

The Economic Report of the President

TRANSMITTED TO THE CONGRESS

January 8, 1947



THE ECONOMIC REPORT OF THE PRESIDENT

To the Congress, January 8, 1947



UNITED STATES GOVERNMENT PRINTING OFFICE
WASHINGTON : 1947

ERROR

In Appendix B, table II, p. 41, net corporate profits after taxes for 1946 should be: 5.0 billion dollars for dividends, and 7.0 billion dollars for savings.

[Billions of dollars]

Year	Total National Income	Compensation of Employees			Net Income of Proprietors			Interest and Net Rents	Net Corporate Profits After Taxes		
		Total	Salaries and Wages	Supplements	Total	Agricultural	Non-agricultural		Total	Dividends	Savings
1929	83.3	53.1	52.6	0.5	13.6	5.2	8.5	9.4	7.2	5.9	1.2
1930	68.9	48.2	47.6	.5	10.0	3.8	6.3	8.9	1.7	5.6	-3.9
1931	54.5	40.6	40.0	.6	7.3	2.4	4.8	8.2	-1.6	4.3	-5.8
1932	40.0	31.7	31.0	.6	4.8	1.5	3.4	7.1	-3.6	2.7	-6.4
1933	42.3	29.8	28.7	1.1	6.5	2.2	4.3	6.6	-.6	2.2	-2.8
1934	49.5	34.5	32.6	1.9	7.5	2.7	4.9	6.9	.5	2.7	-2.1
1935	55.7	37.5	35.6	1.9	9.5	4.1	5.4	7.1	1.7	2.9	-1.3
1936	64.9	43.0	40.0	3.1	10.9	4.4	6.5	7.3	3.8	4.7	-.9
1937	71.5	48.3	44.9	3.3	11.9	5.1	6.8	7.4	3.9	4.7	-.8
1938	64.2	45.1	41.2	3.9	10.1	4.0	6.1	7.3	1.7	3.2	-1.5
1939	70.8	48.1	44.2	3.8	11.2	4.3	6.9	7.4	4.2	3.8	.4
1940	77.6	52.3	48.6	3.7	12.0	4.4	7.6	7.5	5.8	4.0	1.8
1941	96.9	64.5	60.8	3.7	15.8	6.3	9.6	8.0	8.5	4.5	4.0
1942	122.2	84.1	80.8	3.3	20.6	9.7	10.9	8.8	8.7	4.3	4.4
1943	149.4	106.3	103.1	3.2	23.5	11.9	11.6	9.7	9.8	4.3	5.5
1944	160.7	116.0	112.8	3.2	24.1	11.8	12.3	10.6	9.9	4.5	5.4
1945	161.0	114.5	111.4	3.1	25.6	12.5	13.1	11.8	9.0	4.5	4.5
1946 ¹	164.0	109.0	106.0	3.0	30.0	15.0	15.0	13.0	12.0	7.0	5.0

¹ National income is the total net income earned in production by individuals or businesses. The concept of national income currently used differs from the concept of gross national product in excluding depreciation and depletion allowances and business taxes. A reconciliation between these two series and income payments is shown in Appendix A, table II, for 1939, 1944, and 1946.

² Estimates based on incomplete data.

NOTE.—Detail will not necessarily add to totals because of rounding.

Source: Department of Commerce.

LETTER OF TRANSMITTAL

THE WHITE HOUSE,
Washington, D. C. January 8, 1947.

The Honorable the PRESIDENT OF THE SENATE,
The Honorable the SPEAKER OF THE HOUSE OF REPRESENTATIVES.

SIRS: I am presenting herewith my Economic Report to the Congress, as required under the Employment Act of 1946.

In preparing this report I have had the advice and assistance of the Council of Economic Advisers, members of the Cabinet, and heads of independent agencies.

Respectfully,

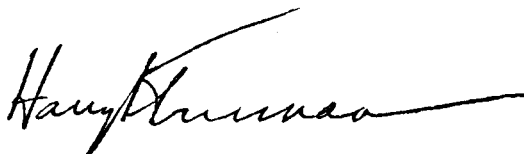
A handwritten signature in dark ink, appearing to read "Harry Truman", with a long, sweeping horizontal line extending to the right.

TABLE OF CONTENTS

	Page
Introduction.....	vii
I. Review of 1946.....	1
Employment.....	1
Production.....	1
Purchasing Power.....	1
II. Prices, Wages, Profits in 1946.....	2
Prices.....	2
Wages.....	4
Profits.....	4
III. The Nation's Economic Budget.....	5
Postwar Transformation.....	7
IV. Goals for 1947.....	9
Employment Objectives.....	9
Production Objectives.....	9
Purchasing Power Objectives.....	10
V. Favorable and Unfavorable Factors in 1947.....	11
Consumer Income and Expenditures.....	11
Business Income and Outlays.....	15
International Transactions.....	16
Government Budgets.....	17
VI. Summary of Economic Conditions and Trends.....	19
VII. Recommendations.....	20
Short-Range Program.....	20
Prices and Wages.....	20
Social Security.....	21
Housing.....	21
Taxation.....	22
Labor-Management Relations.....	22
Long-Range Program.....	22
Efficient Utilization of the Labor Force.....	24
Maximum Utilization of Productive Resources.....	24
Encouragement of Free Competitive Enterprise.....	28
Promoting Welfare, Health, and Security.....	28
Cooperation in International Economic Relations.....	30
Combating Economic Fluctuations.....	32
Appendix A: Explanation of the Nation's Economic Budget.....	35
Appendix B: Statistical tables relating to employment, production, and purchasing power.....	41
Appendix C: Excerpt from the State of the Union Message.....	52

To the Congress of the United States:

As the year 1947 opens America has never been so strong or so prosperous. Nor have our prospects ever been brighter.

Yet in the minds of a great many of us there is a fear of another depression, the loss of our jobs, our farms, our businesses.

But America was not built on fear. America was built on courage, on imagination and an unbeatable determination to do the job at hand.

The job at hand today is to see to it that America is not ravaged by recurring depressions and long periods of unemployment, but that instead we build an economy so fruitful, so dynamic, so progressive that each citizen can count upon opportunity and security for himself and his family.

Nor is prosperity in the United States important to the American people alone. It is the foundation of world prosperity and world peace. And the world is looking to us.

I believe that the American people have the wisdom and the will to use our abundant resources so that all may prosper. I reject, and I know the American people reject, the notion that we must have another depression. I am not referring to minor detours and bumps in the road ahead—these we know we shall have. I am referring to economic collapse and stagnation such as started in 1929. This need not happen again, and *must* not happen again.

The Congress passed the Employment Act of 1946 by an overwhelming bipartisan vote. This Act wisely provided for a Council of Economic Advisers to the President, men who as a result of training, experience, and attainments are exceptionally qualified to analyze and interpret economic developments, to appraise programs and activities of the Government and to formulate and recommend national economic policy.

The Congress also provided for a permanent joint committee to receive and analyze this annual Economic Report of the President and to submit recommendations concerning it to both Houses.

In transmitting this first Economic Report, I am conscious of its significance as the beginning of a series of reports that will serve the Executive and the Congress as the basis for an orderly and continuing review of the economic state of the union and for integrated and comprehensive steps to ensure the permanent economic health of the Nation.

The Economic Report is an opportunity for national self-examination and self-criticism. It is a challenge to the President and the Congress to determine the causes of whatever problems we face in our economic life and to find the solutions to those problems. It provides an opportunity for all our citizens to judge the merits of the analysis and proposed action. It is a new and splendid tool to help us in our tasks. And like all governmental tools, its effectiveness will increase year by year as we learn by doing.

Prosperity cannot be the concern of one party or of one group. It cannot be attained without the goodwill and the cooperation of all.

To build a greater America we must approach the task with unity of purpose, with patience, with wisdom, and with determination to overcome all obstacles. If we do this—and we must—I have no doubt about the ability of Americans to build, on a firm basis of security and political and economic freedom, a country in which the rewards we enjoy can be doubled within the life span of many of those now living.

I

REVIEW OF 1946

EMPLOYMENT

During 1946, civilian employment approached 58 million. This was the highest civilian employment this Nation has ever known—10 million more than in 1940 and several million higher than the wartime peak. If we include the military services, total employment exceeded 60 million. Unemployment, on the other hand, remained low throughout the year. At the present time it is estimated at about 2 million actively seeking work. This is probably close to the minimum unavoidable in a free economy of great mobility such as ours.

Thus, at the end of 1946, less than a year and a half after VJ-day, more than 10 million demobilized veterans and other millions of wartime workers have found employment in the swiftest and most gigantic change-over that any nation has ever made from war to peace. At its peak during 1946 aggregate employment was substantially in accord with the objectives stated by the Congress in the Employment Act.

PRODUCTION

Total production turned out by the Nation's farmers and workers likewise mounted to new peacetime levels. In 1946 it was about 50 percent above the 1939 predefense level and only 15 percent below the wartime high. (Appendix B, Table I.) However, production is not yet at its peak in relation to our present plant and manpower resources. Bottlenecks, shortages of materials and components, labor-management disputes, and other reconversion difficulties have had their retarding influence.

But with all these obstacles, production in the second half of 1946 reached a higher rate than in any peacetime year. Goods scarce during the war began to fill dealers' shelves. The American people were eating more food per capita than in any previous year, even though in some cases they were unable to buy exactly the kind of food they wanted. In total, people were supplied with more goods and services than ever before. This indicates that when all our resources are fully marshalled for peacetime pursuits, the whole American people will be able to enjoy a standard of living far surpassing any that we have ever known.

PURCHASING POWER

The Congress, by setting maximum purchasing power as an objective of National policy in the Employment Act, pointed to the importance of purchasing power in keeping our economy fully employed and fully productive. When people stop buying, business stops pro-

ducing and employment drops. It is therefore of the utmost importance that at all times we be concerned as to the volume of purchasing power of the Nation and its relation to the volume of production of goods and services.

Purchasing power, of course, depends upon current cash income, the use of savings, and the use of credit. It also depends upon prices. As we all know, when prices go up the purchasing power of the dollar goes down.

In 1946 the problem of linking maximum purchasing power with maximum employment was not completely solved. To be sure, cash and credit were available to purchasers in extraordinary amounts. This was due to high agricultural and industrial earnings, large accumulated savings, considerable extension of credit, and the payment of veterans' allowances and mustering-out pay. In the face of continuing shortages of many kinds of goods and services, this led to an inflationary pressure. When price controls were relaxed and finally dropped, this pressure resulted in a substantial increase in the general price level.

The rise in prices that occurred in the latter half of 1946 greatly reduced the purchasing power of the current incomes received by the large majority of people. It is true that some groups in the population received increases in income that for them balanced or more than balanced the rise in prices. But the large mass of consumers did not enjoy such offsets. How to effect a mutual adjustment of incomes and prices which will provide purchasing power adequate to sustained maximum production in the years ahead thus becomes a central problem for private enterprise and Government.

II

PRICES, WAGES, PROFITS IN 1946

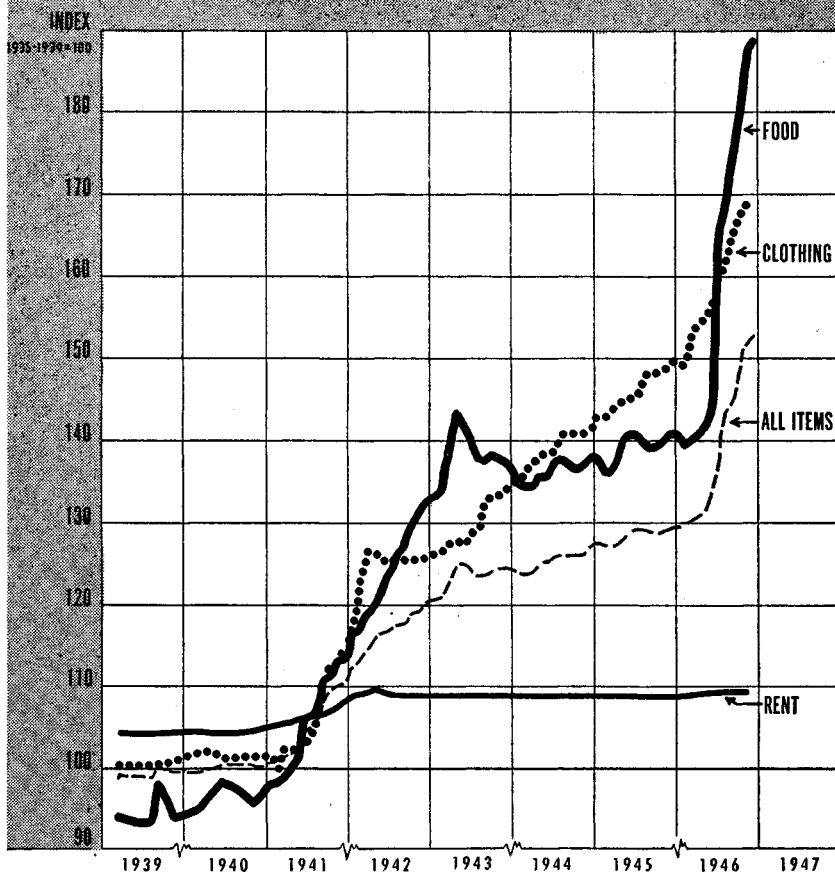
The relation of wages, prices, and profits is the key to the maintenance of purchasing power. If prices are too low in relation to wages, they squeeze or eliminate profits, stifling the initiative of business, interfering with production, and reducing or retarding employment. If prices are too high in relation to wages, they restrict the market and reduce employment, as well as causing suffering to individual consumers.

PRICES

During the war years prices were on the whole successfully kept in check under the "hold the line" policy, with farm and food prices rising somewhat more than most others. Between VJ-day and the middle of last year when the lapse in price control occurred, prices rose moderately, chiefly due to price increases granted to speed production or to take account of wage rises. The average increase in wholesale prices from VJ-day to mid-1946 was 7 percent, and in retail prices was 3 percent, although textiles and clothing rose considerably more than the average.

THE RISE IN CONSUMER PRICES

Since June, 1946, consumer prices have risen 15%, with food showing the greatest increase. Rents have held steady.



Source: Department of Labor

But between June and December wholesale prices jumped an additional 24 percent, while the consumer price index climbed 15 percent. The sharpest increases were for the most part in farm and food products, textiles, clothing, and in residential construction.

The Congress made clear its intent that decontrol be speeded. In fact, after the new price-control law was passed, the direct control of prices soon became virtually impossible. It was no longer a question of whether it was in the interest of the workers, businessmen, farmers, and the public to control prices; it was a question whether price controls were any longer workable. It was the advice by late fall of labor, business, the farm groups, and my Cabinet that general price control be dropped.

Two things immediately happened. Prices rose sharply. Goods that had been produced under price control but withheld in the hope of decontrol appeared on shelves.

The increase in consumer prices has substantially reduced the purchasing power of the great majority of consumers. (Appendix B, Tables V, VI, and VII.)

WAGES

After VJ-day, direct wage controls, with the exception of those in the building trades, were dropped in order to permit a return, so far as possible, to collective bargaining. Indirect wage controls were, however, maintained until general price decontrol.

Between July 1945 and July 1946 the average wage-rate increase in manufacturing was about 10 percent. Nearly half of this increase was offset by reductions in overtime, declines in piecework earnings, and the shift of workers from higher-paid wartime to lower-paid peacetime jobs. Thus, for manufacturing as a whole, the average hourly earnings of labor last July were 6 percent above what they were the year before. Because of the reduction in the workweek during 1945 and 1946, weekly take-home pay declined in many industries and rose but moderately elsewhere in spite of the increase in wage rates.

Since July 1946 there has been some further increase in wage rates, average hourly earnings, and average take-home pay, but less than the increase in prices. Thus real earnings have fallen. (Appendix B, Tables VIII and IX.)

PROFITS

Business profits began to rise in many lines of nondurable goods and in most trades and services soon after VJ-day. This rise reflected the increased volume of civilian sales. Price increases during the past year and removal of the excess-profits tax added still further to profits after taxes. In most of the soft goods and service lines, profits after taxes in the second quarter of 1946 were already above the levels of 1944 and 1945. Further increases were reported for the third quarter.

