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QUARTERLY REPORT ON THE ECONOMIC SITUATION

TO THE PRESIDENT

FROM COUNCIL OF ECONOMIC ADVISERS

APRIL 6, 1951

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MEMORANDUM

To: The President

From: Council of Economic Advisers

Subject: Quarterly Report On the Economic Situation

I. The General Situation

This survey of economic developments during the first quarter of 1951 must carry back to late November 1950, when the outbreak of open warfare with the Chinese forced major revision of the defense program and greatly altered the economic prospect. In preparing its Annual Economic Review, released early in January, the Council of Economic Advisers recognized and described the broad change which had taken place, but we could point to only the first manifestations in actual economic events. It is now possible, after four months of rapidly changing circumstances, more adequately to appraise what has occurred, its economic implications for the future, and the policies which have been developed and applied.

The continuing need for a rounded program

Our general conclusion is that the economic outlook and recommended policies set forth in the Annual Economic Review continue to be basically sound, and that intensive efforts to promote the production program and the stabilization program are urgently required. Yet there is no blinking the fact that the sense of urgency which was pervasive in the first weeks following the China attack has abated under the influence of better news from Korea without new acts of physical aggression by communist states. The shift in public sentiment is reflected in the Congress, where the administration program for the defense period is now jeopardized by the feeling that it may not be necessary to subject the people to such burdens and restraints.

The national leadership is challenged by this shift in public sentiment to make clear that the retarded impact of the defense program upon the civilian economy which has led to a more complacent view may actually have aggravated the situation in some respects. The economic programs can be softened only at the price of real national danger.

The most encouraging aspect of developments thus far has been the general trend of production. The Council has frequently stressed that, in the long run, it is through the build-up of our productive strength that we can best solve now foreseeable problems. Over all, the economy is now probably operating at the highest levels of output ever achieved in peacetime, and it has by no means reached the limit of its current productive strength. The specific expansion programs, now vigorously under way, afford heartening indication that year-by-year our productive strength should mount at a more rapid rate than in normal peacetime. Businessmen, workers, and farmers are acutely aware of the fundamental importance of production, and, in the main, are responding accordingly. To be sure, many production problems remain still to be solved, and these will be touched upon in the policy section of this report.

There is currently no general manpower shortage, and this is in line with earlier appraisals made by the Council that the concern in some quarters about an extremely tight manpower situation in the immediate future was overdrawn. In March 1951, there were 2.1 million persons unemployed, which is still above the level to which unemployment should be reduced in view of the problems confronting us. In the longer run, of course, there will appear much greater general tightness of the labor supply, and currently there are shortages of skilled and semi-skilled workers in some places, particularly metal workers, as well as a real need for more professional workers such as chemists and engineers. It does not now appear that manpower should be the major limiting factor on production in 1951, although lack of certain trained workers may temporarily create some bottlenecks. On the other hand, a vigorous manpower program is certainly essential for the longer pull.

Contrasted with the fair degree of satisfaction about production progress, there has been public concern because a stable economy has not been achieved, especially price stability. It was, of course, not reasonable to expect government policies to achieve sudden success. The forces which had to be dealt with were peculiarly difficult. Increase in federal expenditures for military purchases, and the expansion of defense production, exerted pressure. But more important than either of these was a large element of anticipation of future shortages and future price controls which led to heavy consumer buying, tremendous accumulations of business inventories, and much unnecessary pushing up of prices.

Before the end of the quarter considerable progress had been made toward greater stability. In part this may have been due to a conclusion reached by consumers and businessmen that their speculative activities had been overdone, but even this conclusion was perhaps largely due to active governmental policies, which must be given the principal credit for the progress made.

The economic changes during the first quarter of 1951 afford striking evidence that the economy is moving under the influence of many forces. These are so interwoven that the defense program as a whole is the only single element which can be said to have major responsibility for the dislocations which are compelling the Government to take action to stabilize the economy. A deep cut in the defense program would eliminate the present pressures. But given the program, no one or two lines of pressure, whether of fiscal, monetary, price, or wage character, can be separated and so modified through Government action as to bring about the desired stabilization. The attack must be upon a much broader front.

The effect of fiscal policy

Government fiscal operations during the first quarter exerted powerful anti-inflationary influence, despite the fact that the upward pressure upon prices continued strongly enough to move prices forward even after the imposition of price control. The Treasury entered a surplus position in mid-December which became stronger as the first quarter progressed, and reached a climax in March when the Budget surplus of 4 billion dollars far exceeded that of any month in history. Between December 15 and March 31, Budget receipts exceeded Budget expenditures by 6.8 billion dollars.

Some allowance must be made for the fact that corporations and larger business firms build up reserves for tax purposes during the year, and the whole impact of tax payments does not occur when the payments are made. But when this is taken into account, it is still true that the withdrawal from the buying power of individuals and businesses incident to the tax payments in the first quarter of 1951 was unprecedentedly large. It was also much greater than the rate of withdrawal will be during the remainder of the year, even if the tax proposals of the President are immediately enacted.

The slowing up of the rate of price increases during the quarter was undoubtedly due in part to the large surplus of Government receipts over disbursements. Yet the anti-inflationary effect of the surplus was insufficient, despite its record size, to stop the expansion of demand and the increase of prices. The economic effect of taxes and fiscal policy is not mathematical or mechanical; it is the aggregate of the effects on millions of individual decisions. The effects are not felt exclusively at the time the money is received by the taxing agent. To some extent the effects precede collection, for example, when tax reserves are set up by corporations. Other effects lag behind collection. This is particularly true of corporations, for the dividend and investment policies are not related directly to the current net profit after taxes; the effects of taxes upon these policies are felt months or even years later. There may similarly be a lag in the effect of taxes on the investments of individuals with large incomes. Another factor is that the price increases made in anticipation of price control would not be directly affected by taxation. Still another factor is that the anticipatory purchases by both consumers and businessmen were supported not only by current income but also by past savings and by borrowing. Thus, while a government surplus was reducing spending power, heavy private borrowing was increasing it, although total money supply was reduced on balance.

Fiscal policy remains the most important of the anti-inflationary weapons, but our recent experience should teach us that fiscal policy is not of itself a complete answer to our problem, and what is more important, it should drive home the lesson that the defense program is creating an economic situation in which forces are being generated which are so strong that every weapon not only must be used, but must be used courageously and vigorously.

Moreover, with the recession of the March flood of tax payments, taxation will be a less potent force. Until the final weeks of the year, we will be in a deficit period, interrupted perhaps in June, and less probably in September. Steadily mounting federal expenditures will be turning funds into the spending stream more rapidly than tax payments are withdrawing them, sharply reversing the situation in the first quarter. Fiscal operations will be adding to inflationary pressures, not offsetting them as in recent months. It would have been well if the tax program had been enacted promptly to amplify the offsetting effect of the first quarter surplus. Now that fiscal operations have turned into a positive factor in inflation, the immediate enactment of the program is of vital importance.

<u>The effect of monetary and credit policy</u>

The process which created the large Treasury surplus also operated to reduce the money supply. Much of the argument for more vigorous use of central bank operations to curb inflation is based upon the theory that an increase in prices is due to an increase in the supply of money and that it can be stopped by reducing the money supply.

The privately-held money supply (bank deposits plus currency outside banks) was reduced 1.5 billion dollars in January and 900 million dollars in February. Partial data for March confirm the assumption that the extraordinarily large transfer of bank deposit credit from private to Treasury account resulted in a large reduction in the money supply in that month. But prices rose substantially during those three months. This was not an unusual phenomenon. In the seven half yearly periods between the end of 1946, when the conditions of the free economy were reestablished, and June 1950, which marked the end of that situation, there were only two in which price changes clearly matched the theory of the relation between prices and the money supply.

The increase in bank loans, which has been the subject of much public discussion, affects the money supply, because the normal procedure in making a bank loan is to credit the borrower with a deposit and this adds to the supply of money as we have defined that term. This in itself does nothing to increase demand and raise prices. But bank loans for business purposes or to individuals for consumption purposes flow rapidly into the markets for goods and labor, and those secured for business expansion have a particular dynamic multiplying effect upon the total demand in those markets. It is this flow into the spending stream which gives such loans an inflationary effect.

The concern of the federal monetary authorities over the inflationary effects of increases in bank loans following the Korean attack led to a revision of monetary policies which reached a climax in March.

The plan of the Federal Reserve Board since August has been to use its open market operations to establish a pattern of market prices for Government securities which would induce banks to retain them rather than to sell them in order to add to their reserves. This would limit the ability of the banks to make additional loans. It would also force the Treasury to pay higher rates of interest upon all refunding issues, which are made at a weekly rate of one billion dollars or more in bill refunding, and of several billion dollars when issues of notes or bonds mature. The higher rates would make the issues more attractive to investors. It would also drive down the market price of all outstanding marketable bonds held by the public. Whether the resulting adverse effect on the confidence of the public in the future of Government securities would offset or even more than offset the attraction of higher interest was--and is--a point on which qualified persons disagree. The Federal Reserve Board believed that its proposed plan would assuredly have beneficial results upon inflation, and it discounted this objection as well as the further point that an advance in general interest rates would involve an undesirable increase in costs of production and a retarding of economic expansion.

