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February 14, 1945

Governor Ransom

Woodlief Thomas

2/12/45

The attached memorandum was prepared by Kenneth Williams, who put my name on it. I am glad to sign it as an expression of my views -- better stated than I would have done.

380-1/22/45

The Murray Bill will no doubt be strongly opposed as an attempt to legislate the Keynes-Eccles-Hansen-Beveridge theory of economic stabilization, and this position can obtain support from the terminology used in the Bill. There is a real danger that legislation of this sort might be so used as to permit some particular economic theory to become firmly vested in public policy and to operate in a situation to which that theory is not applicable, or in a manner that will serve some special interest to the detriment of the public interest. Misuse of the farm-price parity concept is a living example of such a danger. The attempt to establish price stabilization as the sole aim of Federal Reserve policy is an example of an abortive attempt of the same nature.

But, as the attached memorandum points out, the Murray Bill does not necessarily legislate any particular economic theories. It provides for the expression of a broad objective and for setting up machinery for deciding how that objective might be approached under any set of conditions. These aims seem desirable.

Question may be raised as to whether a joint Congressional Committee is the appropriate body to determine such policies under our constitutional system. But even this is not explicit in the Bill; the President is authorized to make estimates of needs and recommendations for satisfying them, to have worked up in ^{his} own Executive Office such estimates and recommendations in consultation with other executive departments and agencies, and to set up such advisory committees as he may wish.

(Signed) WOODLIEF THOMAS

WT:mfm

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REC'D IN FILES SECTION
FEB 15 1945
112.1-120

February 12, 1945

Governor Ransom
Woodlief Thomas

Full Employment Act of 1945

What the Bill is

S-380 - 1/23/45

The bill is a statement of goals, not an outline of policies. It provides machinery to facilitate the adoption of policies intended to lead to full employment. The machinery consists of two innovations:

(1) The President is required to submit to Congress each year, along with the regular Federal financial budget, an analysis of the nation's total budget. If total national expenditures are indicated to be less than enough for full employment, the President is to recommend legislation or policies to make up the deficit in expenditures and employment. If prospective total national expenditures are more than enough to provide full employment, the President is to recommend policies to prevent inflation. Estimates of prospective total national expenditures, public and private, are to be revised quarterly in the light of actual events.

(2) Congress is to establish a new joint committee to receive the national budget, appraise the President's recommendations, hold hearings, and to report to Congress.

What the Act does

(1) Commits Congress to acceptance of full employment as a primary goal of national policy.

(2) Creates a procedure for evaluating legislation and economic policies in their relation to full employment.

(3) Provides, annually, a powerful sounding board for those groups favoring full employment policies.

(4) Encourages expansion of research, statistical investigation, and planning directed toward furnishing recommendations for policy. Thus, in effect, it will re-create many of the functions of the old National Resources Planning Board.

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What the Act does not do

- (1) It does not itself create or provide any jobs.
- (2) It is no panacea and does not commit Congress to any specific program or policy of deficit spending, trust-busting, international economic cooperation, public works, easy money or anything else. It merely provides a framework for considering such policies in an organized manner.
- (3) It does not guarantee a job to any individual. It hopes to facilitate establishment of an economic environment in which adequate job opportunities are available.
- (4) It does not contemplate elimination of all unemployment. Some unemployment is desirable and necessary to assure flexibility of the economy. It does not define full employment in terms of 60 million jobs or any other specific number.
- (5) It is not intended to increase government expenditures or to reduce reliance upon private enterprise as the main supplier of jobs. The sponsors hope that the bill will be implemented by policies and programs that will permit free enterprise to operate at top effectiveness.

Tactics

The immediate importance of the bill lies in the plans for using it as a means for focusing public and Congressional attention on the problem of full employment. Ambitious preparations are being made for a series of speeches by favorable Senators, publication of several magazine articles about the Bill, and extensive "big-name" hearings--possibly with Chairman Eccles, Bowles, Hansen and others dramatizing the economic foundations of full employment. Whether or not the bill is ever passed, the campaign for it may have a substantial, if subtle, influence on public opinion.

Already letters have been written to numerous high officials about the bill. Replies received from several of them were inserted recently in the Congressional Record. Thus, Crowley said he was whole-heartedly in favor of the objective and approach taken by the bill. The right to individual economic security, no less than the right to engage in private enterprise, is an indispensable component of a vigorous democracy. Stettinius pointed out that serious unemployment creates strong pressures for the adoption of self-defeating

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measures to expand domestic employment at the expense of other nations. Perkins said the national budget idea is a constructive one and pointed out that at the I.L.O. conference in Philadelphia, United States accepted the principle that each government should recognize its duty to maintain a high level of employment. Wickard indicated his complete sympathy with the objective and approach of the bill and reiterated his view that full industrial production and employment at good wages are the first essentials for a prosperous agriculture. Bowles stated that only government can assure the conditions under which free enterprise can operate most efficiently and was strongly in favor of the assumption by government of the responsibility for full employment. Blandford thought it was highly desirable to focus and coordinate attention at a high official level on the major policies required for full employment.