But profits have been extremely uneven as between industries. In many of the reconversion industries, especially where volume was slow in getting underway, profits at first were low and in many cases

there were actual losses, many of which, however, were alleviated by the carry-back provision of the tax law.

Third-quarter reports showed increased profits in most of the durable-goods industries, although price ceilings had not yet been generally removed. Profits increased further during the fourth quarter with the removal of price control.

We should not infer that all industries or all firms in a given industry were operating at a highly profitable level or that none were incurring losses. We must also remember that the purchasing power of the business dollar as well as the consumer dollar has been diminished by the price rise. Nevertheless, taking account of all of these considerations, it is plain that business in general is receiving exceptional profits. (Appendix B, Table II and X.)

III

THE NATION'S ECONOMIC BUDGET

The volume of employment and production in any given period depends upon the volume of expenditures. These expenditures are of four types:

1. Consumer Buying.
2. Business Buying.
3. Foreign Buying.
4. Government Buying (Federal, State, and local).

In order that we may have a better idea of the size of the job ahead and the relative proportion of our goods and services going to consumers, business, foreign markets, and Government, I here set forth the Nation's Economic Budget. (A detailed explanation may be found in Appendix A.)

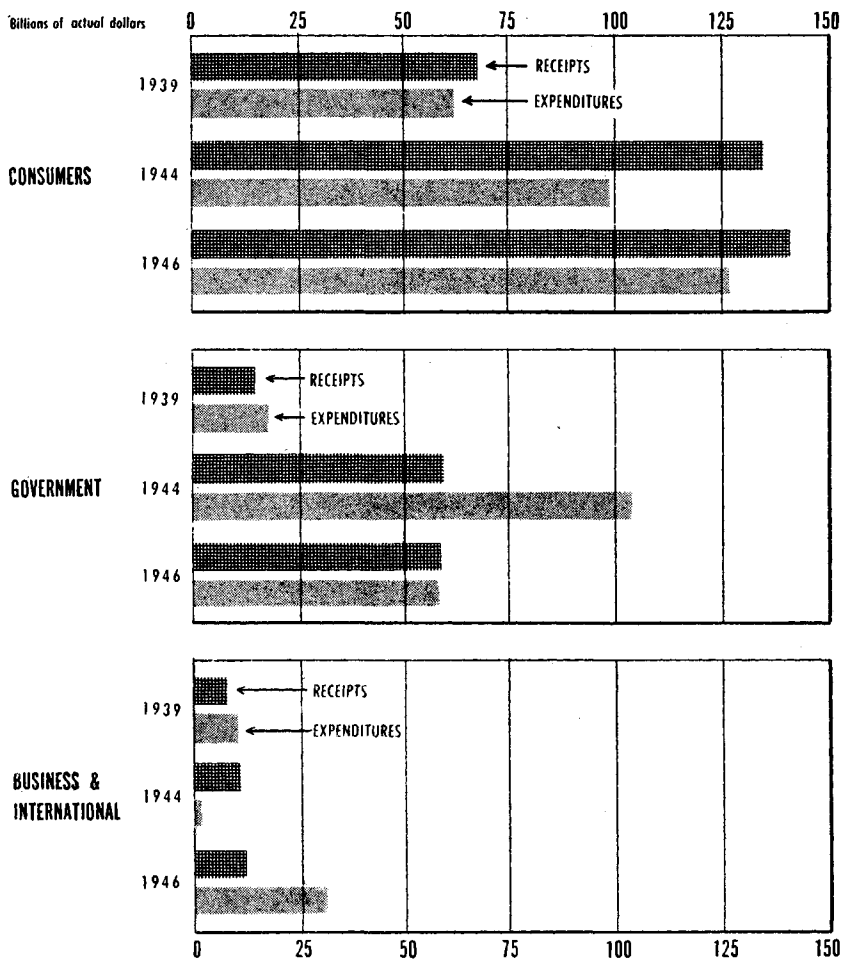
The Nation's Economic Budget shows the distribution of income and expenditures among consumers, business, and Government, and imports and exports. It sheds light upon whether price and wage policies and other public policies are encouraging an alignment among these four component parts which is favorable to sustained high levels of economic activity, or which threatens us with an economic decline. The Economic Budget also indicates whether a given level of economic activity is being achieved mainly by private expenditures, or by public expenditures, and in what proportion. By comparing budgets for different periods, we can discern favorable and unfavorable trends.

The Nation's Economic Budget is primarily a device for the measurement of our economic activity. Use of this device is not wedded to any particular economic theory. The Economic Budget is an objective summary statement of our economy in action at a given time, as reflected by the income and expenditures of its major parts. It reflects the aggregate actions of millions of consumers and businesses and of the Federal, State, and local governments.

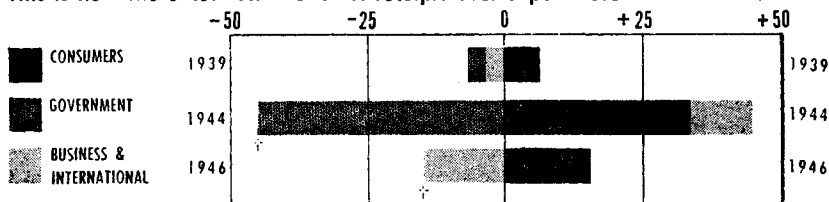
By way of illustration, Table I contrasts the Nation's Economic Budget during the last pre-defense year 1939 with the Budget during the war year 1944, and with the Budget during the transition year 1946.

THE NATION'S ECONOMIC BUDGET

is made up of these components.*



This is how the excess and deficit of receipts over expenditures is balanced. (in billions)



* These components do not add exactly to the gross national product because of certain minor adjustments.

† Includes adjustment for Government transfers abroad.

TABLE I.—*The Nation's Economic Budget, 1939, 1944, and 1946*¹

[Billions of dollars; current prices]

Economic Group	Predefense Calendar Year 1939			War Calendar Year 1944			Reconversion Calendar Year 1946 ²		
	Receipts	Expenditures	Excess (+), Deficit (-)	Receipts	Expenditures	Excess (+), Deficit (-)	Receipts	Expenditures	Excess (+), Deficit (-)
CONSUMERS									
Income after taxes	68			133			142		
Expenditures		62			99			127	
Savings (+)			+6			+34			+15
BUSINESS									
Undistributed profits and reserves	8			11			11		
Gross capital formation ³		10			4			27	
Excess of receipts (+) or capital formation (-)			-2			+7			-16
INTERNATIONAL									
Net imports									
Net exports		1			-2			5	
Net expenditures on foreign account			-1			+2			-5
GOVERNMENT									
(Federal, State, local)									
Receipts from the public other than borrowing	15			59			57		
Payments to the public		18			104			55	
Excess of receipts (+) or payments (-)			-3			-45			+2
ADJUSTMENTS									
For Government transfers to public ⁴	-2	-2	0	-5	-5	0	-16	-16	0
For Government transfers abroad ⁵					-2	+2		-4	+4
Total, Gross National Product	89	89	0	198	198	0	194	194	0

¹ See Appendix A for supporting tables and descriptive material.² Preliminary.³ Includes residential construction, but excludes net exports.⁴ Includes transfers of funds which are included in private receipts and Government expenditures but do not involve addition to the Nation's output, such as unemployment compensation, veterans' readjustment allowances, mustering-out pay, etc.⁵ Includes loans to foreign governments, subscriptions to international organizations, reimbursable lend-lease, etc.

POSTWAR TRANSFORMATION

The figures for the years 1939, 1944, and 1946 show that a transformation has taken place in our economy since the last predefense year. The great increase in the total Economic Budget reflects the change-over from an economy of substantial unemployment and moderate production to an economy of unparalleled employment and production. Great significance lies in the fact that the Economic Budget for the year 1946 was almost as high as during the war year 1944, and more than twice as high as during the predefense year 1939. Even allowing for price changes, we have made such great strides forward in wealth and productivity that our thinking for the future can no longer be bound by the distant past.

The changes in the composition of the Nation's Economic Budget during these years also deserves attention.

During the war year 1944, Government expenditures were more than half the total Economic Budget.

Business responded to the Government's demand with record production.

Private income derived from production doubled the predefense level, even after allowance for the increase in taxes.

Consumer expenditures increased, but due to the shortages of civilian goods, effective price control, and patriotic motives for saving, they did not increase nearly as much as they otherwise would have, the difference going into savings.

In the transition year 1946, the expenditures of business and consumers once more took the lead, as the Government's wartime expenditures were drastically reduced. Business spent large sums for re-converting, overhauling, and modernizing plants and equipment and for replenishing depleted pipe lines of inventories. High business activity resulted in high levels of consumer income and expenditures. Consumer spending was further increased by the use of wartime savings and expanding installment credit, and in the case of veterans by mustering-out pay and readjustment allowances.

As a point of departure for examining our objectives for this year, it is useful to present tentative estimates of the rates at which expenditures and receipts in the Nation's Economic Budget were running at the end of 1946. This is shown in Table II.

TABLE II.—*The Nation's Economic Budget During the 4th Quarter of the Calendar Year 1946*

[Preliminary estimates; billions of dollars]

Economic Group	4th Quarter Seasonally Adjusted Annual Rates			Year as a Whole		
	Receipts	Expenditures	Excess (+) or Deficit (—)	Receipts	Expenditures	Excess (+) or Deficit (—)
Consumers.....	148	135	+13	142	127	+15
Business.....	14	33	—19	11	27	—16
International.....		4	—4		5	—5
Government.....	56	51	+5	57	55	+2
Adjustments: Transfer Payments.....	—13	—18	+5	—16	—20	+4
Gross national product.....	205	205	0	194	194	0

In comparing preliminary estimates for the fourth quarter of 1946 with those for the year as a whole, the significant changes may be summarized as follows:

1. Government expenditures were reduced. This was highly desirable, but it meant that much higher private expenditures were needed to sustain maximum employment and production.

2. Business expenditures increased, but a part of the increase reflected higher prices rather than increased production.

3. Consumer expenditures rose, but practically all of the increase was attributable to the price rise. Consumer incomes rose less than expenditures and actually declined in real terms.

This trend in the position of consumers becomes of central importance as we turn to a consideration of our prospects for 1947.

IV

GOALS FOR 1947

The Employment Act requires that this Economic Report set forth the levels of employment, production, and purchasing power needed to carry out the policy of the Act. This policy is to create and maintain "conditions under which there will be afforded useful employment opportunities, including self-employment, for those able, willing, and seeking to work, and to promote maximum employment, production, and purchasing power."

EMPLOYMENT OBJECTIVES

We do not know exactly how many people will want jobs during 1947. Our labor force fluctuates by several million during the course of any year, with the changing seasons, with boys and girls of school age going back to the classroom, and with part-time workers coming into and going out of the labor force. The purposes of the Act would be substantially achieved if during 1947 we sustain employment at about the 1946 levels or slightly higher.

In maintaining a high level of total civilian employment, we must also achieve a better distribution between localities of labor scarcity and labor surplus; between occupations that are short of workers and occupations that are overcrowded. The proper use of our workers is equally important both to the economy and to the individual.

PRODUCTION OBJECTIVES

During the last quarter of 1946, total national production is estimated to have reached an annual rate of 205 billion dollars. We know, however, that we are not yet turning out goods as fast as we are capable of doing with our present plant, manpower, and material resources. Bottlenecks in the supply of certain parts and materials have slowed down production. So have labor-management disputes. With maximum employment in 1947, we should be able to increase our total output significantly, although limits may be imposed by shortages of basic materials.

It is not yet clear that our basic industries are fully adjusted to a 200-billion-dollar peacetime economy. It will become increasingly important that capacity goals in the basic industries such as steel, power, and transportation be set high enough so as not only to sustain present and foreseeable levels of economic activity, but also to permit their expansion.

It is not practical to state in physical terms just exactly how much our production should be during 1947 because of the great variety of goods and services which our economy produces. To state production in terms of dollars is of doubtful usefulness at the present time because price levels may move up or down and any dollar figure set forth now might prove to be misleading. We do know, however, that a labor force of the anticipated size can be expected to produce more goods and services during 1947 than were produced during the past twelve months. Perhaps an over-all increase of 5 percent might be a reasonable objective for maximum production.

A considerable amount of last year's production went into the rebuilding and reequipping of our manufacturing plant and the replenishing of producers' and dealers' inventories. We can expect an increased flow of consumer goods during 1947 even if there were to be no increase in total output. Hence, a 5-percent increase in total production would mean a greater proportionate increase of consumer goods.

The question, therefore, will become one of the ability of consumers to buy the total supply of products offered to them.

PURCHASING POWER OBJECTIVES

Consumer purchasing power depends upon the flow of money into consumers' hands as current income. It depends also on the use of past savings and the rate of current saving. It depends on the use of credit and it depends upon what money will buy; that is, upon the level of prices.

No attempt will be made to set a dollar figure on the purchasing power needed to buy the goods and services which the Nation will produce in 1947. It is plain, however, that if employment is to remain high and if production is to increase in 1947, real purchasing power must rise sufficiently to take the increased production off the market.

It has been stated that maximum production for 1947 would give us an over-all increase of some 5 percent above the level reached during the last quarter of 1946.

This increase would be due only in small part to a slight rise in the number of workers employed, and principally to the increased efficiency of the productive process as the lingering impediments to maximum production are eliminated.

What are the chances that consumers could buy an additional several billion dollars' worth of product if present prices and pay rates were maintained? Only a minor portion of the value of the additional goods and services produced in 1947 would be reflected in additional consumer income. The greater part of the additional income would be represented in the surpluses of governments and in reserves of business concerns. Thus it follows that consumers would have to buy considerably more goods and services with only slightly increased income. This could be done only if consumers made still freer use of credit, or if they reduced the rate of their new savings and drew heavily upon their past savings. Although consumer credit has not yet reached prewar levels, it has already expanded greatly, and still freer use might build up difficulties for the future. The rate of net savings, as shown elsewhere in this Report, has receded to a point below which it can hardly be expected to fall. Increasing consumer purchasing power in this way could at best be only a temporary solution, and certainly not a desirable one.

Another method by which the markets could be cleared of the enlarged volume of goods and services produced in 1947 would be to enlarge the real purchasing power of the consumers by increasing their incomes. It would be unrealistic, however, to expect that this increase in real purchasing power of consumers could occur solely through a corresponding increase in *money* incomes. An attempt to raise income by the amount necessary would mean such large increases

in money wages and salaries at certain points as to threaten curtailments of production or wage-price spirals. Further, there is no practical way to distribute such wage and salary increases throughout the whole population in such a manner as to effect the desired supports to the market. The groups of wage and salary earners whose purchasing power has been most reduced are the very ones who are likely to participate least in an increase of money earnings. Such concentration of pay increases within particular groups would make even more difficult the task of obtaining a sufficient total increase to sustain maximum employment, production, and purchasing power.

Thus it follows that we could not expect to attain the economic objectives for this year solely by an increase in money incomes. A major approach to bringing real purchasing power of consumers into balance with productive capacity this year must be through reduced prices.

The emphasis on price reduction as a major route for an increase in consumers' purchasing power does not overlook the desirability of increases in pay rates in some sectors.

It follows that only through adjustments both in the price and pay structure, made with discriminating regard for specific circumstances rather than on an over-all national basis, can we achieve a sustained demand for the maximum output which the American economy is able to produce this year.

V

FAVORABLE AND UNFAVORABLE FACTORS IN 1947

Because the health of our economy depends on the acts of 140 million people with millions of separate enterprises, including farming, business, and professional, it is not possible to forecast the precise course of events a year in advance in a report of this kind. Indeed, the Employment Act contemplates that the state of the Nation's economic health must be constantly watched so that timely policies may be adopted during the course of the year as conditions change. We can, however, appraise in advance some of the favorable and unfavorable factors affecting the expenditures of consumers, business, foreign buyers, and Government.

CONSUMER INCOME AND EXPENDITURES

The main facts about consumer income, expenditures, and purchasing power are given in Appendix B, Tables II, III, and V. Here I shall comment briefly upon a few of the favorable and unfavorable factors.

Favorable factors in consumer demand

Consumer demand has been at very high levels since VJ-day. This has been due largely to two factors: First, the pent-up demand for many goods that have been scarce in recent years; and, second, a level of incomes and purchasing power substantially higher than in prewar years.

Some of the pent-up demands are gradually being met, but during this year we can anticipate continued high demand for a number

of items that have been scarce, including housing, automobiles, appliances, and many housefurnishings.