The first positive action upon its program was taken by the Federal Reserve in August 1950. Immediately after the Treasury announced an issue of 1.25 percent 13-month notes in exchange for several billion dollars of maturing issues, the Federal Reserve began market operations which caused the interest yield on comparable securities to rise. It also dropped its support bid on 91-day bills. After the first two weeks, the market was orderly, but it was no secret that the Federal Reserve wanted lower market prices on short-term Governments, and in the absence of stabilizing bids by the Federal Reserve the market prices moved steadily downward, with corresponding rise in interest yields. The cost to the Treasury of the weekly issue of one billion dollars in 91-day bills has advanced from 1.174 percent in August to 1.507 percent in March, and the interest rate on the most recent issue of 13-month notes was increased to 1.75 percent from the rate of 1.50 percent which had prevailed on earlier issues.

While this was going on bank loans increased steadily, and in the final months of the year, when the short-term interest rate was reaching its highest level, these loans began to expand even more rapidly than in the third quarter. In January, the Federal Reserve increased member bank reserve requirements for demand deposits by two percentage points. Loan increases continued, although at a slower pace. To replace reserves and secure funds to expand loans, the banks and insurance companies sold an increasing volume of Government securities to the Federal Reserve Banks. In the face of this situation, the Federal Reserve moved to abandon the policy of supporting the 2½ percent rate upon long-term Governments, which members of the Board had said in August would be protected. Statements by members of the Board that the policy of stabilizing the long-term rate was responsible for the inability of the Federal Reserve to halt the increase in bank credit gave a clue to the bond market, and the number of sellers grew while buyers disappeared. Support operations, under the circumstances, began to be burdensome, and the Federal Reserve became increasingly aggressive in demanding that the support policy be abandoned.

On March 8, the Federal Reserve finally withdrew its support bids in the market, which immediately suffered a decline which in a short time carried the market prices of several issues of 2½ percent long-term bonds below par. The loss in market value of these issues was from $15 to $20 per $1,000-bond. An interest pattern was established which, unless the market developed unexpected strength, would make it impossible to sell a new issue of 2½ percent long-term bonds.

In the two weeks following the abandonment of the support policy and the destruction of the old pattern of interest rates, the volume of business loans of weekly reporting member banks (accounting for about 70 percent of the assets of member banks) increased five times as rapidly as in the preceding ten weeks.

It is not possible to say whether bank loans would have increased more, or less, if the Federal Reserve system had not embarked on its course of action last summer, but that action clearly did not stop the increase. There seems to be even less reason to rely on Federal Reserve open market operations to hold down business and consumer loans during the period of very large refunding, which starts in June, because funds to make such loans can be readily secured by banks and other holders of governments merely by not subscribing for refunding issues. The harm which may have been done to public confidence by Federal Reserve action cannot be assessed until the refunding operations commence. We fear that it may be considerable. In any event, we think the solution of the problem of expanding bank loans will have to be sought in other directions.

The Council of Economic Advisers, while expressing doubt about the value of general credit control in meeting the great forces of a major inflation, has consistently urged the use of selective credit controls, and has supported the Federal Reserve in its vigorous action along that line. Regulation W, regulating the terms of instalment credit, has stabilized instalment credit. This has been done, it is true, at a very high level, and there has been no noticeable effect in limiting the sales of automobiles below the capacity of the factories. But harsher terms were not advisable during the first quarter when employment in defense industries had not opened jobs to absorb any large number of workers engaged in producing consumers' durable goods.

Regulation X, regulating the terms of mortgage credit for new housing and commercial construction, has made a less impressive record, because it has suffered from the proviso, which could hardly have been omitted, that building arrangements already initiated may be financed upon the earlier and easier terms. This not only left a very large backlog of permitted projects, but it caused a prudent rush to get new construction well along before new conditions might force a tighter regulation. The result was an exceptionally heavy construction program during the winter months, but in March there appeared the first indications that the backlog had been greatly reduced and that Regulation X was beginning to show its effect upon wholly new residential projects. The restraint upon private building which will come from limitations upon the use of materials, and which may become far more stringent than that which comes from credit regulation, has not yet been noticeable in residential construction.

The place of price and wage controls

The inadequacy of fiscal and monetary policies as measures to stabilize the economy compelled resort to direct controls over wages and prices late in January. Uncertainty was inevitable in the first weeks of the price control program, which began with a fairly complete freeze and was then modified as rapidly as possible to establish controls which would be not only flexible to the necessary degree but also tailored to the conditions of separate industries. Confusion obscured the fact that the price control order of January 26 did curb what was becoming a price stampede.

The index of wholesale prices of other than farm products and foods rose from 163.7 in November to 166.6 in December, and to 170.3 in January. In the two months following price control, it rose to 172.3. The wholesale prices of farm products, which were excepted from the control order, and those of foods, which are affected by that exemption, continued to rise rapidly until the middle of February. Since then, wholesale prices of foods have declined slightly and those of farm products, after a decline, have returned to about the February 13 level. It is not possible to say to what extent the stabilization of farm and food wholesale prices was due to the removal of the infection of rapidly advancing prices for other goods.

The bad spot in the price situation, and it is a very bad spot because it affects wages, was the continued rapid advance in consumers' prices. The index of consumers' prices advanced from 176.4 on November 15 to 178.8 on December 15, to 181.5 on January 15, and to 183.8 on February 15. There is little detailed information about retail prices since the middle of February, but price advances, if not halted, have been greatly retarded. The price control order was given an important assist by consumers, who quickly exhibited a change in attitude which discouraged the idea prevailing among merchants in January that price advances would be readily accepted.

There are many vexatious problems of administration of price control which must be solved, but a good deal of headway has been made toward solving them. It is important that it be made as strong as possible, because it will soon be tested far more seriously. It has been operating in a period when all individual incomes have been under the pressure of heavy tax payments. That pressure has now been relaxed somewhat for millions of taxpayers with middle and high incomes. Moreover the prospect is that personal incomes will rise while available goods will at best rise more slowly and more probably will decrease.

The new forces now under way

The forces at work in the domestic economy in the second quarter of 1951 will not be simple projections of trends operating in the first quarter of the year. One of the most important factors, the fiscal situation, will reverse itself, changing from a large surplus to a deficit, and will act to support other inflationary forces, not as a brake upon them. In several other respects, the situation should shift from one of slight change to one of more rapidly growing pressure. The tighter limitations upon the use of steel and other metals in the production of civilian goods which became effective as April opened are precursors of many other restraints which will be necessary as the defense program progresses.

Total personal income, which had increased markedly in almost every month since May 1950, remained at the December level throughout January and February. The wage and salary component of personal income continued to advance at about the fourth quarter rate, however. In view of the elastic factors already introduced into the wage control regulations it is probable that when the controversy over administrative procedures is finally settled and the thousands of wage adjustments which have been held in suspense are carried through, the immediate result will be a temporary acceleration of these income payments.

In January and February, the seasonal decline in employment which normally occurs was slightly less than usual. In March, employment showed a sharp increase of 1.3 million which may indicate that the defense program has begun to put some pressure upon the labor supply. Unemployment which was around 2.5 million in January and February, dropped to 2.1 million in March. The sharp increase in Government orders for manufactured goods and for new construction which began in January should continue the trend of greatly increased demand for labor which the March data indicate, leading to a more than seasonal increase in nonagricultural employment and the labor force. There should also be the usual seasonal increase in the demand for agricultural workers.

The expected increase in employment in the second quarter will be related to an expansion of production. This will not be of a character to reduce inflationary pressure. In the first quarter, the production of durable goods increased substantially, while the increase in the volume of nondurable goods produced was more moderate. The increase in government requisitions applies for the most part to durable goods, and goods purchased by the Government are not available for buying by civilians whose incomes have been increased by wages paid for labor in their production. The growth of inflationary pressure from this source will be progressively more rapid as the tempo of the defense program increases.

Contrary to the usual situation after the holidays, consumer buying in January was very active, resembling the buying surge in July and August following the Korean attack. The change already referred to in the attitude of consumers after the price control order was issued on January 26 steadied retail market demand. Easter shopping did not show new impetus, and at the end of March the trade journals reported that doubts had arisen throughout the mercantile world whether consumer buying would continue at a level which would permit merchants to move their inventories. New orders were being reduced, in some lines to such an extent that manufacturers were reducing shifts. There was talk of "another inventory recession like the one in 1949." Inventories are very large at all levels, and have been financed to a considerable extent by borrowing. If the holders of these inventories, or their bankers, come to believe that the speculative movement based on the defense effort has proceeded too far or too fast, some liquidation may take place, easing the immediate pressure.

Granting that waves of emotion move across the retail markets, affecting both merchants and customers, we see little likelihood that any hesitation which may develop in retail market demand will be long continued. An unexpected shift in the international situation can have almost any kind of effect for a time, but only a major contraction of the defense program could offset the growth in the inflationary forces we have discussed. Up to this time, the defense program has affected the domestic economy through anticipation rather than directly. It has led to expectations of shortages on the part of consumers, and to expectations of boiling retail markets and high profits on the part of merchants and manufacturers. The response of the latter has been to expand orders for goods, to step up manufacturing operations, and to balloon their plans for plant expansion and for new construction.

Now the direct effect of the defense program is beginning to be felt. It was not until early autumn that the expenditures of the armed services, even though they were engaged in a war, exceeded those of the preceding year. In March, the military expenditures were about 90 percent greater than in March 1950. Orders already placed, many of them months ago, assure the expansion of defense expenditures at a rapidly mounting rate. There will be more people at work, probably at longer hours and, during the second quarter, at somewhat higher wage rates. Personal incomes will grow throughout the second quarter, but the supply of civilian goods will hardly increase and may be reduced. Personal income will be buttressed by a store of liquid assets which has been but little reduced.

