, prepared in accordance with the principle used by the Department of Commerce, are badly distorted by the inclusion, on a multiplied basis, of the payment to veterans of an insurance dividend of approximately 2 billion dollars. This becomes 8 billion dollars when multipled by four to put it into an "annual rate" figure, and leads to a jump in personal income from an annual rate of 209.3 billion dollars in the fourth quarter of 1949 to the postwar record rate of 218.5 billion dollars in the first quarter of 1950. It leads to an equally deceptive upward swing in the estimate of personal saving.

Nonetheless, more detailed data indicate that the remarkable stability of total personal income during the past two years continues. In the first quarter of this year, there were small increases in wages and salaries, in business and professional income, and in farm income. However, farm income remained substantially lower than a year ago, while nonfarm personal income approximated its previous peak.

Personal consumption expenditures have been consistently high. Contrary to the widespread impression that consumer spending sagged in the autumn of 1948, personal consumption expenditures increased to new high levels in each quarter of that year. There was a drop in the first quarter of 1949, but it amounted to less than $1\frac{1}{4}$ percent, and personal consumption expenditures have been inching up in each quarter since that time, although not enough to stimulate sufficient economic expansion. In view of the decline in prices since 1948, they have represented purchases of larger volumes of goods and services than in that year. The estimate of these expenditures for the first quarter of 1950 is a shade higher than the peak level in 1948.

Employment. The generally high level of employment is another factor of strength.

The estimate of employment in March, made by the Department of Commerce, was based upon a sample survey in the early part of the month soon after the conclusion of the coal strike. The increase in civilian employment amounted to 600,000, accounted for by an increase of 450,000 in agricultural jobs and 150,000 in jobs in nonagricultural industries. Nonagricultural employment was again larger than in the corresponding month of any previous year, although the increase during March, while larger than that during March 1948 and 1949, was less than the increase during March 1947.

Detailed data of employment in different lines of business are not available for March. The preliminary estimates of the Department of Labor for January and February 1950, which exclude workers on strike, do not indicate any increase in the number of workers employed in manufacturing. Employment in the case of nondurable goods was close to the number employed a year ago, but in the case of durable goods was about 600,000 (7 percent) below the number employed in the same months in 1949. Employment in construction, trade, finance and service, transportation and public utilities, and Government in the first two months of the year was close to that of a year ago.

The record in respect to employment in the first months of the year is not of itself satisfying, but it does not suggest any deterioration in the employment situation. It offers the prospect that, with the settlement of labor controversies, there will develop in the months immediately ahead substantial increases in employment.

Fiscal operations. From the viewpoint of the national economy as distinguished from looking solely at the Federal Budget itself, the financial condition of the Government and the immediate fiscal outlook should serve as a stimulating force upon the general economy. Because of the concentration of attention upon the payment of the veterans' insurance dividends during the first quarter of 1950, it is sometimes overlooked that the net financial position of the Government will be definitely stimulating throughout the year. Even with the payment of these dividends, the concentration of tax payments during the first quarter of the year and a lower level of outlays than had been anticipated led to a small Treasury surplus for that quarter. For the remainder of the year, and running on into next year at least, there will be a substantial deficit position. We should strain every effort toward sufficient economic expansion to balance the Budget (both in consequence of higher tax revenues and lower drains upon the public purse). But we must not overlook the fact that the deficit course of public finance over the remainder of this year will in reality help to maintain a total demand for goods and services and workers nearer to the desired "maximum" levels than would otherwise be the case.

2. Problems Not Yet Satisfactorily Solved

Despite the outlook for a high and rewarding level of business activity, and for a continuance of the upward movement in many lines, this alone is not enough. The Employment Act of 1946 has established a goal of "maximum employment, production, and purchasing power." Every dictate of domestic and international policy requires that we steadfastly pursue this goal. We are too far away from this goal now for maximum safety, the outlook for 1950 is that we may not reach this goal at any time within the year, and later on in the year we may in some respects be even further away from it than we are now--particularly with regard to the level of employment and unemployment.

This is not inconsistent with the favorable outlook that we have outlined above, because even when the economy holds its own or progresses, it still has the further task of progressing fast enough to make use of increasing productivity and of a naturally growing labor force. If it does not do this, we are faced with the paradox of rising unemployment even while business indicators are also rising. If this paradox is allowed to continue long enough, its dampening effects upon business psychology and its effects upon the costs of maintaining human and physical resources in idleness when they ought to be employed will endanger continued economic expansion.

Therefore, we must examine carefully the elements in the economic situation which are not so satisfactory as those which have been outlined above.

