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STRICTLY CONFIDENTIAL

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COMMENTS ON PRESIDENT'S ECONOMIC PROGRAM

Since 1945, the President has repeatedly made it clear to the Congress, to the American people and to the world that the stability of the American economy, protection against depression, and expansion and growth at maximum rates consistent with our resources, is our "domestic problem No. 1." Not only has the President made this clear, but he has always had an affirmative program in support of this objective. Examples of this are particularly to be found in the President's State of the Union Messages and Economic Reports in 1947, 1948 and 1949; in the Democratic platform of 1948; and in the repeated requests for an anti-inflationary program in late 1947, several times in 1948, and again early in 1949.

The recommendations made by the President on these recurrent occasions were not largely accepted by the Congress. But they gave heart to the people of this country and to our allies throughout the world, they demonstrated the President's leadership through displaying his ability to act in advance of trouble rather than after the event, and they were a vital factor in obtaining popular approval of the President's course of action last November.

The economic situation now does not call for relaxation of such leadership or abandonment of an affirmative program. On the contrary, while economic conditions are still "good", the rising amount of unemployment and the declining volume of production are causing millions of people to look to the Administration for leadership more earnestly and with a deeper concern than during the period of inflation. Such leadership now will have even more beneficial results than during the period of inflation, because it is easier to get Congressional response to concern about prospective deflation and unemployment than to get response during a "boom" period when the dangers underlying the boom are likely to be neglected. In any event, the absence of leadership now carries the danger of more serious consequences to the Administration than if there had been an absence of leadership during the inflationary period.

The foregoing general principles lead to the following specific suggestions:

(1) It should be made clear that the anti-inflationary program recommended repeatedly for a year and a half beginning with late 1947 was not lacking in merit because the economic trends have changed without that program being adopted. If prices were falling without increases in unemployment or declines in production, it might have been said that the economy had righted itself after the dangers of inflation without any program being adopted. But when declining prices are accompanied by increasing unemployment and declining production and by a declining level of business investment, the only thing that can truly be said is that the economy is beginning to feel the evil consequences of the neglect of inflation and that these consequences might have been avoided or minimized if anti-inflationary action had been taken in time. This does not mean that a labored effort should be made to say "I told you so"; but it is necessary that some effort be made to prevent critics from capitalizing on the false assertions that the President's economic program has been wrong and that the failure to secure its enactment was immaterial. More important, this should be done to lay the foundation for the kind of affirmative program required to assert leadership now.

(2) While the anti-inflationary program now requires modification, it should not be allowed passively to expire without the substitution of a re-formulated program. Such a course now would be grossly inconsistent, because we may now be somewhat nearer to the dangers--serious unemployment, etc.--against which the anti-inflationary program was pointed. Should more serious unemployment result in late 1949, early 1950 or thereabouts, the President if now inactive on this front would then be in the unfortunate position of not having foreseen the possibility of such an eventuality and would be vulnerable to the charge that he had erroneously wanted to do something about "inflation" when the real danger all along was "deflation." It would then be much too late to say that all this would not have happened if the anti-inflationary program had been adopted.



(3) The basic outlines of a re-formulated program are set forth in the memorandum of the Council of Economic Advisers to the President, dated May 5, 1949. The Spence Bill might be recast so as to omit insistence upon selective price and wage controls. But the emphasis upon stimulation and expansion of investment and capacity, as identified in Title II of that bill, is more important now than before if we are to strive even more vigorously for the goal of maximum employment and production instead of surrendering that goal in defeat just because we are no longer reaching it automatically by the momentum of the war-created "boom." Further, certain other provisions should now be added to those in the Spence Bill, to put the President aggressively on record in favor of preparatory action against the possibility of a further downturn.

(4) The main argument which may be advanced against such a course is that any recognition that economic conditions could worsen later on would have a psychologically bad effect. It should be pointed out that just such an argument was the most profound mistake of the Hoover Administration, which thought that rising unemployment could be stopped if nobody took notice of it. The main emphasis, it is true, should be placed upon the fact that conditions of business and employment are still good, and that by prompt preventive action they can be kept good and even improved toward the point where maximum production and employment are restored. But along with this major emphasis, the knowledge that preparations were being made for less favorable possibilities would give confidence to business and labor and thus make these less favorable things less likely to occur. More important from the viewpoint of the national interest, if these less favorable eventualities should occur, the Government would be prepared to deal with them, and the Administration would not find itself in a position of having been neglectful. If economic conditions are as good or better in 1950 than they are now, nothing will have been lost by the preparation of such a program; if they are not as good, everything will have been gained by the preparation of such a program. It may be unlikely that the Congress would act on such a program at this session, but that does not reduce the strength of the preceding argument.

(5) Such a program could receive added vigor and appeal by tying together some of the affirmative things which the President has previously stated as being necessary for an economy having the constant goal of expansion and improved living standards. Most relevant to this would be the creation of machinery for setting expansion targets in vital areas and providing the tools with which to achieve them. Goals for resource development, small business opportunity, and improved standards of living should also be incorporated. Measures should also be included to treat spot areas of heavy unemployment before these spread by contagion, and measures to encourage the more rapid economic development and expansion of underdeveloped or declining areas or regions. Such a program, in addition to its substantive merit, would have the advantage of providing a basis for the restoration of a workable majority in the Congress through the joint interest of Northerners, Southerners, and Westerners.

(6) The mechanics for the initiation of such a re-formulated program might be in two parts:

(a) A Presidential message, and *or other important statement or speech.*

(b) The introduction of legislation by a representative group of Senators to carry out the President's program so that the difficulty would not be repeated of a program in search of sponsorship. Conditions favorable to this have already revealed themselves.

(7) It is deemed important that consideration be given to the foregoing suggestions before there is premature announcement which might commit the Administration to a different course. No problem likely to confront the Administration in 1950 is likely to be so vital as the one arising out of whether the Administration maintains its leadership in developing and recommending an economic program before the need becomes acute or whether it allows the need to become acute and is thus thrown into a defensive or apologetic position.