The economic prospect continues to be dominated by the defense program. If the Nation carries it forward, the inflationary pressures later in the year will be greater, not less. More than ever we need economic policies which are positive, rigorous, and promptly executed.

II. Specific Policy Recommendations

General programming of requirements and supply

At the heart of economic mobilization for defense is the rigorous programming of competing requirements, the matching of these requirements against available supplies, and the ultimate balancing of supply and requirements through production programs and cutbacks and other restraints.

While much progress has been made in this direction, we feel there is still need for acceleration of this progress. This is true not only for reasons of efficiency and order in the narrower sense. It is also true because only this kind of comprehensive and logical setting forth of quantitative objectives and how to attain them can provide both the public and the Congress with the understanding which is essential to basic support.

It would be fallacious to assume, because the defense program and related programs are thus far so much smaller than during World War II, both absolutely and relative to the size of the economy, that programming is needed only in the limited area of military production. On the contrary, in some respects the need for formulation and appraisal of economic objectives is broader than during total war. In total war, the military requirements are so large and so pressing that there can be no answer but to meet them first, and what is left over for other purposes is relatively so restricted that the logic of the distribution of this balance is fairly apparent. Action must be taken, but the objectives are very clear. In the current situation, the balance left over for other purposes after primary defense needs are met is so large that the way in which this balance is distributed becomes of fundamental importance. This is doubly so when we are acting upon the hypothesis of a long, drawn-out effort of many years, which means that we must actively promote an industrial mobilization base strong enough to carry this burden and flexible enough to carry a much heavier burden very quickly if it should become necessary.

To illustrate, if 50 billion dollars is taken out of a 300 billion dollars output for primary defense purposes, the way the other 250 billion dollars is divided between investment and consumption will determine the long-range productive expansion of the economy and consequently will determine whether we become stronger or weaker in the long run. If we use the resources left over by a moderate rather than an all-out military build-up to keep current civilian consumption as high as possible rather than to build up the industrial mobilization base fast enough, we shall have deprived ourselves of the greatest benefit which might be derived from the moderate rather than the all-out size of the primary military build-up. This is why it is so important to have programming based upon an economic strategy, not only for meeting primary military needs, but also for obtaining that general balance among all major competing needs which will give us the greatest strength in the long run. These major competing needs, as the Council has stated on previous occasions, are (1) primary military needs, (2) stockpiling needs, (3) international requirements, (4) industrial and farm production needs, and (5) civilian needs.

Nothing less than a programming operation which encompasses and rationalizes these main competing needs can be adequate to the tasks ahead. This is another way of saying that our military policy, our foreign policy, and our domestic economic policy must constantly be harmonized.

This harmony must be effectuated through action initiating at high rather than at lower levels, because it is essentially a process of "budgeting" resources. For example, this comprehensive programming cannot be achieved simply by asking a variety of agencies to submit what programs they think are desirable, adding these up to a total, and then cutting here and adding on there. Instead, the central programming operation, which is strategic planning in the broadest sense, must provide the initial and basic guides or targets to give perspective to the development of the segmental programs. When this has been done, and only when this has been done, can the experience and facilities of the agencies operating the segmental programs be utilized to achieve further refinement and improvement in the over-all program.

The expansion programs thus far undertaken in various industrial sectors are all to the good. But they are thus far not sufficiently related to and integrated with an over-all programming operation as a basis for evaluating the relative urgency and scope of various particular expansion programs. Some people are now saying that expansion has gone far enough or too far; others are saying that it must go much further. Either conclusion is dangerous as a generality; and the fact that both conclusions are being stated without either being susceptible to proof indicates the lack of a sufficient programming operation.

A practical example of this is in the field of tax amortization concessions to promote expansion. This program is now under an attack which may augment. The Council is inclined to believe that this program, and the actions taken under it, are on balance justified. But it will be hard to set up an adequate or logical defense of these tax amortization programs, and to determine their proper further use, so long as the decisions which prompt them cannot be shown to be related to comprehensive analysis of over-all requirements and supply.

This larger frame of reference is needed also to answer many of the specific challenges which are arising with respect to these expansion programs: Have they been too large or too small? Have they been preferential to large business at the expense of small business? Has the expansion been undertaken in the right localities? Have the concessions to obtain expansion been too liberal? The Council has neither evidence nor belief that any of these criticisms is justified. But they cannot be adequately answered without more information.

The most serious consequence of this lack of adequate information is not that the Government may be subject to improper ciriticism. The most serious consequence is that it might result in the curtailment of vital programs for lack of presentation of adequate justification.

The production policy statement issued not long ago by the Office of Defense Mobilization, after discussion within the National Security Council, is a good beginning. But to be more meaningful, it needs to be supplemented with major quantitative estimates and objectives.

These further quantitative findings include the following types of information: (a) defense requirements, in terms of dollars and materials; (b) feasible levels of aggregate output for the whole economy; (c) a tentative projection of the major programs in which the government is directly and indirectly interested so that it may most effectively serve the five major competing requirements set forth above; and (d) a tentative projection of the distribution of manpower among the major economic sectors. These quantitative materials would serve as a guide both to production policy and control policy. By revealing more clearly what we are trying to do, they would make the choice of tools more informed and effective.

This programming work is largely operational, involving various specialized agencies under the supervision of the Office of Defense Mobilization. Nonetheless, such work should be tied in carefully with the work of the Council--which can provide over-all economic analysis and evaluation, and over-all estimates of growth, production potential, etc. A current illustration of this is the joint work being done by a staff group which includes the Office of Defense Mobilization and the Council to relate a prospective message to the Congress on defense and international matters to the over-all economic framework, the effect of this program upon the domestic economy, what burden our economy can stand, and how it may best be adjusted to this burden.

However, these ad hoc arrangements do not provide a complete substitute for the work initiated last year in connection with NSC 68, which brought the Council, both at the staff level and at the membership level, into an effort to integrate the various major aspects of national policy into a coordinated program. More recently, the Council has not been participatory to this work; and it might be desirable to consider how the Council's work as a general economic staff may be more closely tied in with work on this problem.

Long-range price and wage policy

The action thus far taken to stabilize prices and wages has been admittedly of an improvised character. This has been necessary, but attention must now be turned rapidly toward establishing broader foundations for an effective price and wage stabilization program which will be defensible, sustainable, and adequate to the job confronting us.

The essentials of such a long-range, hold-the-line program are that it deal with industrial prices, wages, and farm prices. Their interactions are such that these three aspects must to a degree be dealt with simultaneously. There can be no effective stabilization in the long run through an approach which maintains that one of the three elements mentioned above must be completely stabilized before either of the other two is touched.

It is true that the "escalator" clauses in wage contracts to adjust for changes in the cost of living will cease to be of much significance when prices and the cost of living are effectively stabilized. But so long as wage increases lead to higher business costs, it is obviously more difficult to stabilize industrial prices. It is also true that, because the parity concept merely relates farm prices to other prices, parity will not go up if other prices are held firm. Nonetheless the parity program, insofar as it has actual effect, presumably exerts upward pressure upon the cost of living, wages, and in turn upon business costs. And as other prices rise, this in turn again pulls the farm price support level upward. The circular relationship among various types of prices and costs makes it futile to ask which is cause and which effect. The plain fact is that anything which helps to pull one type of price higher has an inflationary impact elsewhere.

It is also true that the objective of the farm parity program has roots in a national policy designed to maintain a relationship believed to be fair between farm prices and incomes and other prices and incomes. While there is still a very substantial difference between farm and nonfarm incomes per capita, farm prices as well as farm incomes in the aggregate are now considerably above parity as determined by present legislation. Prices of some farm products and incomes of some groups of farmers, however, are substantially below parity as defined in these terms. But while it is undoubtedly a sound long-range objective to make further progress toward narrowing the gap between farm income and nonfarm income, there is still the question of how inflexibly this objective can be sought during a period like the present without suffering more through augmented inflationary pressures than is gained through improved equity of income distribution. The outlook now is that if the farm parity program should be maintained, the ratio of farm income to nonfarm income will not only be very high by past standards, but indeed may rise above any previous ratio. We are not recommending that farm prices be frozen below the parity level, but it may not be improper to ask that farmers, as part of the program of sacrifice which should be common to all, absorb some of the future price rises which may result from the adjustment of substandard prices and wages.

Consequently, for a long-range program of stabilization to get rolling effectively, the "absorption" principle should be applied not only to industry by requiring that many cost increases be borne without corresponding price increases, but also by applying a comparable principle to the labor and farm segments of the economy along these lines: instead of continuing wage adjustments to take account of the increases in the cost of living, such wage adjustments might be withheld unless and until the cost-of-living index rose by 5 percent above the level pertaining as of the time of the commencement of such an "absorption" policy for wage-earners. This, however, would need to be correlated with legislation permitting a freeze of farm parity, as of a given date, such freeze to apply unless and until the prices of things which farmers buy rose as much as 5 percent. Action along these lines would apply simultaneously to business, agriculture, and labor, a rounded "absorption" plan, which would give the stabilization program a better chance to take hold firmly.

Legislative proposals should now be drafted and perfected along the foregoing lines with respect to farm parity, and consideration should be given regarding how soon these proposals should be submitted to the Congress. When such action is taken, it should be accompanied by a statement that if legislation is enacted to permit application of this "absorption" principle to farm prices, comparable action will be taken with respect to wage stabilization through a similar "absorption" principle.