The President's message in transmitting the budget for fiscal 1946 included a calculation similar to that suggested by the Murray Bill. He showed a table for calendar years 1939 and 1944 indicating the relations between the nation's budget and the regular Federal budget. The table showed separately for each broad economic group its expenditures and receipts and how these fitted together to make up the total gross national product. For 1944 the figures were as follows:

	<u>1944</u>		Excess (+), deficit (-)
	Receipts	Expenditures	
(Billions of Dollars)			
Consumers			
Income, after taxes	132.8		
Expenditures		97.0	+35.8
Savings			+35.8
Business			
Undistributed profits and reserves	12.3		
Gross capital formation		2.6	
Excess of receipts over capital formation			+9.7
State and Local Government			
Receipts from public, except borrowing	10.4		
Payments to public		8.8	
Excess of receipts over payments			+1.6
Federal Government			
Receipts from public, except borrowing	47.9		
Payments to public		95.0	
Excess of payments over receipts			-47.1
Less: Adjustments	5.9	5.9	
Total: Gross National Product			
Receipts	197.5		
Expenditures		197.5	
Balance			0

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Significance of the Act

If one were cynical one might say the Act is of no significance since it does nothing concrete about assuring full employment. In this respect it is somewhat like an act declaring sin is contrary to the public interest. Anyone can vote for the Full Employment Act without committing himself to anything except the generalization that full employment is desirable. Nevertheless, the Act is important as a symbol or a first step, toward a better organization of the economy.

Opposition to the Murray Act is substantial, and will become greater. The opposition, rightly I think, is not concerned by what the Act contains but about the economic philosophy underlying it. Thus the National City Bank criticizes the Act because if provision of employment is made a primary function, costs and usefulness of work will become subordinate considerations. In the end, the Bank thinks private enterprise may be destroyed. The Bank also points out that the government can not prophesy one or two years ahead and hence can not make proper recommendations. This inability to foresee the future, of course, is irrelevant, since government and business must necessarily plan ahead and forecast in any case. Merely organizing the guessing sensibly and focusing it does not increase the errors of forecasting.

The basic philosophy underlying the Act is that government must assume a larger degree of responsibility for the effective operation of the economy. This is nothing new. It is precisely what almost everyone from Dewey to Beveridge has been saying recently.

The term "full employment" should not be taken too literally. No one favoring a policy of "full employment" contemplates making employment the only goal of society. If it were the only goal, we would discard democracy, free enterprise, and freedom of opportunity and obtain "full employment" easily by adopting Fascism or developing a slave economy. Within the context of the American or British environment, however, "full employment" is merely a convenient short phrase intended to mean that the economy should operate at full capacity, that it should provide jobs, higher living standards, greater freedom of opportunity, and a larger degree of economic participation to more people than now exists. It is properly taken for granted that "full employment" is not to be obtained at the expense of individual freedom or by infringement upon the dignity of the individual as the fundamental basis of democracy. Thus, in this context "full employment" is eminently democratic and rigidly anti-fascist. Its main purpose is to express dissatisfaction with the way the economy operated before the war to deny millions of unemployed the benefits and rights of democracy.

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"Full employment" does not mean the complete absence of unemployment. In a dynamic economy there will always be some unemployment as people shift jobs, industries expand and contract, and markets change under the pressure of consumer choice. "Full employment" merely means that unemployment should be reduced to the practical minimum and that those who are able to work and want to work should not be forced to remain idle for long periods. How large this minimum of unemployment should be is partly a matter of opinion. Some contend that unemployment of 5 million is permissible within the meaning of "full employment". Others say that no more than 500,000 should be unemployed. Most careful students of the labor market tend to place minimum unemployment in a range between 1 and 2.5 million. A great deal of additional research is required before any specific figure can be firmly established.

The Murray Bill tends to be associated with the Eccles-Hansen-Keynes-Beveridge conception of the functioning of the economic system because of the way the problem is approached in the bill. It implies that the total volume of expenditures, public and private, is the determinant of the level of employment and that policies should be aimed directly at the maintenance of total expenditures.

However, the bill contains no programs or policies and what effect it would have in operation will depend on the policies adopted by Congress. One can be opposed to the over-saving theory and still be in favor of the Murray Bill. It is an economic truism that total expenditures, public and private, determine the level of employment. Thus, a high level of total national expenditures is essential for a high level of employment. Some economists, however, contend that placing the major emphasis on maintaining total expenditures is a mistake and likely to lead to the adoption of undesirable policies. They say that a high level of total expenditures should be viewed as an automatic result of wise policies of all kinds and that if such policies are adopted no direct attention will need to be given to the problem of maintaining total expenditures or employment. As the National City Bank says, responsibility for full employment is the responsibility of everyone--of labor not to price itself out of jobs, and to give full work for full pay, of the employer to conduct his business with vision and enterprise, and of government to provide an economic environment favorable to free enterprise. While this is all true as far as it goes, it is not enough to assure business the markets it requires or labor the jobs it must have for full employment.

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Conclusion

In my opinion, the Murray Bill is likely to have a great deal of influence. It is a reasonable first step in the direction of obtaining agreement on the principle that government, in modern economic society, must be more than an umpire. It must be concerned with the problem of providing assurance of markets for business and employment for workers. The Act does not commit the government to any given policies but it does commit Congress to acceptance of responsibility for the functioning of the economy. The Act is in line with the best economic thinking of recent years. I see no reason why the Act's objective and approach should not be endorsed wholeheartedly. The Act will not, nor does it pretend to, solve all of our economic problems. But it should be helpful in establishing a framework within which they can be solved or minimized.

WTT
4/13/32

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