With larger supplies of durable goods coming on the market this year, an increased proportion of consumer expenditures may be made for these items and a smaller proportion for nondurable goods and services. Such a shift may be listed as a favorable factor because it will tend toward the reduction of the prices of many nondurable goods and services which were raised to extraordinarily high levels in 1946 because of the concentration of consumer expenditures in these fields.

The most solid and permanent foundation for consumer demand is current disposable income. In this there has been great improvement since the prewar period, even when account is taken of the increase in consumers' prices. The following table illustrates this:

TABLE III.—*Per Capita Disposable Income*

Year or Quarter	Actual Dollars	1944 Dollars ¹
1935-39 (average).....	497	623
1944.....	995	995
1945.....	1,000	978
1946 ²	1,026	925
Seasonally Adjusted Annual Rates:		
First quarter.....	983	950
Second quarter.....	1,008	958
Third quarter.....	1,054	921
Fourth quarter.....	² 1,060	880

¹ For method of computation and interpretation see Appendix B, table V, and accompanying note.

² Preliminary estimates based on incomplete data.

The American public had a "disposable" income (after taxes) of 145 billion dollars in 1946. This represents an average of \$1,026 per capita. In the prewar period, 1935-39, the corresponding figure was \$497. It is true that a large part of this increase in income was absorbed by higher prices. The Consumer Price Index in 1946 averaged 39 percent above the 1935-39 level. This index measures the increase in the retail prices of most of the goods and services bought by families with low to moderate incomes. It provides a rough measure of the general rise in prices paid by consumers as a whole. Thus, it appears that average per capita incomes rose considerably more than prices. This means that the average per capita real purchasing power in 1946 was substantially greater than in the prewar period.

In consequence of these improvements, and in spite of some continued shortages, the average American family is buying more food, clothing, and other things than ever before. The total volume of consumption of these and other things, particularly durable goods, needs to be maintained and expanded if 1947 is to be a year of maximum production.

Unfavorable factors in consumer demand

Despite the continuance of many favorable factors, the recent trends in consumer purchasing power are disturbing. Many groups of consumers suffered a larger drop in purchasing power in the latter half of 1946 than is indicated by the trends in average per capita disposable income shown in Table IV. The purchasing power of wages has dropped seriously, especially during the past six months. The \$46 weekly take-home pay of the average factory worker in October 1946 bought only about as much as the \$35 he received in April 1942.

In consequence of these developments, and the appearance of more goods on the market, there has been a marked change in saving by consumers, indicated in the following table:

TABLE IV.—*Trends in Consumers' Savings*

Year or Quarter	Dispos- able Income	Less: Consumer Expendi- tures	Equals: Savings	Percent of Dispos- able Income	
				Spent	Saved
	(Billions of dollars)				
1935-39 average.....	64.3	58.8	5.5	91.4	8.6
1940.....	72.9	65.7	7.3	90.1	9.9
1941.....	88.7	74.6	14.2	84.1	15.9
1942.....	110.6	82.0	28.6	74.1	25.9
1943.....	124.6	91.3	33.3	73.3	26.7
1944.....	137.4	98.5	38.9	71.7	28.3
1945.....	139.6	106.4	33.1	76.2	23.8
1946 ¹	144.5	127.0	17.5	87.9	12.1
Seasonally Adjusted Annual Rates:					
First quarter.....	138.0	120.9	17.1	87.6	12.4
Second quarter.....	141.8	122.0	19.8	86.0	14.0
Third quarter.....	148.4	129.4	19.0	87.2	12.8
Fourth quarter ¹	149.7	135.5	14.2	90.5	9.5

¹ Preliminary estimate based on incomplete data.

NOTE.—Detail will not necessarily add to totals because of rounding.

Source: Department of Commerce.

In the war year 1944, consumers saved about 28 percent of their total disposable income. A major part of this saving reflected shortages of civilian goods, effective price ceilings, and patriotic bond purchases. The rate of savings has fallen substantially since then, and by the end of 1946 had dropped to a little less than 10 percent of this disposable income. This was only slightly above the level of savings in the prewar years 1935-39. It is doubtful whether the rate of consumer savings will or even can be reduced much further except by adversity.

In spite of the high rate of savings during the war, it is unsafe to assume that most American families still have enough savings in hand to supplement current income for any considerable length of time. Recent surveys indicate that 24 percent of American families held no war bonds or bank accounts in 1945, and 29 percent held less than \$500 of savings in these forms. Available data point to the fact that past savings have been used to supplement current incomes during this past year.

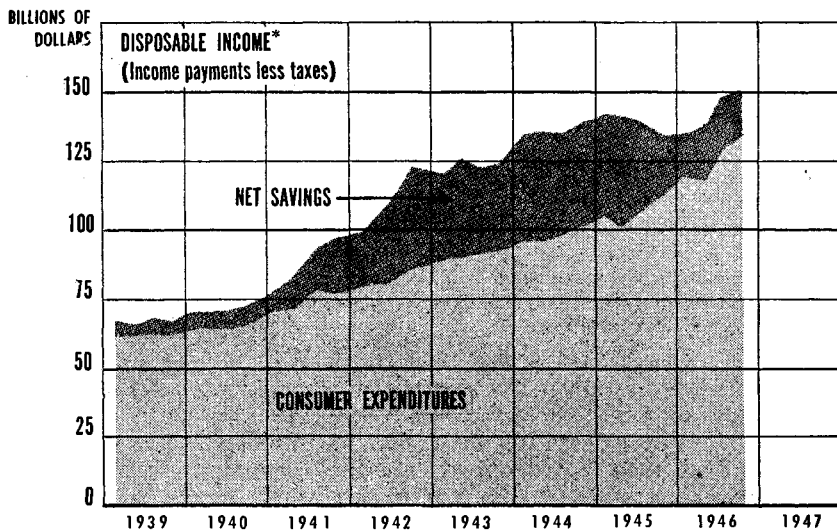
Another element in current trends is the rapid increase in installment and credit buying during recent months. Consumer credit totaled almost a billion and a half dollars more in November 1946 than in March. But undue extension of deficit financing on the part of millions of American families can gravely hurt our business system and lead in the end to deficit financing by the Government. In the long run, consumers must rely on current incomes for purchasing power.

If consumer incomes should remain at current levels, we would expect savings to drop little, if any. Consequently we would not expect consumers as a whole to spend much more money than they were spending at the end of the year, without considerable expansion in consumer credit, unless total consumer incomes are increased. (Appendix B, Table IV.)

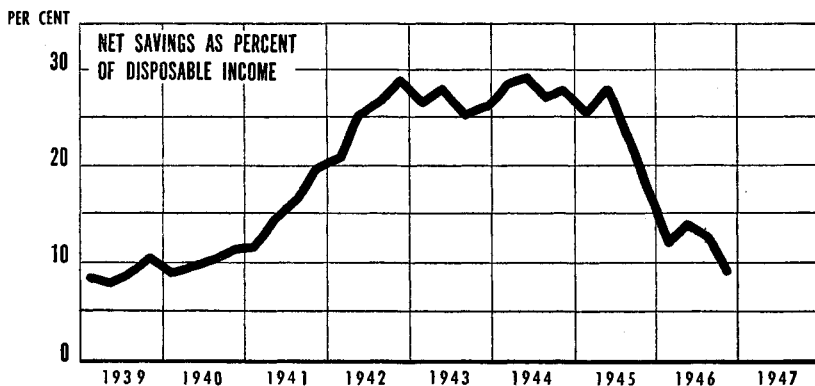
Some of my short-range recommendations bear upon this problem.

THE CHANGE IN SAVINGS

Since V-J Day, people are saving less money, though still more than in the prewar days.



About 10% of disposable income is being saved today—approximately the prewar rate—as compared with some 30% in 1944.



* Seasonally adjusted, annual rate

Source: Department of Commerce

BUSINESS INCOME AND OUTLAYS

Business investment, as the term is used in the Nation's Economic Budget, includes investment in industrial plant and equipment, in inventories, in commercial construction, and in residential construction. To maintain maximum production and employment in 1947 it is desirable that business investment be at an annual rate at least equal to the annual rate prevailing in the last quarter of 1946.

Plant and equipment

During the war years, a large deferred demand for industrial and commercial construction and equipment had been accumulating.

In 1946, business investment in plant and equipment approximated 15 billion dollars as compared to 12 billion dollars in 1929 and about 7 billion dollars in 1939. Even with allowances for a substantial rise in costs, it is evident that the most recent rate of investment in plant and equipment is much higher than before the war and the defense program.

For the long run, continuation of expenditures for privately financed productive facilities at anywhere near the recent levels will depend upon the size of our peacetime market, investment incentives, and the rate of technological progress, rather than upon backlog.

Inventories

Business inventories increased six to seven billion dollars in 1946, and at the end of the year were worth about 33 billion dollars. Although this sum is not disproportionate to total sales, there may be a decline in the rate of accumulation in 1947. As uncertainties in supply and price clear up, inventories will become more stable. A reduction in the rate of inventory accumulation will mean a lower level of business investment in this area and raises the question of whether or how it is to be offset by increases in other forms of investment or consumer expenditures.

Commercial construction

During 1946, the volume of commercial construction, although limited by the shortage of materials and by the requirements of the Veterans' Emergency Housing Program, reached one billion dollars. The Civilian Production Administration was obliged to defer a large proportion of the nonresidential building applications so that demand for commercial buildings remains high.

In addition, the distributors of goods and services as a whole, although with individual exceptions, have enjoyed record profits during the past year and apparently are in a position to finance an expansion of their capital facilities. However, the high costs of construction tend to offset in some degree the favorable outlook created by the continued existence of substantial demand.

At the present time not only have new residential areas been built up without a corresponding building up of commercial facilities, but

substantial additional residential construction would create still further demand for commercial facilities.

Residential construction

Investment in residential construction, which totaled about $3\frac{1}{3}$ billion dollars in 1946, would need to approximate 6 billion dollars in 1947 at the current price level in order to maintain a satisfactory level of activity in this field. As a result of the Veterans' Emergency Housing Program in 1946 the supply of materials has been increased sufficiently to permit the building of at least 1,000,000 houses in 1947.

However, the price problem in housing is even more serious than in other lines because the gap between consumer income and housing prices is so great. While material prices may fall substantially this year, the gap will still remain dangerously high, especially for the lower income groups. But even if the backlog demand provides a ready market for all the housing which is produced in 1947, this superficially satisfactory situation would plant the seeds of a collapse in residential construction within a few short years because the number of families who can afford high-priced houses comprises only a small part of the population.

Favorable factors in business demand

The prospects for business investment are brightened by several clear elements of strength. The first of these is the availability of abundant aggregate funds including ample bank credit.

The second favorable factor is that profits in most lines of industry and business have been highly rewarding during 1946 and have been rising quarter by quarter. The profits outlook for 1947 suggests adequate motive for investment in plant, equipment, and inventory to meet the wants of a people functioning at maximum employment.

Still another favorable factor is the backlog demand for construction.

Unfavorable factors in business demand

Threatening the continuation and expansion of business investment is the fear that a drop in general consumer demand may be in the offing.

Another main factor that could adversely affect business confidence, and thus business demand, would be the recurrence of serious management-labor disputes. Also, the high cost of housing constitutes an adverse factor. Finally, business demand may be somewhat restricted by shortages of certain basic materials.

INTERNATIONAL TRANSACTIONS

The net balance of international transactions in 1946 was about the same as we can anticipate for 1947. Some changes in the components of that balance and in the methods of financing it, however, are both desirable and likely to occur.

Intense demand of foreign countries for goods available only or chiefly in this country has been one of the factors accounting for a high level of employment, production, and purchasing power in the United States during 1946.

Our receipts from the sales of goods and services abroad have recently been running at a rate of about 15 billion dollars a year, compared with only 4 billion dollars prior to the war.

Foreign demand for United States goods at present is associated with the incompleteness of reconstruction in war-devastated areas, and it will continue to be high during 1947, even though some countries may be reluctant to purchase at our current high prices. Sufficient resources will be available to foreign countries to finance urgently needed purchases from us. Any recession in domestic demand would permit us to meet some of the now unsatisfied foreign demand, with a resulting increase in exports. Even if this should be confined to a rise in quantities rather than in the dollar values it would be a factor cushioning the effects of any dip in domestic production and employment.

Should fears concerning our willingness and ability to buy and lend abroad increase, however, foreign countries may husband their dollar resources so as to make them available over a longer period. In this event our exports would be reduced.

GOVERNMENT BUDGETS

In the Budget Message, I review in detail expenditures and receipts for the current fiscal year, and transmit recommendations for the next fiscal year. There is no need to repeat those details in this Economic Report. It should be noted that the Government receipt and expenditure figures used in the Economic Report are not identical with the conventional figures of budget estimates, because they refer to the calendar year rather than to the fiscal year and because they are on a consolidated and cash basis in order to measure the economic impact of Government transactions on the economy.

With an outlook of high economic activity for the current year, the revenue policies are designed to balance the budget and achieve a surplus toward the retirement of the national debt. The expenditure policies are designed exclusively to cover the essential cost of national defense and war liquidation, to meet our international commitments and the obligations to war veterans under existing law, to carry forward programs required by the Congress, and to take some small but essential further steps toward fulfilling the duties of alert and progressive government.

Nevertheless, it is obvious that Government transactions, which—including Federal, State, and local government—total more than a fourth of our national product, profoundly affect the whole economy. An analysis of the economic impact of Government expenditures is facilitated by a break-down of the totals according to the type of recipients and character of the payments. Federal payments to the

public are classified along lines of economic significance in the following estimates:

TABLE V.—Federal Cash Payments (incl. net loans) to the Public

[Billions of dollars]

Payments to—	Calendar year		Change
	1946	1947	
1. Active Federal personnel:			
Civilian.....	5.2	4.3	-0.9
Military.....	6.1	3.6	-2.5
Total.....	11.4	7.9	-3.5
2. Individuals (other than active Federal personnel):			
Civilian.....	4.1	3.7	-0.4
Military.....	7.8	6.5	-1.3
Total.....	11.9	10.2	-1.7
3. Farmers (incl. food subsidies) ¹	1.0	1.2	+0.2
4. Business ¹	1.8	1.0	-0.8
5. Holders of the Federal debt (interest payments).....	3.9	3.7	-0.2
6. State and local governments.....	1.0	1.5	+0.5
7. International organizations, foreign governments and U. S. exporters.....	2.1	3.9	+1.8
8. Producers of goods and services, transportation, and miscellaneous.....	11.6	9.7	-1.9
Total.....	44.7	39.0	-5.7

¹ Excluding payments for purchase of goods and services.

Detail will not necessarily add to totals due to rounding. Calendar year 1947 is estimated.

While Federal cash expenditures are expected to decline by about 6 billion dollars from calendar year 1946 to calendar year 1947, State and local expenditures are expected to increase by approximately 1 billion dollars, largely because of a probable increase in expenditures for public works, veterans' bonuses, and an increase in pay rates.

Thus there will be a net reduction in governmental expenditures on all levels by about 5 billion dollars. As has been shown in Table II above, a considerable decline in Federal expenditures took place during the calendar year 1946, and only a small further decline is expected for this year as compared with the end of last year. The economy seems already to have adjusted itself to the decline in Federal spending that took place during the first three quarters of 1946 without a net loss in employment or production. This testifies to the effectiveness of reconversion policies.

During the war, State and local payments were reduced below pre-war levels whereas receipts from the public increased somewhat. The total of State and local gross debt was reduced by about 4 billion dollars.

Since VJ-day, State and local expenditures have steadily increased. This trend is likely to continue in 1947.

State and local revenues in 1947 will probably not be greatly different from those in 1946 unless there is a sharp drop in economic activity or prices. Payments to and receipts from the public of State and local governments will be in approximate balance during this year.

VI

SUMMARY OF ECONOMIC CONDITIONS AND TRENDS

On the plus side of the economic ledger we possess a fabulous wealth of resources. Our industrial plant is larger and, in many cases, better than ever before. Funds for business expansion are ample and profit incentives are high in most lines. Our labor force has greatly increased its number of semiskilled and skilled workers. The spending power of consumers, as a whole, is much higher than it ever was before the war. Consumer desires are fortified by a backlog of unsatisfied wants, particularly for housing, commercial construction, automobiles, household appliances, furnishings, and other durable goods. There are long-deferred and needed public works—Federal, State, and local. There is a strong and sustained foreign demand. More than that, we can be optimistic about the desire to buy, because of the higher standards of living which almost all of our people have recently enjoyed and which they do not want to forego.