As a practical matter, however, it is doubtful whether it would be wise to push for modification of the parity formula until further progress has been made to tighten up general price control under existing legislation, and thus further to restrain the current and prospective levels of business profits. So long as the existing price control program is so generously administered, and so long as business profits are so high and still rising, probably no argument will prevail which suggests tampering with a farm program that, even under conditions most favorable to the farmer, does not place the farmer advantageously compared to the business community. Moreover, it is dubious how far a request for legislation to expand available restraints upon farm prices and incomes could proceed until the general price legislation already made available has been used more comprehensively and firmly. Similarly, there is not much practical use in talking about restraints upon the "escalator" clauses in wage contracts until the upward movement of business prices and profits is more vigorously restrained. The firmer use of existing price control legislation will not only make it easier to present a stronger showing that the farm parity program should be modified, and that firmer wage restraints should be issued, but in addition, such firmer use of existing legislation would reduce to more manageable proportions the problems of wage and farm price "escalation" by an improved stabilization of the prices to which this "escalation" is tied.

As the situation now stands, the labor and farm groups can point to recent and prospective trends in nonfarm prices and in business earnings as a basis for united opposition to measures which would place a relatively higher burden on wage earners and farmers.

For the combination of economic and practical reasons set forth above, the Council feels that there should be some further indication of action on the price control and wage stabilization program already initiated before tackling a new range of legislative and administrative problems. The crucial steps which now should be undertaken immediately as a prelude to all else are (1) a tightening of the general price control program now in operation, and (2) the adoption and promulgation of the principles of a fair <u>initial</u> wage stabilization program which the Government has already espoused but has not thus far put fully into effect.

The Council sets forth below its reasoning and conclusions with respect to these two crucial immediate steps.

Immediate price policy

In early January the Council of Economic Advisers, on pages 114-115 of the Annual Economic Review, set forth this objective for general price policy:

"Every argument which was advanced a year ago against increases in the general price level applies with multiple force now. The price level is already much higher than a year ago, and inflationary forces are mounting. Further price increases in general can serve no economic function, and if these increases go much further they will do irreparable damage. There is no proposition of economics on which there is more general agreement than this. Consequently, the imposition of price controls having been initiated, this activity should move forward with speed and decisiveness. It should seek, as rapidly as possible, along with other controls both indirect and direct, to achieve and maintain general price stability."

Today the foregoing statement is even more pertinent than in early January. The firm objective, beginning now, should be to hold the line to prevent the general price level from rising further, and insofar as feasible to push it below the level which existed at the time of the general freeze on January 26.

The conditions for such action are now more favorable than a few months ago. The administrative structure of the price control organization is more adequate. The immediate inflationary pressures seem somewhat abated, thus providing an ideal period in which to act firmly before the next upsurge.

Since it is easier to criticise price control than to administer it, the Council is not critical of the efforts thus far made, which have been great, nor of the results thus far achieved, which have been substantial. Nonetheless, the following suggestions are offered toward further improvement.

(1) While it may be necessary to inform the country that complete price stabilization cannot be achieved over night, published percentage estimates by public officials as to how much further prices will rise during the next few months tend to add to the speculation, hoarding, and uncertainty which have already caused prices to rise more than the fundamental economic situation alone would have caused.

(2) Price control officials should, insofar as feasible, reduce their discussion of the measures other than price control which are essential to stabilization. The impression given is that alibis are being offered instead of action. Of course, these other measures are necessary. But the idea that further progress on price control cannot be achieved unless

other things are done first has been excessively stressed. As each agency charged with a limited segment of the anti-inflationary effort does the best possible job in its own field, we shall come much closer to an effective "over-all" program.

(3) Particularly, the constant assertion that effective price control is hampered by an inadequate program in the field of wages and farm prices has been overstressed. There may well be need for further action in these related fields, and this will be discussed below. But in terms of public psychology and political realism, firmer action on the price control front is a condition precedent to more effective stabilization on the labor or farm front.

(4) The price control program should now move toward relatively less emphasis upon the correction of "inequities," and relatively more emphasis upon holding the line. The first of these two objectives must continue to dictate some changes; but if it should now be given primary weight, prices would remain in a constant state of flux and most price movements would be upward. Enough time has elapsed since the general price freeze to move promptly toward a hold-the-line policy, with some exceptions but not enough to overshadow the general rule.

(5) A hold-the-line price policy requires a much sterner absorption of cost increases instead of translating them into price increases. If inflation is to be stopped, costs must be absorbed at some point or points in the economic process. If the increases in wage costs or materials costs are translated into price increases, which price increases in turn raise the cost of living and the level of farm parity, then there is no point at which effective stabilization can take hold. In view of the current and prospective level of profits after taxes, there is considerable room for cost absorption out of business profits. Moreover, there are efficiency factors which lower some costs and tend to offset the cost increases involved in wage advances. Cost absorption, by its contribution toward holding the general price line, will reduce the significance of the "escalator" features of wage and farm-price policy.

The basic hold-the-line policy should not grant price increases on the base of cost increases unless profits are inadequate to permit absorption. It is recommended that a hold-the-line policy be rigorously adhered to, with a basic standard that price increases will not be granted where profits are as high as 85 percent of those of the three best years between 1946 and 1949. This policy would undoubtedly work undue hardship upon some, but if this hardship becomes sufficiently great, and is sufficiently detrimental to the defense effort, it can be remedied by selective treatment. No system of price controls can avoid the fact that differently positioned firms will be differently affected by whatever is done. To follow a policy of translating cost increases into price increases, on the ground that only thus can the weakest marginal producers be protected, would shortly lead to the highest attainable rather than to the lowest feasible general price level.

(7) The establishment and immediate application of firm standards to hold the price line, based upon the absorption principle set forth above, should now take precedence over the further development of policy governing "exceptions," "adjustments," and "inequities." Otherwise, the tail will swing the dog. However, with primary emphasis on holding the line, attention can be given simultaneously to an improved set of standards for dealing with special cases. These standards need rapid crystallization; thus far, the adjustments have been on too random and irregular a basis to promote full public confidence.

(8) There needs also to be developed a more comprehensive and consistent set of standards relating to rollback policy. Talk about rollbacks, unless accompanied by results, undermines public confidence by failure to perform and distracts proportionately from the main job of holding the line. The emphasis should be on the prevention of price increases, since this is a more realistic and feasible approach than the rollback of prices. Rolling back prices is a much more complicated task than prohibiting further price increases, and it is hardly possible or desirable to apply as rigorous a profit standard in determing rollbacks as in passing upon price increases. There is, however, a strong case for the rollback of prices, where they have risen more than sufficiently to compensate for increased cost.

It is the view of the Council that the quick orientation of price control policy to the foregoing considerations is a very important step to be made toward effective stabilization.

Immediate wage policy

It is a prevalent conception in the public mind that the Government undertook a sound wage stabilization policy late in January, from which it has been driven toward an inflationary wage policy by the pressure of labor groups. This is not in fact the case. The true situation, as appraised by the Council, is that the original "wage freeze" of January 26 needed quick transition into a more flexible wage stabilization policy for the kind of period now confronting us. Although the elements of such a wage stabilization policy are in broad outline fairly clear, such a policy has not yet been put fully into effect.

It is submitted that the basic elements of a sound initial wage stabilization policy were set forth in the January 1951 Economic Report of the President and in the concurrent Annual Economic Review by the Council of Economic Advisers. The essence of this initial policy, as stated, was that wage adjustments would need to be made so long as the Government was not successful in holding the line on the cost of living; that fringe benefits presented a separable problem from wage increases and might even be anti-inflationary if properly managed; and that productivity adjustments should not be set aside until consideration could be given as to whether they might be diverted into savings rather than into the spending stream.

When the Wage Board could not arrive at a wage stabilization policy by January 26, the stabilization authorities then decided to take action on their own initiative. The Council felt that the initial wage stabilization policy above outlined should have been issued instead of the "wage freeze." Later on, when the Wage Board disagreed and dissolved on the issue of Regulation 6, the stabilization authorities were again required to act, and the Council again urged the promulgation of the initial wage stabilization policy as outlined above. Instead, although there was agreement as to the soundness of this policy, it was decided not to issue it except in a fragmentary way, but instead to send back "instructions" to the Wage Board which by that time for all practical purposes had become non-existent.

The Government now finds itself in the incongruous position of not having gone ahead with basic elements of an initial wage stabilization policy, but instead is still wedded to a fragmentary and inconsistent wage policy on the ground that there is not now in existence a functioning Wage Board.

Yet the stabilization officials are not being absolved by the non-existence of such a Board from making decisions on wage policy. Instead, they have been forced to make a number of spot decisions and put them into effect. And since circumstances are forcing them to act, it would seem that they ought to go the whole way and initiate the initial wage stabilization policy referred to above.

Such action would enable the Government to deal more effectively with those wage claims which may go far beyond the bounds of a sound and firm wage policy. As the Government now remains in the ambiguous position of not having whole-heartedly and forthrightly taken full corrective action with regard to the original "wage freeze," the Government remains in an untenable position and will be hampered in its efforts to hold the wage line.

For the foregoing reasons, the Council now urges that the <u>initial</u> wage stabilization policy proposed since January be now put into effect.

The Council also feels that the case for the handling of "disputes" by a representative board is even stronger than the case for the handling of basic wage policy by such a board. Since it is ultimately the responsibility of the Government to define the basic functions of public agencies, we would urge that as soon as possible the Government announce its decision that a wage board should handle both wage and non-wage "disputes." Consultation with various groups has been desirable; but the protraction of such consultation prior to determining the basic functions which the Government must in the end perform would seem questionable if too long extended.