Increasing unemployment. For a substantial period of time, unemployment has been seriously on the increase. Total civilian unemployment averaged about 2,100,000 in 1948; about 3,400,000 in 1949; and about 4,400,000 thus far in 1950. In 1948, unemployment averaged about 3.3 percent of the labor force; in 1949 about 5.3 percent; and thus far in 1950 about 7 percent. In March 1950, unemployment was 4,123,000 or 6.5 percent of the labor force, contrasted with 3,167,000 or 5.1 percent of the labor force in March 1949. During the first quarter of 1950, unemployment averaged 4,400,000, compared with an average of 3,500,000 during the last quarter of 1949 and an average of 3,100,000 during the first quarter a year ago.

Broadly speaking, the increasing unemployment has resulted from a failure to expand employment to take up the growing labor force. In February 1950, for example, the estimated increase of the total labor force of 170,000 was largely responsible for an indicated increase of 200,000 in the number of unemployed workers. In March 1950, the estimated increase in the labor force was only 18,000, so that a decline of 560,000 in the amount of unemployment resulted from an increase of slightly more than this number in the employment figures.

We may be sure that in the long run in a healthy economy the labor force is going to increase by 500,000 to 750,000 a year. Thus the only way to prevent unemployment from increasing, and to bring it below the current levels--which are too high--would be to get a general expansion of business activity more rapid than is now in existence or in early prospect.

Despite the indicated decline in unemployment in March, 4,100,000 unemployed workers is much higher than the level which we should recognize as representative of the condition of an economy of maximum production and employment, if our estimate of the capacity and elasticity of our economy is correct. In this is to be found the true significance of the present volume of unemployment. It is not an index of the trend of an economy which, as has recently been proved, can expand even while unemployment is increasing. It is the change in the volume of employment to which we should look to determine the economic trend, but a high level of unemployment, whether it be increasing or decreasing, is proof that the objective of the Employment Act has not been reached. It also requires programs for the sustenance of the unemployed, which impose a burden upon normal economic processes and which, if long continued on a large scale, may bring about the economic decline which the volume of unemployment does not now threaten.

Insufficiency of business investment. While the business investment outlook, as we have indicated, is improving when measured against the prospects and estimates of a few months ago, it is not yet expanding toward levels sufficient to take up the unemployment slack. Investment in new plant and equipment declined in 1949, and a further decline in 1950 has been expected. The most recent Commerce-SEC survey indicates that nonagricultural business firms plan to spend 16.1 billion dollars for plant and equipment in 1950, compared with 18.1 billion in 1949. While the strong factors in the economic situation should lead to an upward revision of these estimates, it is possible that plant and equipment expenditures in 1950 will be lower than in 1949. This would not be in accord with the expansionary requirements of our economy, and would permit some increase in unemployment some time during this year and raise even larger problems for the immediately succeeding years.

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Need for enlargement of consumer incomes. The maintenance of consumer incomes and expenditures at extraordinarily high levels has been a factor of strength. Yet there has not been sufficient expansion in this most important of all conditioners of the economy to enlarge the purchases of goods and services sufficiently to prevent unemployment from rising, much less to reduce it to desirable levels.

The insufficient expansion of consumer expenditures to maintain maximum production and employment is now a central problem of our economy. It should not be masked by the fact that these expenditures have remained fairly stable; instead, they must grow if the economy is to grow. And because there has been no reluctance on the part of the masses of consumers to buy when they have the funds to do so, this expansion of consumer buying requires an expansion of consumer incomes. It is true that the rapid growth of consumer credit is being used as a partial substitute for the growth of consumer incomes. But while this consumer credit has not yet furnished too large a proportion of consumers' outlays as measured by prewar experience, it is so large in dollar terms that it will be an especially vulnerable point in the market situation if any untoward incident were to disturb public confidence. Besides, consumer credit cannot continue indefinitely as a substitute for income adjustments.

It is true that, notwithstanding the growth of consumer credit, the increase in personal liquid saving has continued at a satisfactory rate. But the over-all figures on saving should not be allowed to conceal the fact that, while some income groups are saving even more than previously, other income groups constituting a large segment of the buying public are not saving at all or are going into debt. Unless their incomes are increased, they cannot buy as much as they should in an expanding economy.

To achieve on a sound basis the necessary enlargement of consumer income to support larger market demand, we may expect some price decreases in selected areas. But we must rely primarily upon increases in wage and salary incomes. While these should not take place so rapidly as to generate inflation, advancing productivity must be translated more largely than it recently has been into wage and salary increases and other income gains. This is necessary to check the rise in unemployment, and to bring effective demand up to the levels required for maximum production.