While these favorable factors in our economic situation are fundamental, it is more practical and profitable to examine weaknesses that need corrections than to congratulate ourselves upon the blessings which we already enjoy.

1. Chief among the unfavorable factors is the marked decline in real purchasing power of great numbers of consumers, resulting from the large price increases in the second half of last year. Maximum production and employment this year would yield a substantial increase in the available supply of consumer goods and services, especially in the area of durable goods. This requires higher real purchasing power to take the goods off the market.

If price and wage adjustments are not made—and made soon enough—there is danger that consumer buying will falter, orders to manufacturers will decline, production will drop, and unemployment will grow—unless consumers resort to large additional borrowing and use of past savings to buy the increased supply of goods. These temporary expedients are limited in power and even if available would merely postpone the day of reckoning.

2. Weakening of the activity of investment might operate also as an obstacle to maximum employment, production, and purchasing power. If industrial and commercial construction slackens, and prices for residential construction remain high as compared with incomes of laborers and white-collar workers, our maximum employment objective might be threatened this year or soon thereafter.

3. Labor-management strife, with severe work stoppages, remains a possibility. This would directly interfere with production or employment by creating or intensifying shortages of materials, parts, or equipment. Through creation of uncertainties about demand or supply and costs of materials, it might lead to reductions in business outlays for plant, equipment, and inventories.

That is why in my State of the Union Message I placed so much stress upon successful labor-management relations.

During this year, the underlying favorable factors are strong enough to maintain high prosperity. But this year brings us face to face with maladjustments and unfavorable possibilities which, if not corrected or prevented, could cause a recession in production and employment. The Government will watch this situation and be prepared for action if needed.

I shall now proceed to discuss the contribution labor, business, agriculture, and the Government can make to the solution of these basic problems, along with recommendations related to other elements in a "national economic policy" as called for by the Employment Act.

VII

RECOMMENDATIONS

SHORT-RANGE PROGRAM

My short-range recommendations have long-range significance as well. But they merit immediate attention from the Congress and from the people as a whole because of their influence upon economic conditions in 1947.

1. Prices and wages

Removal of emergency price and wage controls has restored the main responsibility for prices and wages to business, labor, farmers, and consumers. The Government can point out dangers seen from the perspective of the whole economy, but the correctives must largely be applied by others.

Business should reduce prices wherever possible in order to bring about the necessary increase in consumer purchasing power to bolster their markets. Price reductions are especially needed in the case of goods such as many articles of food, clothing, housefurnishings, and building materials, whose prices have risen out of line. If business makes these reductions in a timely and orderly way, it will help sustain markets rather than destroy them.

Farmers must realize that last year's exceptional farm prices will fall somewhat as world food supplies increase and as consumers find a more ample supply of durable goods to purchase. Existing price supports afford protection against a severe price decline.

Labor, on its part, must recognize that high volume at low costs and low prices requires high productivity and the absence of restrictions on production. For its own advantage as well as that of the country at large, labor should refrain from demands for excessive wage increases that would require price increases or would prevent price reductions that are necessary to sell the capacity output of the product.

Management in turn should recognize that increased productivity permits wage increases in some cases as well as price reductions; and that wages and salaries need to be raised where they have lagged substantially behind the increase in living costs in the past few years or where they are substandard.

But just as there can be no universal or uniform rule to govern price reductions, so there can be no uniform rule relating to wages. Both price adjustments and wage adjustments are necessary in the ensuing months. Wage adjustments, like price adjustments, need to be made

with a discriminating regard for individual situations throughout the economy.

The Government can help in several ways to maintain a balance between prices and wages. Procurement agencies will avoid policies that stimulate price increases or prevent reductions. Disposal of surplus goods will be speeded. The antitrust laws will be applied vigorously to prevent and eliminate restrictive practices and pricing abuses.

The Congress should take steps at once to extend rent control beyond next June. A large increase in rents would substantially reduce consumer purchasing power.

On the wage side, the Congress should extend the coverage of the Fair Labor Standards Act to classes of workers in interstate commerce now excluded, and should raise the minimum wage in view of the substantial rise in the cost of living and in the national production since it was enacted.

2. Social security

I shall treat generally of the social-security program in a subsequent section dealing with long-range programs and recommendations. In view of current economic trends, however, certain action is desirable at once. I urge the Congress to take immediate steps to revise benefit payments under the social-security system. The Congress has already authorized a temporary increase in public assistance benefits. This legislation expires by the end of this year and new legislative action is required. Benefits under the old-age and survivors' insurance system should also be adjusted. These measures are necessary to alleviate real hardship which has been aggravated by increases in the cost of living. Beyond that, adequate social-security benefit payments provide a desirable support to mass purchasing power.

3. Housing

More than a million additional housing units need to be started in 1947. This goal will not only furnish badly needed shelter to our veterans and other citizens, but will result in a sizable contribution of the housing industry toward employment and purchasing power. At the lowest cost levels foreseeable this year, one million additional housing units will approximate an investment of 6 billion dollars during 1947.

As shortages of materials and manpower disappear, the main threat to a high volume of housing is the high level of current housing prices relative to the volume of consumer income.

To reduce the cost of housing on all fronts and by all desirable methods, we must start as promptly as possible a long-range housing program. Such a program can stimulate large investments in land acquisition and preparation for development. It can start the flow of new types of private investment into housing ventures. It can bring the traditional home-building industry into rental housing as well.

No subject has received more protracted study by the Congress leading to more uniform conclusions. Nonpartisan housing legislation was introduced in the Seventy-ninth Congress and passed the Senate by a large majority.

On several occasions, I have urged enactment of this program which was developed within the Congress itself. I again urge enactment of this program at the earliest possible moment.

4. Taxation

Expert and lay opinion is in agreement on the rule of sound public finance that calls for a surplus in Government revenues over expenditures while employment is high and the total of income is large. In the present economic situation, it is clear that it would be unsound fiscal policy to reduce taxes.

Everyone is agreed that the tax burden is great and should be reduced as soon as possible. When reductions come, it will be important that they be fairly and equitably distributed, that they contribute to the maintenance of purchasing power by reducing the burden on the mass of consumers, and that they help provide the work and business incentives essential for a high level of production. There are various ways of accomplishing these objectives of tax policy and of making an equitable reduction of taxes fairly distributed over all levels of income. These problems should receive careful study so that we are adequately prepared for wise action when the time comes.

5. Labor-management relations

I have transmitted to the Congress, in my State of the Union Message, recommendations covering the broad field of labor-management relations, and need not dwell further on them here. (Appendix C.)

It is important, however, to emphasize once more, in relation to our goal of a permanent high-production, high-employment economy, the key responsibility that both management and labor have in helping to achieve this goal. Sound collective bargaining is essential.

In order to build an enduring prosperity for ourselves and our children, we must and we shall solve the problem of making necessary adjustments in wages and working conditions without round after round of crippling and futile halts in production.

LONG-RANGE PROGRAM

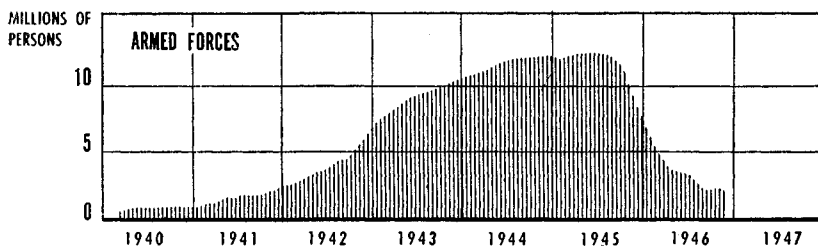
The war has left us a tremendously increased productive potential, and further increases are in store. In order to keep our expanding economic activity in line with our growing capacities, the extraordinary postwar demand that we enjoy today must be transformed into sustained demand of an expanding peacetime economy.

Elimination of wartime controls does not mean that we want to go back to the size of economy we had before the war. The possibilities and requirements of a sustained 200-billion-dollar economy differ from those of an unstable 100-billion-dollar economy.

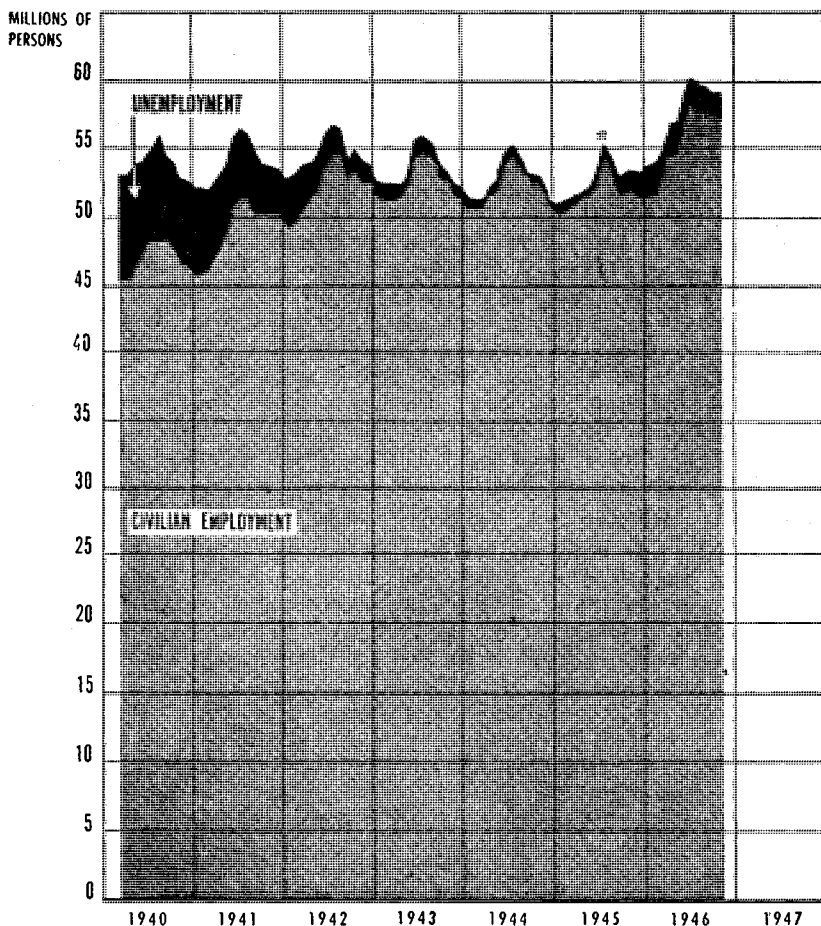
A variety of measures will be needed to fortify the basic structure of the American economy before the transformation from war and reconversion to a high-consumption peacetime economy is completed. We are still at the threshold in formulating a program of consistent policies designed to give business, agriculture, and labor the opportunities which are envisaged in the Employment Act.

THE LABOR FORCE

Since V-J Day, the armed forces have released
over ten million men and women,



and the civilian labor force has reached peak levels



** New series beginning July 1945

Source: Department of Commerce

A long-range program designed to strengthen the structure of the American economy should include policies toward:

1. Efficient utilization of the labor force;
2. Maximum utilization of productive resources;
3. Encouragement of free competitive enterprise;
4. Promoting welfare, health and security;
5. Cooperation in international economic relations;
6. Combating economic fluctuations.

1. Efficient utilization of the labor force

The Nation's labor force is its greatest productive asset. Prudent use of our human resources requires a working population not only large and well-trained, but enjoying high American standards of health, education, security, and personal and political freedom.

We must develop and utilize fully the skills of our labor force. We must improve productive efficiency through industrial training and counseling focused on employment opportunities in various occupations, industries, and localities. I am directing the Federal agencies concerned to initiate a study of these programs, in cooperation with State and local authorities, in order to improve such training and services and to remedy inconsistencies and gaps.

The return of the Employment Service to State administration should not result in its disintegration into 48 disconnected pieces, nor in the subordination of the placement service to unemployment insurance. An efficient placement service requires uniform minimum standards and an integrated interstate system for disseminating job information and placing workers across State lines.

We must end discrimination in employment or wages against certain classes of workers regardless of their individual abilities. Discrimination against certain racial and religious groups, against workers in late middle age, and against women, not only is repugnant to the principles of our democracy, but often creates artificial "labor shortages" in the midst of labor surplus. Employers and unions both need to reexamine and revise practices resulting in discrimination. I recommend that, at this session, the Congress provide permanent Federal legislation dealing with this problem.

2. Maximum utilization of productive resources

In our free-enterprise system, we rely mainly upon private initiative to expand the productive base of the economy. Our productive capacity has grown not only through technological developments, but also through a steady stream of additions to plant and equipment. Output per man-hour has increased on the average some 3 percent per year over the decades.

The whole history of America indicates that this progress can be entrusted mainly to the initiative and inventiveness within our business system. But we do need Nation-wide concerted action to remove the fear that demand will periodically be inadequate to absorb maximum production. This is what puts brakes upon inventiveness and initiative.

Even in times of prosperity, aside from war, a substantial portion of our productive facilities has been idle. Recurrent depressions have brought paralysis to as much as one-third or even one-half of our plants and machines.

While the Government has a function in the encouragement of new industries and the development and dissemination of research, the greatest incentive that the Government can provide for business productivity is through helping to prevent depressions. If production incentives are adequate, business will expand without hesitancy when markets for its products are reasonably assured through a successful Nation-wide program for continuous maximum employment, production, and purchasing power.

Agriculture.—The soil is one of the most valuable economic assets of the Nation. Most effective utilization and conservation of this resource should be an important aim of the agricultural program of the Government.

We have experienced amazing technological progress in agriculture and further progress is to be expected. This progress necessitates adjustments in farming, adjustments in the processing and manufacture of foods and clothing, and in the process of distribution.

American agriculture suffered a severe depression in the years following the First World War. This situation was generally recognized by all groups. It resulted in large-scale governmental programs to help the farmer get incomes more nearly in line with the incomes of other groups.

The long-range agricultural policy of the Government should be aimed at preserving the family-sized farm and preventing another agricultural depression as we go through the readjustments following the Second World War. It should help to see that farmers' incomes do not fall below those earned by other comparable productive groups. This should involve the least possible interference in the management of actual farming operations. It should be accomplished without use of subsidies so far as feasible. We should seek to make it possible for farmers to earn good incomes through their own efforts.

Above all, the long-range agricultural policy of the Government should be based upon the principle of plenty and not upon the encouragement of scarcity. The term "maximum production" in the Employment Act applies to the farm as well as to the factory. This basic policy is inconsistent with a policy of production restriction, though we must take a realistic view of the proportion that agriculture as a whole bears to the economy and also of the relative amount of effort devoted to the several lines of production. Our domestic capacity to absorb the products of our farms—if farmers are encouraged to turn their productive efforts in the right directions—will be enormous as we get nearer to solving the problems of sustained employment and high purchasing power. How much of an export surplus from the United States the markets of the world will be able to absorb will depend in part on our international economic policies, notably as to industrial imports and overseas investments.

Agricultural production increased more than 30 percent during the war. Technological improvements in farming and in food distribution would make it possible not only to continue this high rate of production, but also to increase it substantially during the next few years.

The high rate of agricultural production during and since the war has been supported by unusually high rates of food and fiber consumption. For the satisfactory solution of our agricultural problems during the next several years it is essential that we maintain these high

rates of consumption, or even increase them. This is desirable not only from the farmer's point of view, but from the point of view of American diets and standards of living.

The Congress has recently authorized a permanent school-lunch program in cooperation with the States. I hope this program will be expanded until we are sure that every American school child gets an adequate diet. In addition, we should study carefully the possible need for food and nutrition programs to reach low-income families.

The Congress also recently authorized a broad and strengthened program to improve the marketing and distribution of farm products. This includes the strengthening of research and educational work, as well as the improvement of the various marketing services performed by the Government. We shall need to give increasing emphasis to marketing during the next few years. Better marketing can go a long way toward maintaining adequate rates of consumption, with benefit to farmers and the public alike.