Tax policy

The policy of increasing taxes sufficiently to balance the budget, announced by the President in January, continues to constitute the minimum acceptable program in the present situation. Both the budgetary outlook and the economic outlook lead us to conclude that the 10-billion-dollar tax program recommended by the President on February 2 should be enacted promptly. If at all possible, the higher withholding rates should take effect by July 1, 1951. The new excise tax rates should apply with a minimum delay after the passage of the bill and the corporate tax revisions should be retroactive to the beginning of the calendar year.

In the January 1951 Economic Report and the Budget Message, the President stressed the importance of maintaining a balanced budget and financing the cost of defense on a pay-as-we-go basis. In his tax message of February 2, the President recommended that as rapidly as possible Congress should enact revenue legislation to yield annual additional taxes of at least 10 billion dollars, and later in the year enact the remaining amount needed to keep us on a pay-as-we-go basis. The immediate program included rate increases of corporate and individual income taxes and selected excise taxes together with the closing of certain loopholes.

The Secretary of the Treasury on February 5 elaborated the President's recommendations, testifying as the first witness in tax hearings before the Ways and Means Committee which continued with public hearings through March 16. The hearings were extended to this length in large measure because the two tax laws passed in 1950 had been pushed through hurriedly and it was deemed necessary to have thorough consideration of any further legislation. No sense of urgency was reflected in the actions of the Committee or the statements of its members. The minority members insisted that the whole tax program for 1951 be presented to them before the Committee proceeded to act. This view was accepted by the Committee, which invited the Secretary of the Treasury to appear before it on April 2.

The reluctance of the Committee to take immediate action probably reflected in considerable part a heavy mail reaction from constituents. Objection was raised to further increases of taxes until prices had become stabilized. There was also widespread feeling that expenditures could and should be very greatly cut and that no further tax increase should be made until this had taken place.

The Secretary appeared before the Ways and Means Committee on April 2, at which time he strongly supported the policy of balancing the budget, reviewed the changes in the outlook for revenues and expenditures, urged the prompt passage of the 10-billion-dollar program, and suggested that the determination of further revenue legislation should be postponed until early in 1952.

The revenue and expenditure estimates for the fiscal year 1951, presented by Secretary Snyder to the Ways and Means Committee, show an increase of revenues of 2.7 billion dollars over the January budget estimates and a decrease of expenditures of 2.9 billion dollars below the budget estimates thus indicating a surplus of about 2.9 billion dollars compared with an anticipated deficit of 2.7 billion dollars. These figures would be consistent with an excess of cash receipts over cash disbursements of more than 6 billion dollars as compared with a 200-million-dollar cash surplus in the January budget estimates.

The higher revenues were attributed in large degree to inflationary developments and the lower expenditures through reductions in civilian programs and to slower-than-expected financial settlements on military deliveries.

While some of the sources of increased revenue for the fiscal year 1951 will not be duplicated in fiscal 1952, it is probably that the revenues will be about 3 billion dollars higher than anticipated in the budget. Since the defense program is unfolding somewhat slower than was anticipated, the expenditure level might be lower by an undetermined amount. On the other hand, possible future changes in the defense program and higher prices may well lead to greater than estimated expenditures in the fiscal year 1952. It is clear that short of major changes in the defense program, the budget deficit will be heavy in fiscal 1952. However, the deficit may well be substantially less than the 16.5 billion dollars indicated in the budget submitted in January. It seems unlikely that even the prompt passage of the 10-billion-dollar tax program will produce a balanced budget during fiscal 1952. As the remaining budget deficit would, however, not be very large, prompt action on a 10-billion-dollar tax bill appears preferable to a possibly protracted legislative consideration of a larger tax program which from a fiscal and economic standpoint would be more adequate.

As we have indicated elsewhere in this report, much of the inflation which has been experienced since the start of the Korean War has resulted from speculation and other anticipatory actions on the part of consumers and businessmen. Such action included the building up of unusually large inventories in the hands of consumers and businesses and also the pushing up of prices by producers and other sellers in the expectation of later price controls. Any abatement in inflationary pressure which may now occur may be expected to last only until the actual defense program catches up with the expectations. There is accordingly no reason for the Council to change its earlier position that the future holds strong inflationary pressures and that adequate taxes are a necessary part of an effective stabilization program. Such taxes would preferably be high enough to produce a substantial surplus. Taxes sufficient to balance the budget is a minimum fiscal program from the economic viewpoint. It makes unnecessary the accumulation of additional debt and thereby avoids future inflationary dangers. However, it does not offset all current inflationary pressures.

Strong restrictions on private capital formation, consumption, or both must be achieved by means other than taxation if price stabilization is to be achieved with a budget that is balanced but does not show a surplus.

Strong pressure is being brought to bear by various organized groups to have the Congress adopt very different patterns of tax increases than the pattern recommended by the Secretary of the Treasury. The proposals made by important business, labor, and farm groups reflect sharply divergent views. Only the farm organizations (National Grange and Farm Bureau) express strong support for the major components of the Treasury's program. The labor groups (AF of L, CIO, and the two rival electrical and radio workers unions) endorse the Treasury's corporation tax proposals and suggest that more money (5 billion dollars rather than 3 billion) should be raised from this source. They agree to the 4-billion-dollar revenue goal from the individual income tax, but want little if any of the additional yield from individuals with incomes below $4,000. The labor organizations also favor complete reversal of income splitting to raise 2.5 billion dollars. They are unanimous in their opposition to the excise tax proposals, which account for 3 billion dollars in the Treasury's program.

Business groups generally oppose any further increase in corporate rates, although the CED program includes 1 billion dollars from these taxes. The position of the business groups on individual income taxes varies, with some endorsing the Treasury's proposal for a 4-percentage-point increase and others favoring a moderate flat rate tax on disposable income. With respect to excises, these groups are inclined toward a general sales tax rather than increases in present excises as recommended by the Treasury. The CED program, however, includes both higher rates for existing excises and a new retail tax which would apply primarily to clothing and housefurnishings.

The fact that business and labor groups criticize the Administration tax program, but propose opposite kinds of changes, suggests that it is on middle ground. We believe it to be more satisfactory than any of the programs of its critics for the following reasons.

1. Profits of corporations are continuing at a very high rate and, we believe, can absorb the proposed 55 percent combined normal tax and surtax without impairing either their financial position or incentives to efficient and expanding operation. For this reason, we reject the proposals of business organizations, which range from repealing the excess profits tax to limiting the corporate rate to 50 percent.

2. The manufacturers' excise tax which the NAM proposes and the limited retail sales tax which the CED proposes would introduce the general sales tax into the Federal revenue system. It would be unwise to say that it will never be necessary to make use of general sales taxes for financing the Federal Government. However, these taxes distribute the burden regressively and burden unduly families as compared with single persons.

Sales taxes, by raising prices on cost-of-living items and agricultural cost items, create pressure to increase wages and farm prices. For these reasons, general sales taxes are deemed unacceptable unless they become necessary after the greatest effective use has been made of the personal income tax. The manufacturers' excise is particularly objectionable because of the difficulty of preventing the tax from being pyramided, with the distributors making a profit on the tax.

3. The objections made against the Treasury proposals for increased excise taxes are inevitable since no industry likes to be taxed. However, the commodities have been selected with care. Those on which the heaviest tax increases are proposed are either the commodities of little importance to the family or commodities which are competing with goods needed for the defense effort.

4. The Treasury proposals to close loopholes cover the major items. Proposals such as those of the CIO which contemplate collecting about 5 billion dollars from closing loopholes are not realistic.

Credit and monetary policy

The Council will submit a separate treatment of this subject the first of next week.

The crucial issue of group "representation" or "participation".

The whole defense effort has recently been embarrassed and impeded by sharp controversy regarding the "representation" or "participation" of certain economic groups in that defense effort. It is clearly not within the role of the Council to appraise the responsibility for this difficulty. It is undoubtedly true that those who seek this "representation" seem at times not to be able to define exactly what they seek. This indicates that there is no simple solution to the problem. But it is a problem which transcends personalities, even if some have unfortunately reduced it to personalities. This problem is clearly within the scope of economics. In fact, it is thoughtful and progressive economists who in recent years have designated as one of the most challenging problems of our modern economy to find a basis of accommodation between strong private groups which vitally affect the economy and strong Government which also affects the economy.

The Council in its various annual reports has recurrently identified this problem long before the defense emergency, and even longer before the recent trouble and friction which this problem has generated. And we have pointed up this problem more insistently since the event of the defense emergency. In our December 1950 report on "The Economics of National Defense"(pp. 24-25), we emphasized this point:

> "The vast production effort, which supports the whole economic mobilization, is preponderantly in the hands of businessmen, workers, and farmers. The Government may provide them with some targets, subject them to some controls, and encourage them with some stimuli. But the Government alone cannot spark their initiative, maintain their morale, nor kindle their ingenuity. ... We must adapt the American economic system to the new purposes of a defense program; but we cannot afford to junk the system. The establishment of major targets or goals in a defense emergency is primarily a Government responsibility. There is no other possible location for this responsibility, and it must be exercised. But the development of these targets, or goals should not be undertaken solely by public officials. They should receive help in the formulation of these targets by those who will be called upon to achieve most of them. The goals must be crystallized at the top; but they should not be handed down from the top. ... Decisions must be made by the Government, not by people representing economic groups. But in formulating policies, there should be the fullest possible consultation with representatives of those who not only will be affected by them, but who also will have to carry out many of them and support all of them."