The farm situation. Although there has been a recent checking of the alarming decline in farm income which commenced early last year, we have not yet developed those adjustments in production and consumption which are necessary for the continued health of an expanding agriculture and for the broader distribution to the consuming public of the products of our farms. The repeated assertions by the Secretary of Agriculture that "depressions are farm led and farm fed" is not an exaggeration; it is a statement of fact to which ever-increasing attention should be directed. Farm incomes are about 25 percent below their peak; and in our concern over farm prices and the cost of farm price support, we must not overlook the important part played by high farm income in maintaining the economy.

International economic trends. Our exports fell steadily after mid-1949, and by January 1950 were, at an annual rate, 25 percent below the 1949 level, the lowest volume in three years. Imports have been rising since the middle of 1949. The outlook is that the export surplus in the second half of 1950 will be somewhat higher than it has been recently, but will be considerably lower than the export surplus during the second half of 1949, which in turn was only about one-half the export surplus during the first half of 1949. Therefore, we cannot look to this factor to counteract substantially any decline in the level of domestic business investment.

In summary, these items of present or prospective weakness in the situation do not outweigh the items of strength. But our economy is always in delicate balance, and particularly so now. It is essential that the elements of strength be brought to a greater preponderance over the elements of weakness, in order that the present favorable outlook for business may continue and in order that the outlook may be even brighter for the crucial years immediately ahead.

3. Policies to Strengthen the Economic Situation

Wage-price-profit adjustments. The net economic situation now requires an expanding market for goods and services to restore maximum employment, production, and purchasing power and to move toward the goal of a 300 billion dollar economy within five years. While more purchasing power can be created by lower taxes or by higher Government outlays, the fiscal situation now limits the size of efforts along these lines. In addition, our economy is predominantly a private enterprise system, and most of the adjustments must come within that system if our economic health and freedoms are to be preserved.

Some of the expansion of purchasing power can come through price reductions; steel, auto, and some other prices are still too high. Profit margins in these areas and others leave room for price reductions. But generally speaking, the economy must expand through rising levels of wages and other incomes, because a generally falling price level has a depressing effect upon both production and consumption and consequently upon employment.

Despite superficial criticism, the pronouncements by the President and by the Council with respect to sound price and wage and profit policies have had an observable effect upon the economy. They have influenced the course of business action. Even greater results can be obtained, as popular understanding increases The interest in the work under the Employment Act has never been so widespread as it is today, and a larger percentage of the reactions are more favorable than at earlier stages.

We therefore recommend that the President find appropriate occasion from time to time, in addition to his Economic Reports published twice a year, to advocate and urge these further necessary adjustments, and to point out the gains which have resulted from the advice already given insofar as it has been heeded. Further price reductions should be urged in a few selected areas where prices are much too high. While any suggestion relating to wage increases is sometimes misrepresented and misunderstood, it is important to point out, upon appropriate occasion, that the translation of increased productivity into higher wages has been the whole history of American economic progress and advancing standards of living. Unless the benefits of increased productivity are passed on to the consumer by wage and salary increases as well as by other means, the economy cannot move sufficiently forward.

Industry and labor should be encouraged to work together, around the collective bargaining table and in the conference room, to arrive at the wage policies which are in the best interests of the whole economy. These principles cannot be too frequently restated.

In addition, the President can take occasion to point out that those programs of Government which supplement the incomes and purchasing power of low-income families, as well as of the unemployed and the retired, strengthen the whole economy at a time when consumer buying is not expanding rapidly enough to promote maximum production and employment.

The situation is no longer an inflationary one of the kind where restraints upon income gains should be urged to the same degree as in 1948. Barring a sharp change for the worse in the international situation, our problem now is to get sufficient income into the hands of the people to absorb the large increases in productivity which are now taking place and to provide jobs for more workers.

This problem is likely to augment rather than to be reduced during the second half of 1950 and on into 1951. Until the beginning of 1949, we were in an inflationary situation where wage increases followed by price increases merely fed the dangerous spiral. We are now in a profoundly different situation, where the problem is to expand the purchasing power of consumers. In this, wage increases must play a part, and full recognition should be accorded to this fundamental change in the economic situation.

Stimuli to investment, and aid to small business. The desirable level of investment is not being impeded by excessive taxation, much agitation to the contrary. The first requisite to a higher level of business investment is that consumer markets be large enough to sustain it. Primary emphasis should therefore be placed upon the enlargement of these markets through income gains and through price adjustments.

In addition, however, competition must be improved and business expansion generated by the removal of important obstacles in the way of progress by small and independent business. The foremost of these obstacles is inadequacy of capital and difficulty of obtaining it. Consequently, we urge the prompt submission of a strong program to aid small business in the obtaining of funds and in the improvement of facilities for managerial and technical advice.