We must honor the Government's commitment to support farm product prices during the period of readjustment to a stabilized peacetime basis. However, experience within the past year has demonstrated, on a small scale, some of the dangers that may result from holding the support level for any commodity too high. This only leads to maladjustments within agriculture, to the wastage of food, and to unnecessarily large Government expense.

The Government's long-range program to support farm incomes at reasonable levels must be kept flexible. It should be designed to encourage adjustments of production in line with the capacity of markets to take products at a price remunerative to efficient farming. It should promote well-managed use of our vast resources of farm land, machinery, and agricultural labor in such ways as to be profitable to farmers and of maximum benefit to the public as a whole.

The standard of living on farms depends on more than the amount of money income received by farmers. Farm communities have never received comparable treatment with cities in such matters as education, housing, medical care, health, nutrition, and social security. Federal and State programs in these fields should give increasing attention to the needs of rural areas.

Regional development.—Wide regions of this country still hold the promise of tremendous economic development. The Government should examine particularly the contribution it can make toward this development by stimulating production and distribution of low-cost hydroelectric energy, by developing flood control and navigation, by improving roads, by enforcing fair competitive rates of transportation, by removing barriers to truck transportation, by land drainage and irrigation projects. We need to rebuild croplands, grazing areas, and forests. Future programs of resource and industrial development should be prepared so that we can move ahead rapidly at the appropriate time.

Even under today's full employment conditions, there are a few chronically depressed areas, and some areas left stranded by the end of the war. These problem areas were created by the interplay of Nation-wide forces, and our Government has the responsibility of assisting these communities in developing ways and means of improving their positions. The Council of Economic Advisers will give particular attention to these problems.

Federal-aid programs.—The Federal Government is engaged in several programs of grants-in-aid to State and local governments involving large amounts of money. Further programs are planned. These programs, particularly those related to health and education, public works, and road and airport construction, contribute greatly toward bringing all sections of the country up to the levels of productivity consistent with American standards of living.

I have asked the Council of Economic Advisers to cooperate with the Bureau of the Budget and other Federal agencies concerned, and with State and local advisory committees, to undertake a study of Federal grants to State and local governments to determine to what extent revised standards for the distribution of these grants may take into account more fully the needs for support that exist in various parts of the country.

Public works.—Aggregate expenditures for public works are large. They obviously have a considerable effect upon the whole economy. Further, since many public-works projects are not related to the daily problems of business operations nor to the daily needs of consumers, they are subject to adjustment in their time of commencement and their rate of progress. This had led, particularly in recent years, to an overemphasis upon the prospects of stabilizing our whole economy through the bold use of public works.

There are valid reasons why public works cannot accomplish as much toward stabilization as some have supposed. In the event of severe unemployment, they cannot be generated in sufficient volume to avoid supplementation by other means. In a period of mild recession, they cannot be generated on time to be fully effective. If the tempo of the public-works program is geared to some business index, the reserves accumulated for emergency use may be used after they are needed and they then become inflationary rather than stabilizing. Even if advance preparations are made through the completion of plans, the acquisition of sites, and the accumulation of funds, there will be an inevitable time lag between calling the emergency program into operation and the employment of men on the job.

These comments are substantiated by experience. The chief lesson to be learned is that no one device constitutes an adequate safeguard against recession or an adequate fighting apparatus against depression. All useful devices need to be thought through in advance and blended into a consistent program.

Instead of regarding public works as the first and foremost device to restore our whole economy when it sags, we should attempt to stabilize public-works construction according to our long-term needs. Increasing regularization of public-works expenditures at all levels of governmental activity over a long period will offer an assurance of a demand for capital, of a market for materials and equipment, and of a field for employment which will assist in stabilizing that segment of the business world. This approach to public works will have the further advantage of appraising their size and character in terms of our total national needs.

This policy by no means forestalls the expansion of public works as a sustaining factor if recessions or depressions should unfortunately develop despite our best efforts to avoid them. The very procedure necessary for long-term regularized expenditure will pave the way for more effective emergency use than in the past.

Research and patents.—The United States will this year invest more than 1 billion dollars in research. In order to protect national security and the development of the domestic economy, I have established by Executive Order a Presidential Research Board to survey Federal research and development programs. The continuance of a research program of large magnitude for many years to come, together with the fact that many of the inventions resulting from it will be patentable, calls for action to protect the public interest in inventions and discoveries resulting from expenditures of public funds. I hope that suitable legislation for a uniform patent policy will be enacted by the Congress at this session.

3. Encouragement of free competitive enterprise

It is imperative that there be no restrictions on free competition resulting in curtailment of production and employment, or in maintenance of high prices, or in interference with freedom to invest funds, or in hampering the entry of new firms to any line of production or trade. I recommend that the Congress review the studies made by the Temporary National Economic Committee and by other Congressional Committees with a view toward supplementing or strengthening existing legislation in this field. Among the steps to be taken is the extension of Section 7 of the Clayton Act to prohibit mergers by the acquisition of assets, as well as by the acquisition of stock control.

Enforcement of existing antitrust laws.—The Antitrust Division of the Department of Justice and the Federal Trade Commission have both labored under inadequate appropriations. They should be better supplied with funds so that their activities can be more closely integrated. Accordingly, I am recommending in the Budget Message increased appropriations for the control of monopolistic practices.

Encouragement of small business.—The Government should take affirmative action to enlarge the opportunities for efficient and enterprising small businesses.

I believe that the Government should study ways and means of facilitating the availability of long-term credit and equity capital to small and promising business enterprises.

The Department of Commerce has developed, and will further develop, business service programs providing businessmen with such information on markets and technical and commercial facts as only large establishments can provide by their own staffs.

Consideration should be given to the impact which existing taxes have upon small and growing businesses.

4. Promoting welfare, health, and security

There are certain programs of Government which have come to be looked upon as "welfare programs" in a narrow sense. This has placed them in an insulated compartment. They have not been sufficiently related to the needs of the economy as a whole. In fact, they are a part of the problem of maximum employment, production, and purchasing power.

The Employment Act presents the opportunity to abandon this insulation, and to put these programs back in the economic setting from which they must draw their sustenance.

Unemployment insurance is designed to take care of the unemployed as a matter of right rather than of charity, but it also provides pur-

chasing power as a cushion against recessions, and its tax features are of general economic significance. Retirement and pension systems exist to take care of workers who have given of their years in factory, field, or office. But these systems, both on the income and outgo side, have a profound effect upon volumes of purchasing power, and the retirement age needs to be adjusted to the size and composition of our labor force and the trend of improved technologies. Health insurance relates clearly to the efficiency of workers and thus to the productivity of industry and agriculture. And this is even more true of education, which must be reshaped continuously to meet the changing demands and job opportunities of the machine age—or, some day, of the atomic age.

The total amounts of public outlays for these and other purposes need to be measured against the total size of our economy—its wealth and resources today, and the trends and policies which shape its future. Many of these programs have been born of a depression psychology. They have proceeded from the assumption that our enterprise system will necessarily fail to employ given numbers of people from time to time, and that these other programs must be brought forward to prime the pump or fill in the gaps. Here, too, we need a restatement. We should regard them rather as an inescapable obligation of an enlightened people, and we should expand them as our resources permit.

The relationship between these welfare programs and general economic conditions has been inadequately explored. Proposals for maximum employment, production, and purchasing power, and proposals traditionally regarded as being in the general-welfare area, should be integrated because they are interrelated. Further studies will provide the basis for this integration.

Public health and education programs.—Among those whose income is less than the minimum necessary for a decent subsistence are those who cannot earn their living because of physical unfitness or lack of educational training.

A combination of public health, nutrition, education, and regional development programs would create additional job opportunities and supply workers fit to fill these jobs. Relatively small Government expenditures for health and education yield a high national dividend. It is more economical to prepare people to earn a decent living than to care for them through relief.

The Federal Government is now spending a large amount of money for health and education programs for war veterans, but general expenditures in these fields are relatively small. I urge the Congress to give early consideration to expanded peacetime programs of public health, nutrition, and education.

Social security.—Although maximum employment would protect wage earners generally from the effects of prolonged mass unemployment, the individual is still exposed to many hazards of economic insecurity.

Our social security program has not kept pace with the times, nor with our increase in general living standards. Many individuals are not covered by the present provisions of the Act, and the benefit payments to those covered are inadequate under today's conditions.

I recommend that the Congress, cooperating with the States, take action that will lead to increasing the amount and duration of unemployment benefits. Present unemployment reserve funds are ample to support such increases.

I recommend that the Congress amend the social-security laws to extend the benefits of old-age and survivors' insurance to the occupational groups now excluded, and to include under unemployment compensation the employees of all establishments, regardless of size, in the industries now covered by the Unemployment Compensation Tax Act. In expanding general social security, the Congress should not overlook the railway workers, whose protection is under separate laws.

While we compensate workers for loss of wages due to unemployment arising from lack of work opportunities, we do not insure them against the risks of loss of earnings from temporary or permanent disability, nor against the costs of medical care. This represents not only a heavy loss for the individual but a great waste of productive manpower.

There is an urgent need to spread the risks arising from sickness and disability by insuring workers against the loss of income and by providing, through social insurance, ready access to essential preventive and curative medical services. I have, in a previous message, presented recommendations for a program of medical care and disability benefits. I urge early consideration of this program.

Our present social insurance system is financed by employee and employer contributions. We must recognize, however, that the employees' contributions and the employers' pay-roll tax curtail mass purchasing power and increase businessmen's costs. From an economic point of view, it would be desirable to finance a part of the social security system out of the general budget. Therefore, I propose that the Congress, in working out a system of financing an expanded social security program, give full consideration to the economic as well as the social import of various methods of taxation for this purpose.

5. Cooperation in international economic relations

While most of this Report has necessarily been devoted to the domestic aspects of employment, production, and purchasing power, we must bear in mind that we are part of a world economy. Our sales of goods and services abroad, amounting to about 15 billion dollars in 1946, played an important role in the maintenance of domestic production, employment, and purchasing power and may be expected to do so this year. Such a high level of exports reflects in large part the war destruction of productive capacity in other countries. If we are to maintain a well-balanced prosperity over a long period, our foreign trade must be established on a more permanent basis.

In the long run we can sell to other countries only if we are willing to buy from them, or to invest our funds abroad.

Both foreign trade and foreign investment are vital to maintaining a dynamic economy in this country.

The shortages we have suffered during the war and are even now experiencing have proved to us our need for foreign imports. We will continue to need imports not only to add richness and variety to our standard of living but also as a means of conserving strategic materials. We do not have to fear so-called foreign competition when we have maximum production, employment, and purchasing

power. We must not, of course, indulge in indiscriminate reduction of barriers to imports. Such a policy is not contemplated.

For a few years we cannot expect to buy as much from abroad as other countries buy from us. We will find it profitable to invest a part of our savings in developing the world's productive resources through sound loans and investments of equity capital abroad. This is important not only in the first instance as an immediate outlet for our goods and services, the supply of which will be increasing in the coming years, but also as a means of permanently increasing foreign markets for our farmers and businessmen. The quickest demonstration of this can be seen by the fact that nations that are industrialized are our best customers.

Many countries fear economic depression in the United States as a threat to their own stability. If faced with the alternatives of smaller trade and economic insulation on the one hand or close relations with an unstable American economy on the other, many might prefer some insulation as the lesser evil.

In preference to either of these alternatives, these countries would choose closer relations with a stable American economy operating at high levels. They have already begun to cooperate toward achieving these related goals: economic stability and expansion of world trade. The International Monetary Fund, designed to stabilize exchange rates, and the International Bank for Reconstruction and Development, set up to facilitate the international flow of capital, have already started to operate. At our initiative, experts of 18 important governments recently worked out a tentative charter for an International Trade Organization. This charter embodies principles of commercial conduct designed to enlarge the beneficial flow of world trade, to reinforce the domestic employment and development programs of the cooperating governments and, by intergovernmental commodity agreements, to remove the depressing effects of burdensome world surpluses. This charter represents the first major effort in the field of trade to replace unilateral action—which often injured other countries and provoked retaliation—by cooperation, and joint action under a set of common principles. Continued progress in the formation of the International Trade Organization represents the most important step that we can take to reestablish a high volume of foreign trade on a sound basis.

The willingness of many other countries to enter the proposed trade organization will depend to a great extent on our attitude in connection with the reciprocal tariff negotiations scheduled for this year. In return for our own tariff concessions, we can hope to secure not only reduction of foreign tariffs and discriminations but also elimination of a mass of restrictions, in particular, rigid import quotas preventing our access to foreign markets. Thus we should press forward with our program to secure the reciprocal reduction of trade barriers.

If we fail to do our part in putting international economic relations on a healthier basis, it is quite likely that some other countries will feel compelled to increase their own controls. Such a development would tend to break the world into trading blocs and could have profound effects upon world politics and the prospects for creating an enduring peace.

6. Combating economic fluctuations

Only by blending all practicable programs in wise proportions can we be successful in stabilizing our economy at the highest feasible levels. The long-range policies I have outlined are designed to strengthen the structure of the economy and to reinforce its resistance to economic fluctuations.

The greater this power of resistance, the less need there will be for some of the limited and specialized stabilizing devices which have received much attention in recent years.

I have directed the Council of Economic Advisers and the other appropriate Government agencies to make a continuing study of the stabilization devices that may become necessary and to recommend their being placed in operation in ample time to insure the anticipated effect.

Among these devices are a well-integrated program of employment stabilization; improvements in the process by which workers find jobs and employers find workers; improvements in the tax structure; wise management of the public debt; and a flexible credit policy.

Continuing policy cannot be extemporized from month to month or even from year to year; most policies designed to increase the stability of the economy are of long-range character. Fortunately, we have time in which to plan deliberately and wisely, and in which to secure the cooperation of all our citizens in driving toward our common goal: an expanding economy of maximum production, employment, and purchasing power under a system of free competitive enterprise, with full recognition of the duties and responsibilities of forward-looking government.

TABLE OF CONTENTS OF APPENDIXES

	Page
Appendix A: Explanation of the Nation's Economic Budget.....	35
Appendix B: Statistical Tables Relating to Employment, Production, and Purchasing Power.....	41
I. Gross national product or expenditure, 1939-46.....	41
II. National income by distributive shares, 1929-46.....	41
III. Income payments to individuals, 1929-46.....	42
IV. Disposition of income payments, 1929-46.....	43
V. Disposable income, population, and consumers' prices, 1929-46.....	44
VI. Consumers' prices, 1939-46.....	45
VII. Wholesale prices, 1939-46.....	46
VIII. Gross weekly earnings in selected industries, 1940-46.....	47
IX. Average hourly earnings in selected industries, 1940-46.....	48
X. Corporate profits before and after taxes, 1939-46.....	49
XI. Total labor force classified by employment status and sex, and veteran status of males, 1940-46.....	50
XII. Estimated number of employees in nonagricultural estab- lishments, 1940-46.....	51
Appendix C: Excerpt from the State of the Union Message.....	52

APPENDIX A

EXPLANATION OF THE NATION'S ECONOMIC BUDGET

The Nation's Economic Budget is designed to depict the flow of funds by which major economic groups are interrelated in the national economy. To this end it shows income and expenditures for consumers, businesses, and government, as well as the balance of international trade. Broadly speaking, the decisions to spend or to save of each of these groups of consumers may be considered as springing from a different set of considerations than those of the other groups. The results of these decisions are embodied in four sets of accounts comprising the Nation's Budget.

Expenditures.—The expenditure side of the accounts is clear and unambiguous. The meaning of consumer expenditures is just what the name implies. One exception may be mentioned: residential construction is included with all other construction in business outlays. Business expenditures are not the total expenditures of business, but only that part which consists in additions to or replacements of plant, machinery or other equipment, and additions to inventories (exclusive of inventory revaluation). In contrast, the operating expenditures of business are part of prices charged the consumer, so that including them would involve double counting. The international expenditure figure consists of the net balance of receipts from the sale of goods and services over payments, since it is this portion which is not balanced by an equivalent amount of foreign goods and services added to the domestic supply. Government expenditures consist mainly of payments for goods and services currently rendered, but include certain other types of payments. In summing the components the latter are deducted as adjustments to obtain the total national expenditure for goods and services, which is equal to the value of gross national production.

Income.—The production of the national product involves an equivalent flow of income to individuals or businesses or government producing the product. The manner in which income is allocated to consumers, business, and government is somewhat complicated, however.