The Economic Report of the President in January 1951 (pp. 7-8) had this to say:

"A defense emergency requires far more planning than is customary or desirable in normal peacetime. ... In these critical times, it is recognized that Government must exercise leadership in this planning ... but the Government cannot develop these basic plans alone. The necessary experience and know-how are to be found throughout our whole economic system. Through constant consultation, these talents should be drawn into the whole planning effort. After the basic economic plans are outlined, most of them will have to be carried out by businessmen, workers, and farmers. They will be able to carry out these plans better, if they have had a chance to participate in creating them from the start."

The Council feels that the issue of "representation" or "participation" is not trivial or secondary. It is vital to the public support of a great defense effort which must be conducted and sustained without the electrifying effect of total war. It follows that the creation of effective machinery to fulfill this requirement should not be regarded as something which can be satisfied by mere pro forma arrangements. It is not enough to set up formal machinery embodying the idea; the machinery must be made to work, and work well.

The establishment by the President of a 17-man board advisory committee should be regarded as a very significant step forward in this direction. All experience has indicated that the success of this arrangement will depend largely upon the content of the meetings which will proceed from this arrangement. If these meetings were not to be serviced by adequate staffing and carefully prepared agenda, they could soon lead to random and disconnected complaints from each of the members, leading ultimately to a sense of futility and dissatisfaction. But with adequate staffing and planning, the newly-created instrument can be made sharp enough to cut through many of the current dissatisfactions and vexations.

From the composition of the group which has been formed, it is clear that many, if not most, of the problems in which they will be interested will be economic in character. The group will also be concerned, but probably in a secondary sense, with foreign policy.

It would seem, under these circumstances, that the group should be serviced, for the purpose of collecting information, etc., by a small staff drawn from those agencies within the Executive Office which are most deeply immersed in the problems that will be concerning the group. It would seem, by way of example, that this staff might contain representatives of the President's immediate staff, the Office of Defense Mobilization, the Council of Economic Advisers, and Mr. Harriman's office -- for the reasons just stated.

But while a staff of this kind may gather information and help to develop agenda, it cannot itself bring before the group at its regular meetings those matters which will engage their attention and enlist their interest. If such a function is to be performed, it would need to be performed by higher level representatives of the agencies dealing with these matters. For example, consideration should be given to having the group briefed from time to time by those who can speak with some authority about the military situation, the mobilization situation, the general economic situation, and the philosophy underlying our conduct of international affairs. This would enlist the interest of the group in concrete, affirmative materials, instead of a situation where the group might become a forum for the airing of trivial "gripes". Perhaps consideration should be given to having a few of the top-level officials in these fields within the Executive Office sitting in with the group on a more or less regular basis, of course not as members of the 17-man committee, but rather as assistants of the President, made available by him as a part of his program of working effectively with the group.

The Council recognized that this may not be the correct approach to this problem. We suggest it merely as a starting point for consideration of a problem which is indeed of great importance.

III Details of Economic Trends

Employment

During January and February, there were no significant changes in the labor force and employment. The March figures, however, indicate that the long anticipated expansion of the labor force in response to the pressures of the defense effort may be underway, although it is not possible to predict the beginning of a trend from one month's figures.

The civilian labor force dropped seasonally from the December high of 62.5 million to 61.3 million in February. In March, there was a sudden expansion of 1.0 million, which brought the civilian labor force to a level of 62.3 million workers. Employment followed the same pattern, with nonagricultural employment dropping from December's 54.1 million to 53.0 million in February, and then shooting up to 53.8 million in March. The increase in nonagricultural employment was chiefly in factory employment. Agricultural employment followed its usual seasonal pattern throughout the period. Unemployment rose seasonally from the December level of 2.2 million workers to 2.5 million in January and 2.4 million in February; then it dropped seasonally to 2.1 million in March, or 3.4 percent of the civilian labor force.

The increases in the labor force and in employment may be given greater emphasis because the data indicate that the March expansion was due to the entrance into the labor force of additional adults (rather than teen agers), including about 300,000 housewives. The female labor force is presently about 1.2 million above March of 1950; the annual expected increase under normal conditions would have been approximately 300,000 to 400,000 women.

The Bureau of Labor Statistics' report on nonagricultural employment in selected industries shows little significant change for January and February (March data are not yet available), except for the steady increase in durable goods industries which was resumed in February after the January lull. Employment in durable goods manufacturing is now about 875,000 above the June 1950 level, with the most important gains having occurred in machinery and in transportation equipment, chiefly aircraft. In nondurable goods manufacturing, there has been an increase of over 350,000 workers over the same period. Federal Government employment has also shown a substantial increase as defense agencies have hired staff.

While the defense effort is making its impact felt, there have as yet been no signs of a general manpower shortage. This emphasizes the fact that, to date, defense production is still of minor importance compared with civilian goods production. The Bureau of Employment Security's survey of labor market conditions in 151 major labor market areas indicates that the number of tight or balanced labor supply areas declined from 55 to 38 areas between November and January (March data are not available). There have, however, been shortages of skilled professional, and technical workers in a number of areas.

Production

Total production of goods and services (measured by gross national product in constant prices) increased by more than 1 percent from the fourth quarter of 1950 to the first quarter of 1951, raising output to within 1 percent of the peak reached for the year 1944. This increase contrasts with a rise of about 5 percent from the third to fourth quarter of 1950.

Industrial production increased by about 3 percent between the fourth quarter of 1950 and the first quarter of this year. A preliminary estimate for March places the index at 223 (1935-39 = 100), a postwar record. As in the case of total production, the quarterly gain was less than that occurring between the last two quarters of 1950. Such a slackening in the rate of increase is to be expected as many industries hit capacity levels of operation, as sectors shift to defense production, and as material shortages begin to arise.

Increased production of durable goods in the first quarter continued to be the most important factor in the rising industrial output. Total nondurable goods production declined temporarily in February because of the strike in the wool textile industry, but there were significant increases in cotton textiles and paper, so that the average output of nondurables for the quarter was about 2 percent above the last quarter of 1950. Minerals production remained at about the fourth quarter level.

Among the durable goods industries, machinery production rose sharply in February. With incoming orders for machine tools at their highest level since mid-1942, it is to be expected that machinery production will continue to spurt. Aircraft equipment production continued its brisk and steady increase, with the average for the first two months of the year about 20 percent above the fourth quarter. Output of railroad equipment showed no significant change. The production goal of 10,000 freight cars a month set by the National Production Authority is not expected to be reached for several months, since the current rate of production is about 6,000 cars. The backlog of orders for freight cars was at an all-time high on February 1.

Iron and steel production was adversely affected in February by the work stoppage of railroad switchmen, but the high rates of output before and after the strike raised total production in this industry to record levels for the quarter. Activity in private shipyards also rose.

Production of consumers' durable goods has not suffered significantly from the step-up of defense activity. The higher rate of output of automobiles during the last two weeks of February and in March reflected the return to full-scale assembly after model change-overs were completed, and the resumption of railroad operations. In general, January output of such consumer durables as refrigerators, washing machines, radios, and television sets was considerably higher than last January, although below the highest rates in 1950.

Minerals production in the early part of this year remained about the same as in the fourth quarter of 1950. There was a drop in the output of bituminous coal during February. Crude petroleum output increased, with weekly production at an all-time high in the last week in January. Production quotas in the Texas fields have been raised and it can be expected that output will continue to increase.

With the increased tempo of industrial activity, demand for electric energy rose. Electric power output was at a record level in the first quarter of this year. Power needs will continue to grow with the general industrial expansion.

Present indications are that 366 million acres of agricultural crops will be planted this year, about 8 million more than last year. The intended plantings of feed grains fall considerably short of the guides, indicating needed acreage. Some increase in the production of food grains is indicated.

Prices

Wholesale prices. The first quarter of 1951 was marked by a drastic change in pace of the rate of price advances. The quarter opened on a flood-tide of price rises, continuing the acceleration which followed the Chinese intervention in late November. These price increases were also further stimulated by the expectation of price controls. In sharp contrast have been the price movements since the middle of February. The all-commodity price index moved very little, and in the area of sensitive prices there were some declines. Some of the factors accounting for this change in behavior were: the issuance in late January by the Office of Price Stabilization of a price freeze affecting most commodities, some abatement of speculative furor as international tension eased, and the high level of inventories of consumer goods.

During the first quarter, (through March 27), wholesale prices advanced 4.5 percent, two thirds of which took place prior to the issuance of the General Ceiling Price Regulation. (See table 1.) Since the middle of February wholesale prices have moved very little, advances in industrial prices being mostly offset by declines in wholesale food prices. Of particular interest is the movement in sensitive prices, which rose about 6 percent to the middle of February but since then have declined about 3 percent primarily because of declines in the grains as well as in tin. These declines were not caused by the freeze order.

Table 1. Changes in Wholesale Prices in First Quarter of 1951

Commodity	Percentage change			
	End of 1950 to week ended March 27, 1951	End of 1950 to General Freeze 1/	From General Freeze to week ended March 27	From week ended February 13 to March 27
All commodities	4.5	2.8	1.7	0.3
Farm products	6.9	3.4	3.4	.2
Foods	3.3	2.1	1.1	-1.5
Other than farm products and foods	3.9	2.5	1.4	.9
Textiles	8.1	5.6	2.3	1.8
Fuel and lighting	2.2	.1	2.1	1.1
Metals and metal products	2.8	2.5	.3	.3
Building materials	2.6	1.5	1.0	.4
Chemicals and products	4.1	3.6	.4	-1.2
Special groups:				
Grain	2.0	2.7	-.7	-3.7
Livestock	12.1	5.3	6.5	.9
Meats	7.2	3.4	3.7	-.8
Petroleum and products	1.0	.2	.7	.7

1/ Week ended January 30.