Agricultural adjustment. In addition to the comprehensive revision of the farm price support policy along lines recently proposed by the President, the Council favors the prompt initiation of an experimental food stamp plan to widen the consumption of farm products and to place more emphasis upon the improved standards of nutrition which are an essential element in an expanding economy with rising standards of living. It is true that such a program will cost some money which will enter into the Federal Budget. But we must firmly recognize that the cost of Government programs cannot be separated from a consideration of the cost of neglecting the problems with which they seek to deal. We have had ample demonstration that each major Federal program, over the years, has justified its cost many times over by its contribution toward a more stable national economy with a rising national income.

Fiscal policy. We do not at this time recommend any variation in the fiscal program which the President presented to the Congress in January. We favor, of course, every true economy in Government operations and every move toward improved efficiency. But there is need for much further public education as to the true economic purpose of the Federal Budget, and its relationship to our whole economic structure. An insufficiently informed public is slowly acquiring the view that Federal outlays are bad *per se*, and that a drastic reduction of these outlays would provide salvation for all our economic problems. This is not true, and we recommend that additional opportunities be sought to advance public understanding of the relationship between the President's budgetary policy and the welfare of the country.

Interest rate policy. We have noted with concern the tendency in some parts of the Government to move toward the encouragement of higher interest rates. In a recent report to the Joint Committee on the Economic Report, which we first discussed with the President, the Council indicated its strong belief in the eminent desirability of a cheap money policy. This serves as a stimulant to business, which is now needed, and even if we should again be faced with inflationary dangers, there are safer ways to counteract these dangers than through higher interest rates. This question is closely associated with the support of Government bonds at not less than par. Every policy of the Treasury, the Federal Reserve Board, and other Governmental agencies should be watched carefully and continuously in terms of this objective of maintaining the salutary effects of a cheap money policy and low interest rates.

Recently, in connection with the housing program, proposals have come forward from some sources to raise the interest rates on certain types of home financing. This would be a most unfortunate development. The revival of residential construction after 1933, and its strength now, rests heavily on the wide variety of Governmental programs which have driven downward the financial charges upon those who buy homes or rent homes. Even at current interest rates, the cost of housing is too high for large masses of the people, and the maintenance and expansion of residential construction is essential for a generally expanding economy. The unsuccessful effort to develop a middle-income housing program at even lower financing costs should be continued until successful. We feel also that, with improved administration and appropriate pressure, some of the housing agencies could achieve somewhat lower interest rates than those now prevailing in connection with some of their programs.

Special programs for spot unemployment. The rise in unemployment has been accompanied by increasing concentration of the unemployment problem in certain areas of the country. In January 1949, there were only 5 major labor market areas classified as having unemployment amounting to 12 percent or more of the labor force. By January 1950, these areas had increased to 13. From January 1949 to January 1950, the number of areas with unemployment ranging between 7 and 12 percent rose from 19 to 50. The three regions where substantial or very large surpluses of labor now prevail are New England, the Middle Atlantic area, and the West.

The Council is now working with other agencies in a more refined analysis of the incidence and causes of these spot unemployment situations, and is working also upon a comprehensive inventory of available projects and devices for dealing with them in the event that they should continue or become even more critical.

International economic adjustments. We face a pressing and looming problem arising out of the dollar gap and out of other aspects of maladjusted international trade. The appointment of Mr. Gray should speed attention to these problems. However, there has been inadequate recognition of the inseparable connection between the condition and resources and problems of our domestic economy and the levels and types of foreign assistance which we undertake. The needs of other countries for aid in their development or redevelopment are limitless. The amount of aid required to bring the underprivileged peoples of the world up to a decent minimum standard of living is beyond the resources of any nation. The aid required to bring certain free peoples to a level of sufficiency where they will be better able to resist the threats or blandishments of dictatorship cannot be exactly measured. But the amount of aid that the United States can and should afford to give can be measured, and it can be measured only by relating the amount and nature of that aid to the structure of our domestic economy.

Any attempt, however comprehensive, to improve or reformulate our international economic policies which does not integrate these policies with the needs and resources and prospects of our domestic economy would be both unrealistic and indefensible.

The Council of Economic Advisers has always proceeded upon the incontestable assumption that, in our continuous study directed toward the maximum health and strength of our domestic economy, we could not possibly neglect the interactions upon that economy of international economic programs in the broad sense. Toward this end, we have continuously engaged in, and recently accentuated our study of, these interrelationships. We have utilized for this purpose a task force bringing various other agencies into cooperation with our work.

Effective utilization of the product of our prior study and securing the maximum benefit from fresh studies undertaken by us and by Mr. Gray will require close liaison between the work of the Council and the investigation and study which Mr. Gray will direct. Arrangements for this collaboration should be made at an early stage of the organization of Mr. Gray's new office, and the Council is prepared to confer with him as soon as he is ready.

Respectfully submitted,

Leon H. Keyserling
Acting Chairman

John D. Clark