Consumers' earned income consists of salaries and wages, dividends, income of farmers and other unincorporated business, and interest, rents, etc., going to individuals and fiduciaries. Income earned in production is not equivalent to income available for spending by consumers, however, and it is the latter quantity which is of more significance for the analysis of economic flows. Both additions and deductions must be made from earned income to arrive at spendable or disposable income.

In each period, sizable additions to consumers' earned income are made by the Government. For example, in 1946 servicemen received mustering-out pay and dependency allotments and veterans received pensions and readjustment allowances. Old-age benefits from the social-security funds were a further addition to consumers' disposable income. On the other hand, in each period, pay-roll, income, and

estate taxes are deducted from the total of consumer income. The residual income constitutes the disposable income of consumers appearing in the Nation's Economic Budget table.

Of the income going to business, some is withdrawn by the Government in the form of corporation income taxes, excise taxes, and other business taxes. The residual income of business, after payment of dividends to shareholders, consists of additions to reserves, and corporate undivided profits. Undivided profits and reserves of all business (with some adjustments to put the figures on a cash basis) comprise the receipts appearing in the Nation's Economic Budget table.

No entry is made on the receipts side of the international account, since the excess of expenditures over income is shown in the expenditure column.

Government income is obviously the sum of business, pay-roll, and personal taxes, plus some miscellaneous income obtained from the sale of surplus property, contract settlement, etc.

Surplus or deficit.—The Nation's Economic Budget table shows that total expenditures equal total incomes. This means that savings of some groups must equal the deficits of other groups. Expressed somewhat differently, withdrawals from the income stream (savings) by some groups are offset by additions to the income stream (deficit or investment) by other groups.

The sum of the incomes of all groups is in excess of the incomes derived from the productive process, however, because it includes the "unearned" (or transfer) incomes previously mentioned. These transfer incomes, along with the expenditures which give rise to them, do not reflect a current addition to goods and services and must, therefore, be deducted in order to arrive at the national production of goods and services. This is done by the adjustment shown at the bottom of the table. The deduction from incomes is equal to that from expenditures, unless there are transfers abroad. No deduction need be made from incomes for transfers abroad, since they do not directly augment domestic spendable funds.

The sum of income or expenditures, less the adjustments for transfers of purchasing power, is the gross national production of goods and services. By making an allowance for wear and tear upon existing machinery and equipment and depletion of natural resources, the net national production is determined.

Sections 1 through 6 below contain a somewhat more detailed description of the accounts of consumers, business, and government and of international transactions, which appear in the Nation's budget table. The basic estimates of economic magnitudes are the gross national product, national income, and related series of the Department of Commerce. The series for Government receipts and expenditures conform to the concept of cash receipts from and payments to the public as presented in the Budget of the United States for fiscal 1948 (Table 18, p. A128). Minor adjustments between these series and the gross national product series are necessary because the latter are not on a cash basis.

Substantial revisions of the Department of Commerce series, involving changes in classification of some components, are expected to be published in the near future. These will hardly change the significance of the Nation's Economic Budget picture, however. Estimates for 1946 are based on incomplete data and are consequently tentative.

1. *Consumers' account.*—The account of consumers' receipts, expenditures, and savings is shown in detail in table I.

TABLE I.—*Consumers' account*¹

[Billions of dollars]

	1939	1944	1946 ²
1. Receipts:			
2. Disposable income of individuals.....	67.7	137.4	145
Less:			
3. Adjustment to Federal cash income and expenditure series.....	.3	2.2	2
4. Adjustment for discrepancy.....		2.2	1
5. Equals: Adjusted disposable income.....	67.4	133.0	142
6. Expenditures:			
7. Durable goods.....	6.4	6.7	14
8. Nondurable goods.....	32.6	60.0	77
9. Services.....	22.7	31.8	36
10. Total.....	61.7	98.5	127
11. Excess of receipts: Savings.....	5.7	34.5	15

¹ Detail may not add to total due to rounding.

² Preliminary estimates.

Line 2: The derivation of disposable income of individuals from incomes received in producing the gross national product is shown in table II.

Line 3: The adjustments are as follows:

(a) The excess of tax payments made by the public through pay-roll deductions or other means over receipts by the Government is added back into consumer disposable income.

(b) Benefit payments from national service and Government life insurance are added.

(c) Premiums paid for Government insurance and other payments to trust accounts are deducted, since they become part of Federal cash income.

(d) The net accrued interest on Federal debt held by the public is deducted, since it is not part of Federal cash outgo.

Line 4: This adjustment is necessary because the gross national product as estimated from the income side was somewhat higher in 1944 and 1946 than as independently estimated from the expenditure side. The whole of this discrepancy, which arises from statistical imperfections, is here deducted from consumer incomes.

Line 7: Does not include expenditures for residential construction even though financed and occupied by owners. These are included with private capital formation.

Line 11: Includes savings of unincorporated business.

TABLE II.—*Derivation of disposable income of individuals*¹

[Billions of dollars]

	1939	1944	1946 ²
1. Gross national product.....	88.6	197.6	194
Less:			
2. Depreciation depletion and other reserves.....	7.7	9.6	10
3. Inventory revaluation.....	— .4	— .1	— 4
4. Business taxes.....	10.4	29.7	25
5. Adjustment for discrepancy.....	0	— 2.2	— 1
6. Equals: Net national income.....	70.8	160.7	164
7. Plus: Transfer payments to individuals.....	2.4	5.3	11
Less:			
8. Corporate undivided profits.....	.4	5.4	7
9. Contributions to social insurance funds.....	2.0	3.9	4
10. Equals: Income payments to individuals.....	70.8	156.8	164
11. Less: Personal taxes and nontax payments.....	3.1	19.4	19
12. Equals: Disposable income of individuals.....	67.7	137.4	145

¹ Detail may not add to total due to rounding.

² Preliminary estimates.

Lines 1–12: For a description of these series, see the Survey of Current Business, May and August 1942, and March 1943.

2. *Business account.*—Table III contains a detail of the business account. Profits are those of incorporated business only, while expenditures include the expenditures of both corporate and unincorporated business (including farms) and residential construction (including that financed and occupied by owners). Depreciation and other reserves also include allowances for unincorporated enterprise and dwellings. Unincorporated business savings are not included in business income because of the difficulty in separating them from income of individuals.

TABLE III.—*Business account*¹

[Billions of dollars]

	1939	1944	1946 ²
1. Receipts:			
2. Corporate profits before tax.....	5.5	24.9	20.5
Less:			
3. Corporation income tax liabilities.....	1.3	15.0	8.0
4. Dividends.....	3.8	4.5	5.5
5. Equals: Corporate undivided profits.....	.4	5.4	7.0
Plus:			
6. Business reserves, depreciation, and depletion.....	7.7	9.6	9.5
7. Government payments to business.....	.5	.6	4.2
Less:			
8. Inventory revaluation adjustment.....	.4	.1	3.5
9. Payments by business to government.....		4.2	6.4
10. Equals: Adjusted corporate profits and reserves.....	8.3	11.3	10.8
11. Expenditures:			
12. Construction.....	3.6	1.6	8.0
13. Residential.....	2.0	.5	3.0
14. Nonresidential.....	1.6	1.1	5.0
15. Producers' durables.....	5.5	4.0	13.0
16. Net change in inventories.....	.9	-1.7	6.0
17. Total, gross domestic capital formation.....	9.9	3.9	27.0
18. Excess of receipts (+), or expenditures (-).....	-1.6	+7.4	-16.2

¹ Detail may not add to total due to rounding.² Preliminary estimates.

Line 2: Department of Commerce concept which differs from that of the Bureau of Internal Revenue. Excludes profits arising from the sale or exchange of capital assets.

Line 6: Includes depreciation and depletion, other business reserves, and capital outlays charged to current expense.

Line 7: Includes refunds of business taxes, loan transactions of Government corporations, capital transactions, renegotiation of war contracts and miscellaneous items.

Line 9: Includes renegotiation payments made in discharge of previous liabilities and excess of business tax payments over liabilities.

3. *International account.*—Expenditures of foreign countries in the United States are reflected in current exports of goods and services. Only the net balance of exports over imports and unilateral transfers is included in the Nation's Economic Budget, since other exports are matched by an equivalent volume of imports. Exports include transfers of surplus property abroad.

4. *The Government account.*—The Government account includes revenues and expenditures for all governmental units—Federal, State, and local (table IV).

Federal receipts are cash receipts from the public, except from borrowing, and expenditures are cash payments to the public. The public includes individuals, private corporations, and State, local, and

foreign governments. The cash receipts and expenditures series presents the financial operations of the Government as a unit. Government trust accounts and Government-owned corporations are considered part of the Government, and the effect of transactions among these units is eliminated. Noncash payments to the public, such as accrued interest on Government bonds, are not included. Cash receipts and expenditures rather than budgetary receipts and expenditures were chosen in order to give a better picture of the economic effect of the financial operations of the Government.

TABLE IV.—*Government account*¹ (Federal, State, and local)

[Billions of dollars]

	1939	1944	1946 ²
1. Receipts:			
2. Federal receipts from the public other than borrowing.....	6.5	48.6	45.5
3. State and local.....	8.9	10.1	11.2
4. Total.....	15.4	58.7	56.7
5. Expenditures:			
6. Federal.....	9.4	95.3	44.7
7. State and local.....	9.1	8.5	10.0
8. Total.....	18.5	103.8	54.7
9. Excess (+) or deficit (—).....	—3.1	—45.1	+2.0

¹ Detail may not add to total, due to rounding.² Preliminary.

5. *Adjustments.*—In order to derive an estimate of the national production of goods and services, expenditures which do not involve purchases of current output must be eliminated. Correspondingly, a deduction must be made from the income side of the account for income not derived from current production. A detail of the expenditure adjustments is shown in table V below.

TABLE V.—*Adjustments*¹—*Reconciliation between Government cash expenditures and expenditures for goods and services*

[Billions of dollars]

	1939	1944	1946 ²
1. Cash expenditures—Federal, State, and local.....	18.5	103.8	54.7
Less:			
2. Transfer payments—			
3. To individuals.....	2.4	5.3	11.1
4. To business.....	.5	.6	4.2
5. Abroad.....		1.5	4.6
6. Benefit payments national service and Government life insurance.....			.2
7. Refunds to individuals.....		.3	1.5
Plus:			
8. Noncash expenditures for goods and services:			
9. Net accrued discount on United States securities.....		.3	.6
10. Government contributions to retirement funds.....	.2	.3	.4
11. Interest on trust-fund investments.....	.1	.3	.6
12. Federal employees contributions to retirement funds.....	.1	.2	.3
13. Expenditures for goods and services.....	16.0	97.1	35.0

¹ Detail may not add to total due to rounding.² Preliminary.

Line 1: See section 4 above.

Line 3: Includes veterans' pensions and training and readjustment allowances, servicemen's allowances to dependents and mustering-out pay, cash terminal leave pay, public assistance, unemployment compensation, old-age, and survivors' insurance, etc. These payments constitute a transfer of purchasing power from

the governmental units to individuals, and consequently should not appear in the gross national product.

Line 4: See table III, line 7.

Line 5: Includes loans to foreign governments, subscriptions to international organizations, reimbursable lend-lease, etc. Since this expenditure has not been included in the income of any domestic group, no deduction from income needs to be made for this item. However, it must be deducted from expenditures.

Lines 8-12: These noncash expenditures are considered part of the gross national product and must be added to cash payments.

6. *Gross and net national product.*—The expenditure side of the accounts is summarized in table VI. The adjustment for noncash expenditures and for transfers to the public and abroad is deducted to obtain the gross national production of goods and services. The gross national product contains an element of duplication, however. Replacement costs are included in business expenditures; as depreciation they are also included in the price of goods and services paid by the consumer or government. By deducting an allowance for depreciation and depletion, duplication is eliminated and the net output of the economy is obtained, as shown in table VI below.

TABLE VI.—*Reconciliation between the gross and net national product*¹

[Billions of dollars]

	1939	1944	1946 ²
1. Expenditures:			
2. Consumer (purchases of goods and services).....	61.7	98.5	127
3. Business (private domestic capital formation).....	9.9	3.9	27
4. Net exports.....	.8	-1.8	5
5. Government (cash payments to the public).....	18.5	103.8	55
6. Total.....	90.9	204.4	214
7. Less: Adjustments.....	2.5	6.8	20
8. Equals: Gross national product.....	88.6	197.6	194
9. Less: Depreciation and depletion.....	6.9	9.1	9
10. Equals: Net national product.....	81.7	188.5	185

¹ Detail may not add to total due to rounding.

² Preliminary.

Line 7: See section 5 above.

Line 9: Includes capital outlays charged to current expense.

Line 10: This is not conceptually the same as the net national income as defined by the Department of Commerce, which excludes both depreciation and depletion and business taxes.

APPENDIX B

STATISTICAL TABLES RELATING TO EMPLOYMENT, PRODUCTION, AND PURCHASING POWER

TABLE I.—*Gross national product or expenditure, 1939-46*¹

Year	Actual Dollars (billions)	1944 Dollars (billions) ²	Year	Actual Dollars (billions)	1944 Dollars (billions) ²
1939.....	88.6	112	1943.....	187.4	187
1940.....	97.1	122	1944.....	197.6	198
1941.....	120.2	142	1945.....	199.2	192
1942.....	152.3	160	1946 ³	194.0	170

¹ Gross national product is a measure of the goods and services produced, including consumers' goods and services, producers' goods for expansion or replacement, and goods and services used by Federal, State, and local governments. The output of the private sector of the economy is valued at market prices, while Government services are valued at cost.

² The deflated series was prepared by breaking the gross national product into a large number of components, each of which was divided by the most appropriate index or series of relative prices.

³ Estimates based on incomplete data.

Source: Department of Commerce.

TABLE II.—*National income by distributive shares, 1929-46*¹

[Billions of dollars]

Year	Total National Income	Compensation of Employees			Net Income of Proprietors			Interest and Net Rents	Net Corporate Profits After Taxes		
		Total	Salaries and Wages	Supplements	Total	Agricultural	Non-agricultural		Total	Dividends	Savings
1929.....	83.3	53.1	52.6	0.5	13.6	5.2	8.5	9.4	7.2	5.9	1.2
1930.....	68.9	48.2	47.6	.5	10.0	3.8	6.3	8.9	1.7	5.6	-3.9
1931.....	54.5	40.6	40.0	.6	7.3	2.4	4.8	8.2	-1.6	4.3	-5.8
1932.....	40.0	31.7	31.0	.6	4.8	1.5	3.4	7.1	-3.6	2.7	-6.4
1933.....	42.3	29.8	28.7	1.1	6.5	2.2	4.3	6.6	-.6	2.2	-2.8
1934.....	49.5	34.5	32.6	1.9	7.5	2.7	4.9	6.9	.5	2.7	-2.1
1935.....	55.7	37.5	35.6	1.9	9.5	4.1	5.4	7.1	1.7	2.9	-1.3
1936.....	64.9	43.0	40.0	3.1	10.9	4.4	6.5	7.3	3.8	4.7	-.9
1937.....	71.5	48.3	44.9	3.3	11.9	5.1	6.8	7.4	3.9	4.7	-.8
1938.....	64.2	45.1	41.2	3.9	10.1	4.0	6.1	7.3	1.7	3.2	-1.5
1939.....	70.8	48.1	44.2	3.8	11.2	4.3	6.9	7.4	4.2	3.8	.4
1940.....	77.6	52.3	48.6	3.7	12.0	4.4	7.6	7.5	5.8	4.0	1.8
1941.....	96.9	64.5	60.8	3.7	15.8	6.3	9.6	8.0	8.5	4.5	4.0
1942.....	122.2	84.1	80.8	3.3	20.6	9.7	10.9	8.8	8.7	4.3	4.4
1943.....	149.4	106.3	103.1	3.2	23.5	11.9	11.6	9.7	9.8	4.3	5.5
1944.....	160.7	116.0	112.8	3.2	24.1	11.8	12.3	10.6	9.9	4.5	5.4
1945.....	161.0	114.5	111.4	3.1	25.6	12.5	13.1	11.8	9.0	4.5	4.5
1946 ²	164.0	109.0	106.0	3.0	30.0	15.0	15.0	13.0	12.0	7.0	-6.0

¹ National income is the total net income earned in production by individuals or businesses. The concept of national income currently used differs from the concept of gross national product in excluding depreciation and depletion allowances and business taxes. A reconciliation between these two series and income payments is shown in Appendix A, table II, for 1939, 1944, and 1946.