Source: Bureau of Labor Statistics (Weekly Index)

Industrial prices are the group most completely affected by the general freeze. In this area, the effect of controls has been to slow up the price advance considerably (see table 1), but not to stop it completely. In part this has been due to some permitted price increases as in the case of coal and automobiles. In part also, it has been due to the fact that controls froze prices at what were essentially the highest prices in the period December 19-January 25, while the general average was below these levels in many cases. Hence, the general average has been moving up to the ceiling prices. In some cases also, there may be violations.

The farm and food area has been only partly affected by the freeze. Most of the important farm prices were left uncontrolled, either because specific controls had to be worked out for commodities like livestock, the next levels for which were controlled, i.e., meats; or because they were below parity as in the case of the grains. Farm prices continued to move up until mid-February at about the same rate as before the freeze was imposed. Since then, as a result of the easing of international pressure, there has been little overall change; there has been some decline in grain prices. In addition there has been some decline since mid-February in wholesale food prices. Meat prices have fallen somewhat, as the previously sharp rise encountered some consumer resistance; and there have been sharp gyrations in the prices of fresh fruits and vegetables.

Consumers' prices. Consumers' prices during the first two months of 1951 continued the rapid advance that began last fall. The increase since December has been 2.8 percent compared with 5.1 percent in the six months of 1950. Thus, the increase thus far in 1951 has been more rapid than in the last half of 1950.

As table 2 shows, the largest increase in 1951 has been in food prices, which have advanced in two months almost as much as in the second half of 1950. Preliminary reports indicate that between February 15 and March 15, however, there was a small decline in retail food prices. In the main, most other components have been advancing at about the same rate as in the last half of 1950, except apparel, where the increase has been at a faster rate.

Table 2. Changes in Consumer Prices Since June 1950

Item	Percentage change	
	June - December 1950	December 1950 - February 1951
All Items	5.1	2.8
Food	6.5	4.5
Apparel	5.9	3.3
Rent	1.5	.8
Fuel, etc.	2.7	.8
Housefurnishings	10.0	3.2
Miscellaneous	3.9	1.6

Source: Bureau of Labor Statistics

It is, however, too soon to say that price control has had little effect on the cost of living. The retail price level probably rose little between the date of the freeze and February 15. While it is to be expected that some further rise in retail prices will occur, since part of the index is uncontrolled, and some prices will be permitted to rise, it also seems reasonable to assume that the rate of advance of the index will slow up considerably for the next several months. In part, this will be because many retail prices are under control; in part, because seasonal factors should be operating to lower prices, as in the case of fresh fruits and vegetables, and eggs; in part, because heavy inventories in the hands of retailers will exert some downward pressure on prices; and, finally, because meats which traditionally rise in the spring are under control. In the case of meats, however, effective regulations and enforcement will be necessary to insure control.

Wages

Few wage increases have been reported since the wage freeze of January 26, although there have been some settlements calling for wage increases which were made subject to approval by the Wage Stabilization Board. Some groups, notably the automobile workers, received a cost-of-living increase March 1 amounting to 5 cents an hour, as a result of the operation of escalator clauses in contract agreements.

While total wages and salaries showed some upward movement during the first quarter of 1951, the rate of increase was about the same as during the previous quarter.

Gross hourly earnings of factory workers increased only slightly in January and February. Gross weekly earnings declined slightly in January due to a reduction in the length of the work week, but in February average weekly earnings increased slightly over January, to a level of $64.08. The work week in manufacturing showed no change in February over January.

All of the increase in the weekly earnings of factory workers took place in durable goods industries. Hours worked also increased slightly. In the nondurable goods segment, the work week and average earnings both showed slight declines in February compared with January.

Gross weekly earnings in manufacturing in terms of 1950 prices declined slightly during the first two months of 1951 compared with the level prevailing at the close of 1950.

Profits

While no firm profits estimate is as yet available for the first quarter of 1951, it is clear that profits continued at least at the record levels which marked the latter part of 1950. During 1950, under the impetus of rising prices and sales, profits before taxes rose from an annual rate of 27.6 billion dollars in the fourth quarter of 1949 to the all-time high annual rate of 46.4 billion dollars in the third quarter of 1950. Since then, with prices and sales much higher, it is reasonable to assume that the upward trend in profits has continued.

Money and credit

The almost uninterrupted climb of major types of private credit outstanding, and of the money supply, during the second half of 1950 was followed during the first months of 1951 by changes in widely divergent directions. Loans of commercial banks, paced by a contra-seasonal increase in business loans, continued to expand. Commercial, industrial, and agricultural loans of member banks in larger cities increased 1.4 billion dollars or 7.6 percent, between December 27, 1950, and March 28. During the comparable period a year earlier, business loans of these banks dropped slightly. Though inventory loans accounted for most of the growth of business loans during the second half of 1950, with loans for defense a negligible factor, there is evidence that in 1951 defense loans have become a progressively higher precent of new credits. Total loans of large-city member banks, including (in addition to business loans) real estate, consumer and securities loans, many of which are subject to selective credit controls, rose 1.2 billion dollars, or 3.9 percent, between December 27, 1950, and March 28, compared with a rise of 0.4 percent during the comparable weeks of the previous year.

Though business loans of banks continued to increase, total consumer credit outstanding dropped 569 million dollars, or 2.8 percent, during January and February, 1951. Instalment credit, which had soared 10 percent during the third quarter of 1950 and had been held to a net rise of less than 1 percent during the fourth quarter, dropped about 390 million, or nearly 3 percent, during the first two months of 1951. There had been almost no change in instalment credit during January and February, 1950. The instalment credit regulations first imposed in September 1950 and tightened in October were primarily responsible for the marked reversal of the movement of this form of credit. The regulations received help, of course, from the inevitable slowing down of the rush for durables that reached its peak in the third quarter, and also, especially during latter months, from shortages or slow deliveries of some kinds of consumer durables.

The privately-held money supply (deposits adjusted and currency), which had expanded 7.2 billion dollars, or 4.2 percent, during the second half of 1950, dropped about 2.4 billion, or 1.4 percent, during January and February, 1951. The decline during the first two months of 1950 was 1.6 billion, or less than 1 percent. The sharp decline was the result, in part, of transfers of privately-held balances to the Treasury's deposits as tax and other Government receipts exceeded cash disbursements--a factor much more important during February than January. Gold exports were also a factor, as were decreased holdings of Government securities by all banks, including commercial banks and the Federal Reserve system. Though the increase in bank loans during January and February added to the volume of deposit money, the effect of loan expansion was far more than offset by the deposit-shrinking operations described above.

Gross national product

The gross national product increased by 16 billion dollars (seasonally adjusted annual rate), or about 5 percent, to a level of 316 billion dollars in the first quarter of this year. About one-fourth of this increase from the fourth quarter reflected increase in real output the rest being due to price rises. The rate of increase in real output was less than that between the third and fourth quarters of 1950, as shown in table 3.

Table 3. Gross National Product

Period	Billions of dollars, seasonally adjusted annual rates		Percentage change from previous quarter for GNP in 1950 prices
	Current prices	1950 prices	
1950: First quarter	263.3	270.0	4.2
Second quarter	271.6	276.8	2.5
Third quarter	283.9	279.8	1.1
Fourth quarter	300.3	292.9	4.7
1951: First quarter	316.0	296.7	1.3

Personal income, consumption expenditures, and saving

Preliminary estimates show an advance of 7 billion dollars (seasonally adjusted annual rate) in personal income from the fourth quarter of 1950 to the first quarter of 1951. This was somewhat below that of the two previous quarters. Private wages and salaries gained at the rate of about 4½ billion dollars. Since employment and hours (seasonally adjusted) rose slightly, if at all, the gain was mostly due to wage rate increases. Business and professional income rose at a rate of almost 2 billion dollars between the fourth quarter of 1950 and the first quarter of 1951, owing to a renewed wave of buying of durable goods and higher price levels. Farm income rose very sharply, due mainly to price increases. Dividend disbursements dropped back to a rate of 8.8 billion dollars in the first quarter of this year, after a flurry of year-end disbursements had brought the fourth quarter rate to 11.2 billion.

The first quarter rise in personal tax collections of 2½ billion dollars nullified some of the inflationary effects of the 7 billion dollar rise in personal income. Although withholding rates were advanced on October 1, 1950, the full impact of increased taxes enacted in 1950 was not felt until the first quarter of this year.

According to early reports, consumer durable spending took a sharp upturn in the first quarter, bringing expenditures back up from the fourth quarter annual rate of 30 billion dollars to the third quarter level of 34 billion dollars. The 5 billion dollar estimated increase in expenditures for nondurable goods was almost entirely due to price increases. This continued the 1950 pattern of rising prices, accompanied by a level volume of real consumption of food and other nondurables.

The rate of personal saving declined from 15.8 billion in the fourth quarter of 1950 (which was very high compared to the previous two quarters) to 10.2 billion in the first quarter of 1951. The high dividend rate in the fourth quarter tended to raise saving artificially high in that period.

Business investment and finance

Plant and equipment. Nonfarm business expenditures for new plant and equipment in the first quarter of 1951 were far above any previous first quarter level. After allowance for normal seasonal variation, they reflected a continuance of the rapid rise of such outlays that began in early 1950.