² Estimates based on incomplete data.

NOTE.—Detail will not necessarily add to totals because of rounding.

Source: Department of Commerce.

TABLE III.—*Income payments to individuals, 1929-46*

[Millions of dollars]

Year or Quarter	Total Income Pay- ments	Salaries and Wages ¹	Entre- preneurial In- come and Net Rents and Royalties	Divi- dends and Interest	Public Assist- ance and Other Relief	Payments to Veterans ²	Other
1929.....	82,587	52,512	17,199	11,811	60	421	584
1930.....	73,346	47,602	12,907	11,682	94	445	616
1931.....	62,013	40,027	9,531	10,237	158	1,432	628
1932.....	47,414	31,103	6,320	8,355	326	695	615
1933.....	46,271	29,290	8,006	7,303	580	485	607
1934.....	52,916	33,922	9,255	7,901	829	379	630
1935.....	58,563	36,895	11,436	8,037	1,099	404	692
1936.....	68,055	42,067	13,003	9,785	672	1,826	702
1937.....	72,351	46,189	14,162	9,891	836	526	747
1938.....	66,166	42,851	12,369	8,240	1,008	466	1,232
1939.....	70,829	45,658	13,441	8,891	1,071	456	1,312
1940.....	76,237	49,700	14,313	9,175	1,098	462	1,489
1941.....	92,732	61,374	18,599	9,761	1,112	452	1,434
1942.....	117,285	80,407	23,933	9,771	1,061	582	1,531
1943.....	143,134	101,791	27,161	10,389	939	1,473	1,381
1944.....	156,794	111,734	28,017	11,195	943	3,391	1,514
1945.....	160,773	110,193	29,737	12,223	968	5,624	2,008
I.....	39,786	28,627	6,771	2,770	240	970	408
II.....	40,426	28,650	6,803	3,159	242	1,160	412
III.....	39,683	27,174	7,613	2,833	246	1,350	467
IV.....	40,878	25,742	8,550	3,461	260	2,144	721
1946.....	³ 163,667	(⁴)	(⁴)	(⁴)	(⁴)	(⁴)	(⁴)
I.....	38,314	24,580	7,426	3,033	276	2,183	816
II.....	40,206	25,957	7,584	3,688	282	1,898	797
III.....	41,723	26,946	8,982	3,102	291	1,704	698
IV.....	³ 43,424	(⁴)	(⁴)	(⁴)	(⁴)	(⁴)	(⁴)

¹ Differs from salaries and wages in Appendix B, table II, because it excludes employees' contributions to social insurance.

² Includes veterans' pensions and compensation, readjustment allowances (unemployment), payments to self-employed, subsistence allowances to those going to school, part of tuition payments (payments to nonprofit institutions), adjusted-service certificate compensation, mustering-out pay, terminal leave pay to enlisted personnel, and the Government's contribution to family allowances.

³ Estimates based on incomplete data.

⁴ Not available.

Source: Department of Commerce.

TABLE IV.—Disposition of income payments, 1929-46

[Billions of dollars]

Year or Quarter	Income Payments to Individuals	Less: Personal Taxes on Nontax Payments	Equals: Disposable Income of Individuals	Less: Consumer Expenditures	Equals: Net Savings of Individuals
1929	82.6	3.0	79.6	70.8	8.8
1930	73.3	2.6	70.7	64.9	5.8
1931	62.0	2.4	59.6	54.2	5.4
1932	47.4	1.9	45.6	43.0	2.6
1933	46.3	1.8	44.5	42.4	2.1
1934	52.9	1.9	51.0	47.7	3.3
1935	58.6	2.3	56.3	52.2	4.1
1936	63.1	2.9	65.2	59.1	6.1
1937	72.4	3.1	69.2	62.5	6.7
1938	66.2	3.3	62.9	58.5	4.4
1939	70.8	3.1	67.7	61.7	6.0
1940	76.3	3.3	72.9	65.7	7.3
1941	92.8	4.0	88.7	74.6	14.2
1942	117.3	6.7	110.6	82.0	28.6
1943	143.1	18.6	124.6	91.3	33.3
1944	156.8	19.4	137.4	98.5	38.9
1945	160.7	21.2	139.6	106.4	33.1
1946 I	163.7	19.2	144.5	127.0	17.5
Seasonally Adjusted Annual Rates					
1945:					
I	163.7	22.1	141.6	105.0	36.6
II	163.2	21.7	141.5	101.8	39.7
III	158.6	20.7	137.9	106.0	31.9
IV	156.9	20.1	136.9	113.0	23.9
1946:					
I I	156.7	18.7	138.0	120.9	17.1
II I	160.6	18.8	141.8	122.0	19.8
III I	167.7	19.3	148.4	129.4	19.0
IV I	169.6	19.9	149.7	135.5	14.2

Estimates based on incomplete data.

NOTE.—Detail will not necessarily add to totals because of rounding.

Source: Department of Commerce.

TABLE V.—*Disposable income, population, and consumers' prices, 1929-46*

Year or Quarter	Disposable Income of Individuals (billions of dollars)	Population ¹ (thousands)	Consumers' Prices (1944=100)	Per Capita Disposable Income ²	
				Actual Dollars	1944 Dollars
1929.....	79.6	121,770	97.6	654	670
1930.....	70.7	123,077	95.1	574	604
1931.....	59.6	124,040	86.6	480	554
1932.....	45.6	124,840	77.8	365	469
1933.....	44.5	125,579	73.6	354	481
1934.....	51.0	126,374	76.3	404	529
1935.....	56.3	127,250	78.2	442	565
1936.....	65.2	128,053	79.0	509	644
1937.....	69.2	128,825	81.8	537	656
1938.....	62.9	130,825	80.3	481	599
1939.....	67.7	130,880	79.2	517	653
1940.....	72.9	131,970	79.8	552	795
1941.....	88.7	133,203	83.8	666	795
1942.....	110.6	134,665	92.8	821	885
1943.....	124.6	136,497	98.5	913	927
1944.....	137.4	138,083	100.0	995	995
1945.....	139.6	139,621	102.3	1,000	978
1946.....	⁴ 144.5	140,840	110.9	⁴ 1,026	⁴ 925
	Seasonally Adjusted Annual Rates			Seasonally Adjusted Annual Rates	
1945:					
I.....	141.6	138,923	101.1	1,019	1,008
II.....	141.5	139,254	102.1	1,016	995
III.....	137.9	139,621	102.9	988	960
IV.....	136.9	140,063	103.1	977	948
1946:					
I.....	138.0	140,387	103.5	983	950
II.....	141.8	³ 140,613	105.2	1,008	958
III.....	148.4	140,840	114.5	1,054	921
IV.....	⁴ 149.7	³ 141,289	⁴ 120.4	⁴ 1,060	⁴ 880

¹ Estimated population of continental United States, including armed forces overseas; annual data as of July 1 and quarterly data as of first of quarter.

² The measurement of changes in purchasing power is explained below.

³ Interpolated from published data.

⁴ Estimates based on incomplete data.

Sources: Department of Commerce (disposable income and population) and Department of Labor (consumers' prices).

THE MEASUREMENT OF CHANGES IN PURCHASING POWER

Actual incomes, in current dollars, do not give a fair picture of changes in purchasing power. For example, if the income of a particular family should be raised from \$2,000 to \$3,000 (or an increase of 50 percent), and if, at the same time all prices were raised 50 percent, the purchasing power of the family would be unchanged. With \$3,000 the family could buy the same amount of goods and services as before with \$2,000.

Actually, of course, all prices do not usually rise and fall at the same time, nor by the same percentage. A rough measure of the *average* increases in prices paid by consumers is the Consumer's Price Index. This is shown in column 3, table V, Appendix B. A rough estimate of changes in purchasing power can be obtained by dividing incomes by the Consumer's Price Index.

Table III, page 12 of the text, makes certain comparisons in terms of per capita disposable incomes in 1944 dollars. These figures, shown in table V, were computed by dividing actual per capita incomes by the Consumers' Price Index, with 1944=100. If any other base is preferred, for example, 1939 dollars or 1946 dollars, it is a simple matter to compute the figures on that basis.

The comparisons made in the text are not affected in any way by the choice of 1944 dollars as a yardstick. Use of any other year as a base would show the same percentage changes in purchasing power.

Table III on page 12 of the text compares the purchasing power of recent per capita incomes both with war years and with prewar years. The report shows that the purchasing power of per capita incomes is now substantially higher than before the war, but that it has fallen considerably from the wartime levels.

TABLE VI.—*Consumers' prices, 1939-46*

[1935-39=100]

Year or Month	All Items	Food	Clothing	Rent	Fuel, Electricity, etc.	House Furnishings	Miscellaneous
1939.....	99.4	95.2	100.5	104.3	99.0	101.3	100.7
1940.....	100.2	96.5	101.7	104.6	99.8	100.5	101.1
1941.....	105.2	105.5	106.3	106.3	102.3	107.4	104.0
1942.....	116.5	123.9	124.2	108.5	105.4	122.1	110.9
1943.....	123.6	138.0	129.7	108.0	107.7	125.6	115.8
1944.....	125.5	136.1	138.8	108.2	109.8	136.4	121.3
1945.....	128.4	139.1	145.9	108.3	110.3	145.8	124.1
January.....	127.1	137.3	143.0	(1)	109.7	143.6	123.3
February.....	126.9	136.5	143.3	(1)	110.0	144.0	123.4
March.....	126.8	135.9	143.7	108.3	110.0	144.5	123.6
April.....	127.1	136.6	144.1	(1)	109.8	144.9	123.8
May.....	128.1	138.8	144.6	(1)	110.0	145.4	123.9
June.....	129.0	141.1	145.4	108.3	110.0	145.8	124.0
July.....	129.4	141.7	145.7	(1)	111.2	145.3	124.2
August.....	129.3	140.9	146.4	(1)	111.4	146.0	124.5
September.....	128.9	139.4	148.2	108.3	110.7	146.8	124.6
October.....	128.9	139.3	148.5	(1)	110.5	146.9	124.7
November.....	129.3	140.1	148.7	(1)	110.1	147.6	124.6
December.....	129.9	141.1	149.4	108.3	110.3	148.3	124.8
1946.....	139.2	160.0	(2)	(2)	(2)	(2)	(2)
January.....	129.9	141.0	149.7	(1)	110.8	148.8	125.4
February.....	129.6	139.6	150.5	(1)	111.0	149.7	125.6
March.....	130.2	140.1	153.1	108.4	110.5	150.2	125.9
April.....	131.1	141.7	154.5	(1)	110.4	152.0	126.7
May.....	131.7	142.6	155.7	(1)	110.3	153.7	127.2
June.....	133.3	145.6	157.2	108.5	110.5	156.1	127.9
July.....	141.0	165.7	157.9	(1)	113.3	156.9	127.8
August.....	144.1	171.2	161.2	108.7	113.7	160.0	129.8
September.....	145.9	174.1	165.9	108.8	114.4	165.6	129.9
October.....	148.4	180.0	167.0	(1)	114.4	167.6	130.8
November.....	151.7	187.7	168.7	(1)	114.7	169.1	132.0
December.....	² 153.3	² 189.0	(2)	(2)	(2)	(2)	(2)

¹ Usually surveyed quarterly.² Not available.³ Preliminary estimate.

Source: Department of Labor.

TABLE VII.—*Wholesale prices, 1939-46*[1935-39=100] ¹

Year or Month	All Commodities	Farm Products	Foods	Other Than Farm Products and Foods								
				Total	Hides and Leather Products	Textile Products	Fuel and Lighting	Metals and Metal Products	Building Materials	Chemicals and Allied Products	House Furnishing Goods	Miscellaneous
1939.....	95.7	85.9	89.0	100.1	100.0	98.2	96.9	102.8	101.0	96.0	101.5	102.6
1940.....	97.5	89.1	90.1	102.2	105.4	103.9	95.1	104.4	105.8	97.8	104.1	106.0
1941.....	108.3	108.4	104.6	109.6	113.1	119.4	101.3	108.3	115.1	107.2	110.9	112.5
1942.....	112.6	139.3	125.9	122.5	123.0	136.3	104.1	113.1	122.9	121.3	120.7	123.0
1943.....	128.0	161.3	135.0	119.3	123.0	137.2	107.0	113.1	124.3	120.6	120.7	126.5
1944.....	129.0	162.5	132.7	121.3	122.0	138.6	110.1	113.0	128.8	121.0	122.8	128.4
1945.....	131.3	168.7	134.3	122.8	123.5	141.0	111.4	114.1	131.5	121.0	122.9	129.9
January.....	130.1	166.1	132.4	122.0	122.9	140.3	110.5	113.3	130.4	120.6	122.9	129.2
February.....	130.5	167.1	132.4	122.2	123.0	140.4	110.5	113.5	130.6	120.6	122.9	129.8
March.....	130.6	167.4	132.2	122.2	123.2	140.4	110.6	113.5	130.7	120.6	122.9	129.8
April.....	131.1	169.7	133.8	122.3	123.3	140.3	110.7	113.5	130.7	120.6	122.9	130.0
May.....	131.5	170.9	135.3	122.4	123.3	140.3	111.0	113.6	130.9	120.6	122.9	130.0
June.....	131.6	171.6	135.9	122.7	123.4	140.3	111.3	114.1	131.0	120.7	122.9	130.0
July.....	131.4	169.7	135.1	122.8	123.4	140.3	111.8	114.1	131.1	121.1	122.9	130.0
August.....	131.1	167.0	134.5	123.0	123.4	140.3	112.5	114.1	131.5	121.1	122.9	130.0
September.....	130.5	163.6	132.6	122.9	124.2	141.0	111.5	114.3	131.7	121.1	123.1	130.0
October.....	131.4	167.5	133.6	123.3	124.1	142.3	111.7	114.4	132.0	121.3	123.2	130.0
November.....	132.5	172.5	136.4	123.4	124.3	142.4	112.2	114.6	132.5	121.6	123.2	130.0
December.....	132.9	173.0	137.3	123.8	124.4	142.8	112.5	115.0	133.4	122.1	123.2	130.0
1946:												
January.....	132.9	170.9	135.7	124.1	124.9	143.1	112.6	115.1	133.9	122.0	124.9	130.7
February.....	133.6	172.1	136.3	124.8	125.1	143.9	112.9	116.1	134.9	121.9	125.3	131.1
March.....	135.1	175.5	138.3	125.9	125.3	147.5	112.7	118.1	139.4	122.0	125.8	131.1
April.....	136.7	178.2	140.1	127.2	125.3	152.0	114.2	118.5	141.2	122.1	126.5	131.3
May.....	137.7	180.9	141.0	128.0	125.9	153.2	114.2	119.2	142.6	122.6	127.4	133.1
June.....	140.1	184.3	142.7	130.0	128.0	153.8	116.4	122.2	145.0	122.5	129.9	135.1
July.....	154.7	206.6	177.2	134.9	147.7	166.3	119.8	123.4	147.4	126.2	131.6	139.0
August.....	160.2	211.8	188.4	137.4	145.3	174.6	125.2	124.2	148.1	125.0	132.5	139.9
September.....	153.8	203.0	166.8	138.2	148.1	177.0	125.1	124.4	149.3	125.0	133.6	140.1
October.....	166.4	217.5	199.6	142.5	149.0	181.1	125.1	136.9	150.4	126.9	135.6	142.7
November ²	173.2	223.4	209.1	148.5	164.9	184.9	125.3	141.3	162.4	151.1	139.6	146.1
December ³	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----

¹ The published data on the 1926=100 base have been converted to the 1935-39=100 base.² Preliminary estimates.³ Not available.

Source: Department of Labor.