The largest increases in investment between the first quarter of 1950 and the first quarter of 1951 were in the fields of nonrailroad transport (88 percent) and manufacturing (76 percent). Railroads were up 57 percent, electric and gas utility outlays 28 percent, mining companies 27 percent, and commercial and miscellaneous 23 percent.

The investment plans of business for the remainder of this year, as reported to the Securities and Exchange Commission and the Department of Commerce between mid-January and mid-March, entailed still further increases in every major industry group. If these plans are carried out---which may be subject to question, in the light of increasingly stringent materials shortages and controls---the outlays for 1951 as a whole would exceed those of 1950 by nearly 30 percent. A recent private survey bears out the indication that even larger increases are planned in the industrial and transportation fields, and also indicates that the contemplated 1951 outlays for new manufacturing facilities are designed to expand overall manufacturing capacity by 9 percent.

Although special assistance and incentives will be required to secure the capacity expansions called for by the defense program in some specific types of facilities, the overall volume of business investment attempted in coming months represents an excessive and inflationary demand upon available resources.

Nonfarm inventories. In the last three months of 1950, nonfarm business inventories accumulated at the highest quarterly rate on record: 11.0 billion dollars, annual rate, seasonally adjusted. The pace was not maintained in the first quarter of this year; preliminary estimates indicate that business book values increased at a seasonally adjusted annual rate of 7.8 billion dollars, making this the only category of gross private domestic investment which declined between the two quarters. With the exception of the preceding quarter, this still would indicate the highest quarterly rate of inventory growth in the postwar period. It should be noted, however, that about two-thirds of the inventory build-up estimated for the first quarter reflects higher prices. In January, business inventories jumped very sharply by an amount, seasonally adjusted, of 2.0 billion dollars, about one-half of the increase being due to price changes. The rate of price rise in February was more moderate, and the adjusted increase in value of inventories in that month was 1.0 billion dollars.

In January, for the first time in several months, retailers bought considerably faster than they sold, despite rising sales, with the result that retail inventory book values, seasonally adjusted, advanced 700 million dollars. This increase in retail inventories was significantly larger than the increases at the wholesale and manufacturing levels, and was primarily in nondurable lines, while at the manufacturing and wholesale levels durable and nondurable inventories grew at about equal rates.

In February, retail sales of durables fell off from the very high January level, with resultant accumulation of durable as well as nondurable stocks. Reports now available on February accumulation of manufacturers' inventories indicate a much more rapid increase of durable than nondurable stocks. The apparel, leather, and petroleum industries reduced their inventories; total nondurable manufacturing book values increased 100 million dollars, while durable stocks were up 400 million dollars. The February increase in total business inventories was only about half that of January. Manufacturers' inventories were up about 500 million dollars, wholesale inventories about 200 million dollars, and retail stocks about 400 million dollars.

<u>Construction</u>. Total new construction for the first quarter of 1951 reached an estimated level of 30.4 billion dollars on a seasonally adjusted annual rate basis. This compares with 29.6 billion dollars for the last quarter of 1950, and 25.6 billion dollars for the first quarter of that year.

The increase in construction costs this quarter over last has probably been about 3 or 4 percent, which would mean that the volume of real construction has remained the same or even decreased slightly during this period.

Since first quarter of 1950, construction costs have risen about 12 percent, with lumber and plumbing and heating supplies showing especially large increases.

The shifts in total private and total public construction were much the same, comparing first quarter of 1951 with both fourth and first quarters of 1950. There was in both categories a slight increase in this quarter over last, and about a 20 percent increase in this quarter over a year ago.

Neither credit controls nor limited supplies of materials has led so far to an absolute cut back in the dollar value of total private or public construction. The general rate of increase, however, has been slowed down markedly.

The value of private nonfarm residential construction, as seasonally adjusted, for the first quarter of 1951 is estimated to be about the same as for the fourth quarter of 1950; 15 percent higher than the first quarter of 1950; and within about 5 percent of the peak reached in the third quarter of last year. Starts in the first quarter of 1951, however, are expected to be slightly under the first quarter a year ago, when nearly 280,000 units were started. Applications for FHA and VA housing loans have been running only about half of what they were prior to the October regulations. The stricter housing credit regulations should begin to take much more substantial effect beginning in the second quarter of 1951, and indeed this trend was becoming evident in March. It is an open question as to whether the present credit regulations will be sufficient to hold starts to the 800,000-850,000 objective.

Significant increases beginning especially in the last part of 1950 have occurred each month in private industrial construction, reflecting the first phases of the defense expansion. For the first quarter of 1951, the value of new construction in this category exceeded the fourth quarter of 1950 by slightly more than one-fifth, and was nearly double that of the first quarter a year ago. Only a few minor types of private construction fell off, on a seasonally adjusted basis, from the last quarter of last year to the first quarter of this year.

The most spectacular increase in public construction occurred in the military and naval category, with a rise of 52 percent in the first quarter of 1951 over the last quarter of 1950. However, the absolute amount, on an annual basis, was only about 150 million dollars. The rise over the first quarter of 1950 was 245 percent. Public residential construction increased this quarter over last by 16 percent, while highways decreased nearly 9 percent. Most of the other significant public categories increased slightly during this period.

International transactions

Both exports and imports of goods and services rose in the first quarter of 1951, according to early estimates. However, the faster pace of the increase in value of imports reduced the export surplus, probably to as low as 1 billion dollars (annual rate), which would be the smallest since the war except for the third quarter of 1950.

On merchandise account alone, there was a virtual balance as imports climbed to new heights. This reflected the strong rise in prices of imported commodities, and the expanding need for materials as the domestic defense program moved ahead. Merchandise exports rose moderately, but shipments under the Mutual Defense Assistance Program more than accounted for this increase. Exports under this program are rising rapidly. In the first quarter, they are estimated to have been about equal to shipments during the entire year 1950.

With the very high levels of United States imports, and a rising foreign aid program, foreign countries continued to build up their gold and dollar reserves. Acquisition of these assets in the first quarter was at the rate of 3.2 billion dollars a year, somewhat lower than in the last quarters of 1950, but substantially above the first quarter of last year.

Government transactions

The flow of funds to the Treasury in March was the heaviest in its history. Cash receipts from the public totaled about 8½ billion dollars, and the excess of receipts over cash payments came to more than 4 billion dollars. On a conventional budget basis, the cumulative surplus from July 1950 to the end of March was 5.1 billion dollars.

The exceedingly heavy March receipts reflect the two tax bills enacted during the last half of 1950, a substantial rise in personal and corporate incomes during the latter part of last year, and the operation of the "Mills plan" requiring corporations to pay 30 percent rather than 25 percent of their calendar year 1950 liabilities by March 15. Excise tax receipts also have been unusually heavy, partly because of anticipatory buying encouraged by the possibility of new tax increases. It will be a few more weeks before information becomes available showing the breakdown of March income tax receipts among the individual income tax, the regular corporation income tax, and the excess profits tax. In the absence of such a breakdown, it is difficult to determine why March tax receipts were so much higher than the amount expected on the basis of the January budget estimates. It seems quite clear, however, that the budget surplus of more than 5 billion dollars at the end of March will be reduced but not wiped out by the expected deficits in the remaining months of the fiscal year.

The Treasury ended March with a General Fund balance of 8½ billion dollars, or 3 to 4 billion dollars more than the amount it normally likes to have on hand. The Treasury will be able to use this excess to meet the expected operating deficit during the next three months. However, some new financing may still be necessary because of the continuing excess of redemptions of savings bonds and notes over new sales, and because of the large maturity falling due on July 1.

Table 4. Federal Cash Receipts From and Payments to the Public

(Billions of dollars)

Period	Unadjusted quarterly totals			Seasonally adjusted annual rates		
	Receipts	Payments	Surplus (+) or deficit (-)	Receipts	Payments	Surplus (+) or deficit (-)
1950: Jan.-Mar.	12.2	10.8	+1.5	40.7	43.6	-2.9
Apr.-June	9.3	11.1	-1.8	41.4	43.5	-2.1
July-Sept.	10.5	9.4	+1.1	42.8	37.9	4.9
Oct.-Dec.	10.4	10.8	-.4	44.9	42.9	2.0
1951: Jan.-Mar. 1/	18.0	11.2	+6.8	55.2	45.5	9.7

1/ Preliminary estimate.

Source: Bureau of the Budget

In terms of the consolidated cash statement, the excess of receipts over cash payments in seasonally adjusted annual rates is estimated at 9.7 billion dollars in the first quarter. This is the largest quarterly surplus on record, and compares with surpluses of 4.9 billion dollars for July-September 1950 and 2.0 billion dollars for October-December. (See table 4.) These surpluses have undoubtedly exerted a healthy anti-inflation influence during this period, although it should be recognized that much of the first quarter tax receipts was paid out of funds accrued by corporations and individuals in earlier months.

In addition to the sharp spurt in Federal tax receipts during the March quarter, there was a significant increase in the rate of payments to the public. The largest factor in this increase, of course, was the continued rise in defense expenditures. This is best illustrated by the following figures showing the trend of defense expenditures since last July in terms of working day averages:

		(Millions of dollars)
1950:	July	49
	August	48
	September	51
	October	58
	November	66
	December	73
1951:	January	72
	February	86
	March (preliminary)	91

Military spending thus has reached an annual rate of 23.2 billion dollars, compared with a rate of 12.5 billion dollars last July. In the January Budget, these expenditures were estimated at 20 billion dollars in the current fiscal year and 40 billion dollars in fiscal year 1952.

Respectfully submitted,

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