TABLE VIII.—Gross weekly earnings in selected industries, 1940-46

Year or Month	Manufacturing			Mining, Bituminous Coal	Private Building Construction	Class I Steam Railroads	Telephone	Wholesale Trade	Retail Trade	Hotels (Year-Round)
	Total	Durable Goods	Non-durable Goods							
1940.....	\$25.20	\$28.44	\$22.27	\$24.71	\$31.70	\$31.32	\$32.44	\$30.39	\$21.17	\$15.52
1941.....	29.58	34.04	24.92	30.86	35.14	34.04	32.74	32.32	21.94	16.09
1942.....	36.65	42.73	29.13	35.02	41.80	38.39	33.97	35.66	23.24	17.62
1943.....	43.14	49.30	34.12	41.62	48.13	43.48	36.30	39.40	24.88	20.21
1944.....	46.08	52.07	37.12	51.27	52.18	45.69	38.39	42.29	26.58	22.65
1945.....	44.39	46.05	38.29	52.25	53.80	45.49	(1)	44.07	28.31	24.53
January.....	47.50	53.54	38.66	54.11	52.98	46.82	39.49	43.16	26.99	23.71
February.....	47.37	53.30	38.69	53.89	52.89	47.52	39.75	43.45	27.32	24.07
March.....	47.40	53.22	38.96	52.26	54.49	46.51	40.60	43.51	27.21	23.97
April.....	47.12	52.90	38.80	43.45	54.42	46.15	40.72	44.51	27.69	23.99
May.....	46.02	51.56	38.18	53.75	53.64	45.91	37.91	43.83	27.56	24.03
June.....	46.32	51.74	38.95	59.11	55.60	46.26	38.87	44.13	28.46	24.43
July.....	45.45	50.66	38.58	50.66	55.57	45.64	39.36	44.92	29.40	24.40
August.....	41.72	45.72	36.63	49.90	55.79	45.10	42.96	43.27	29.01	24.37
September.....	40.87	43.95	37.80	52.73	53.11	43.90	39.62	43.85	28.95	24.79
October.....	40.97	44.23	37.76	39.09	54.05	44.30	40.54	44.60	29.17	25.08
November.....	40.77	43.71	37.89	56.29	51.97	44.04	42.02	44.94	28.88	25.54
December.....	41.21	44.08	38.52	58.09	51.86	43.61	41.44	44.71	29.12	25.94
1946.....										
January.....	41.15	43.67	38.75	54.16	52.89	43.29	41.19	45.14	30.54	26.21
February.....	40.58	42.57	39.01	57.37	53.04	43.84	44.37	46.07	30.77	26.43
March.....	42.15	44.79	39.83	58.30	52.87	43.01	43.76	46.31	31.12	26.57
April.....	42.88	45.71	40.13	30.15	54.29	47.76	44.09	47.13	31.40	26.64
May.....	42.51	45.10	39.93	34.20	53.63	46.39	44.82	47.48	31.45	26.65
June.....	43.31	46.32	40.28	64.44	55.23	51.05	44.93	47.88	32.93	26.70
July.....	43.38	46.24	40.46	52.27	56.25	51.78	44.82	48.06	33.64	26.63
August.....	44.98	48.00	41.89	62.37	56.67	(1)	44.19	48.14	33.81	27.15
September.....	45.41	48.39	42.34	61.00	58.49	(1)	44.10	49.54	33.76	26.98
October.....	45.68	48.83	42.42	62.54	59.20	(1)	44.30	49.44	33.19	27.17
November.....										
December.....										

¹ Not available.² New series; includes only employees subject to provisions of the Fair Labor Standards Act and is not comparable with preceding series, which includes all employees.³ Preliminary.

Source: Department of Labor.

TABLE IX.—Average hourly earnings in selected industries, 1940-46

Year or Month	Manufacturing			Mining, Bituminous Coal	Private Building Construction	Class I Steam railroads	Telephone	Wholesale Trade	Retail Trade	Hotels (Year-Round)
	Total	Durable Goods	Non-durable Goods							
1940.....	\$0.661	\$0.724	\$0.602	\$0.883	\$0.958	\$0.711	\$0.827	\$0.739	\$0.542	\$0.332
1941.....	.729	.808	.640	.993	1.010	.745	.820	.793	.568	.348
1942.....	.853	.947	.723	1.059	1.148	.819	.843	.860	.614	.386
1943.....	.961	1.059	.803	1.139	1.252	.892	.870	.933	.670	.451
1944.....	1.019	1.117	.861	1.186	1.319	.934	.911	.985	.724	.505
1945.....	1.023	1.111	.904	1.240	1.380	.938	(1)	1.029	.773	.550
January.....	1.046	1.144	.891	1.204	1.364	.944	.934	1.006	.751	.532
February.....	1.043	1.139	.892	1.190	1.352	.960	.938	1.013	.756	.537
March.....	1.044	1.139	.896	1.197	1.363	.934	.951	1.016	.752	.529
April.....	1.044	1.138	.899	1.184	1.361	.944	{ .952 .926 }	1.031	.763	.532
May.....	1.042	1.134	.903	1.256	1.366	.935	.926	1.018	.764	.532
June.....	1.038	1.130	.904	1.285	1.374	.929	.941	1.027	.769	.539
July.....	1.033	1.127	.902	1.254	1.387	.939	.944	1.037	.773	.547
August.....	1.024	1.113	.909	1.249	1.383	.930	.977	1.013	.773	.555
September.....	.987	1.072	.903	1.261	1.392	.942	.959	1.025	.783	.567
October.....	.985	1.063	.909	1.242	1.396	.923	.972	1.045	.793	.565
November.....	.990	1.064	.918	1.263	1.397	.937	1.002	1.056	.800	.575
December.....	.994	1.066	.927	1.281	1.397	.948	1.011	1.058	.796	.585
1946:										
January.....	1.004	1.070	.941	1.259	1.402	.935	1.030	1.070	.828	.604
February.....	1.002	1.064	.953	1.265	1.422	.949	1.095	1.095	.835	.602
March.....	1.035	1.103	.975	1.274	1.411	.929	1.105	1.101	.841	.600
April.....	1.058	1.131	.988	1.239	1.423	1.045	1.131	1.121	.851	.599
May.....	1.071	1.147	.996	1.321	1.431	1.069	1.143	1.135	.859	.596
June.....	1.084	1.165	1.003	1.474	1.444	1.117	1.147	1.146	.876	.598
July.....	1.093	1.177	1.009	1.457	1.473	1.116	1.135	1.155	.888	.602
August.....	1.111	1.186	1.036	1.468	1.482	(1)	1.129	1.148	.893	.614
September.....	1.126	1.201	1.049	1.480	1.510	(1)	1.148	1.179	.906	.620
October ²	1.130	1.202	1.055	1.459	1.526	(1)	1.137	1.172	.908	.619
November ³										
December ¹										

¹ Not available.² New series; includes only employees subject to provisions of the Fair Labor Standards Act and is not comparable with preceding series, which includes all employees.³ Preliminary.

Source: Department of Labor.

TABLE X.—*Corporate profits before and after taxes, 1939-46*

[Millions of dollars]

Year or Quarter	All Private Corporations ¹		629 Large Private Corporations—Profits after Taxes ²											
	Profits before Taxes ³	Profits after Taxes ³	Total	Iron and Steel	Machinery	Automobiles	Other Transport Equipment	Nonferrous Metals and Products	Other Durable Goods	Food, Beverages, and Tobacco	Oil Producing and Refining	Industrial Chemicals	Other Nondurables	Miscellaneous Services
Number of companies.....			629	47	69	15	68	77	75	49	45	30	80	74
1939.....	6,374	4,868	1,465	146	115	223	102	119	70	151	98	186	134	122
1940.....	9,185	6,248	1,818	278	158	242	173	133	88	148	112	194	160	132
1941.....	17,050	9,141	2,163	325	193	274	227	153	113	159	174	207	187	152
1942.....	20,969	9,179	1,769	226	159	209	182	138	90	151	152	164	136	161
1943.....	24,908	9,945	1,800	204	165	201	180	128	83	162	186	170	149	171
1944.....	24,077	9,757	1,896	194	174	222	190	115	88	175	220	187	147	184
1945.....	20,875	9,080	1,925	188	163	243	169	108	88	199	223	187	154	203
I.....	5,970	2,624	492	49	38	63	50	31	21	45	62	48	39	45
II.....	5,887	2,624	508	53	42	77	47	27	21	46	64	45	38	47
III.....	5,031	2,116	439	37	35	46	36	23	20	50	61	43	37	53
IV.....	3,987	1,716	485	49	47	58	36	27	26	58	37	51	40	58
1946 ⁴	20,000	12,000	(⁴)											
I.....	(⁴)	(⁴)	323	22	-19	-34	-5	20	12	65	56	63	62	82
II.....	(⁴)	(⁴)	604	67	49	21	51	26	37	74	62	66	71	80
III.....	(⁴)	(⁴)	676	94	31	44	38	43	42	84	78	67	76	79
IV.....	(⁴)	(⁴)	(⁴)											

¹ Revised series; not exactly comparable with that used as a component of national income.² Federal and State income and excess-profits taxes.³ Preliminary estimate, based on incomplete data and subject to revision.⁴ Not available.

Note: Detail will not necessarily add to totals because of rounding.

Sources: Department of Commerce (all corporations); Board of Governors of the Federal Reserve System (629 large corporations).

TABLE XI.—*Total labor force classified by employment status and sex, and veteran status of males, 1940-1946*¹

[In thousands]

Year or Month	Total Labor Force (In- cluding Armed Forces)	Civilian Labor Force			Employed Civilians		Unemployed Civilians		
		Total	Male		Total	Agri- culture	Total	Male	
			Total	Veteran ²				Total	Veteran ²
1940.....	54,790	54,230	40,950	-----	13,280	46,930	9,500	7,300	5,350
1941.....	55,730	54,100	40,530	-----	13,570	49,090	8,650	5,010	3,610
1942.....	58,430	54,490	39,620	-----	14,870	52,110	8,640	2,380	1,590
1943.....	62,460	53,480	36,140	-----	17,340	52,410	8,280	1,070	600
1944.....	64,010	52,620	34,770	-----	17,850	51,780	8,060	840	450
1945.....	64,122	52,792	34,456	-----	18,336	51,639	8,145	1,153	700
January.....	62,870	50,960	33,650	-----	17,310	50,120	6,690	840	490
February.....	63,390	51,430	33,660	-----	17,770	50,550	6,790	880	490
March.....	63,710	51,660	33,720	-----	17,940	50,820	7,290	830	490
April.....	64,030	51,930	33,840	-----	18,090	51,160	7,750	770	430
May.....	64,250	52,090	33,790	-----	18,240	51,300	7,950	730	430
June.....	65,420	53,140	34,380	-----	18,760	52,060	9,090	1,080	580
July ¹	67,450	55,350	35,270	-----	20,080	54,400	9,900	950	480
August.....	66,470	54,460	35,130	-----	19,330	53,630	9,090	830	430
September.....	64,770	53,050	34,400	-----	18,650	51,400	8,840	1,650	930
October.....	63,770	53,170	34,650	-----	18,520	51,610	8,810	1,560	940
November.....	62,410	53,190	35,030	3,830	18,160	51,450	8,380	1,740	1,210
December.....	60,920	53,130	35,950	4,990	17,180	51,160	7,160	1,970	1,500
1946:									
January.....	59,490	53,320	37,160	6,410	16,160	51,020	6,720	2,300	1,770
February.....	59,130	53,890	37,890	7,440	16,000	51,240	6,940	2,650	2,140
March.....	59,630	55,160	38,870	8,410	16,290	52,460	7,530	2,700	2,190
April.....	60,300	56,450	39,860	9,240	16,590	54,120	8,170	2,330	1,870
May.....	60,570	57,160	40,480	9,830	16,680	54,850	8,880	2,310	1,890
June.....	62,000	58,930	41,660	10,380	17,270	56,360	10,010	2,570	2,010
July.....	62,820	60,110	42,710	10,810	17,400	57,840	9,970	2,270	1,760
August.....	62,200	59,750	42,580	10,950	17,170	57,690	9,140	2,060	1,600
September.....	61,340	59,120	41,850	11,230	17,270	57,050	8,750	2,070	1,580
October.....	61,160	58,990	41,820	11,150	17,170	57,030	8,620	1,960	1,550
November.....	60,980	58,970	41,950	11,380	17,020	57,040	7,900	1,930	1,520
December ³	-----	-----	-----	-----	-----	-----	-----	-----	-----

¹ An improved interviewing procedure, which resulted in a larger estimate of employment and a smaller estimate of unemployment, was adopted July 1945. Data prior to this date are not strictly comparable with subsequent data.

² World War II veterans only. Data are not available for the period prior to November 1945.

³ Not available.

Source: Department of Commerce.

TABLE XII.—Number of employees in nonagricultural establishments, 1940-46¹

[In thousands]

Year or Month	Total	Manufacturing			Min- ing	Con- struc- tion	Trans- porta- tion and Public Utili- ties	Trade	Fin- ance, Serv- ice, and Miscel- laneous	Govern- ment
		Total ²	Production Workers ³							
			Dur- able goods	Nondur- able goods						
1940.....	31,784	10,780	4,172	4,639	916	1,722	3,013	6,906	4,310	4,136
1941.....	35,668	12,974	5,554	5,270	947	2,236	3,248	7,378	4,438	4,446
1942.....	38,447	15,051	6,997	5,621	970	2,078	3,433	7,263	4,447	5,203
1943.....	40,185	17,381	8,727	5,834	891	1,259	3,619	7,030	4,115	5,890
November.....	40,467	17,858	9,073	5,831	863	918	3,683	7,245	4,078	5,822
1944.....	39,689	17,111	8,506	5,621	835	679	3,761	7,044	4,348	5,911
1945.....	38,144	15,060	6,809	5,441	779	834	3,822	7,173	4,589	5,887
January.....	39,093	16,696	8,155	5,581	801	582	3,740	7,030	4,350	5,894
February.....	39,135	16,684	8,142	5,583	798	599	3,771	6,985	4,360	5,938
March.....	39,251	16,557	8,039	5,562	796	636	3,788	7,084	4,394	5,996
April.....	38,991	16,302	7,854	5,502	761	699	3,792	6,990	4,444	6,003
May.....	38,880	16,012	7,639	5,451	728	798	3,802	7,021	4,513	6,006
June.....	38,767	15,749	7,382	5,473	794	845	3,833	7,004	4,589	5,953
July.....	38,474	15,331	7,054	5,405	784	911	3,858	6,975	4,672	5,943
August.....	38,172	15,019	6,779	5,400	784	927	3,860	6,979	4,666	5,937
September.....	36,398	13,159	5,254	5,295	784	945	3,831	7,143	4,603	5,933
October.....	36,327	13,048	5,151	5,299	718	1,006	3,825	7,331	4,698	5,701
November.....	36,779	13,110	5,180	5,323	793	1,014	3,871	7,571	4,845	5,575
December.....	37,463	13,059	5,097	5,422	802	1,042	3,896	7,959	4,936	5,769
1946:										
January.....	37,013	13,236	5,205	5,461	810	1,132	3,897	7,481	4,984	5,473
February.....	36,509	12,536	4,427	5,562	808	1,260	3,907	7,505	5,031	5,462
March.....	37,469	13,206	4,999	5,640	801	1,345	3,930	7,617	5,076	5,494
April.....	38,121	13,779	5,474	5,656	805	1,517	3,919	7,759	5,140	5,502
May.....	38,612	13,885	5,583	5,633	713	1,742	3,873	7,724	5,134	5,541
June.....	39,056	14,098	5,713	5,699	807	1,874	3,917	7,749	5,131	5,490
July.....	39,260	14,245	5,829	5,725	815	1,976	3,963	7,740	5,152	5,369
August.....	39,871	14,583	6,001	5,881	828	2,091	4,001	7,814	5,160	5,394
September.....	40,129	14,731	6,089	5,927	827	2,103	3,948	7,918	5,155	5,447
October.....	40,250	14,761	6,118	5,903	825	2,084	3,988	8,034	5,208	5,350
November.....	40,603	14,982	6,204	6,016	826	1,984	3,997	8,245	5,260	5,309
December.....										

¹ Number of employees in nonagricultural establishments includes all full and part-time wage and salary workers in nonagricultural establishments who worked or received pay during the pay period ending nearest the 15th of the month. Proprietors, self-employed persons, domestic servants, and personnel of the armed forces are excluded. Not comparable with estimates for nonagricultural employment of the civilian labor force derived from data in Appendix B, table XI, because latter include self-employed, proprietors, and domestic servants and are based on population enumeration whereas estimates in this table are based on establishment reports.

² Includes production and nonproduction workers.

³ Excludes supervisory employees, clerical and sales staffs, and other nonproduction workers.

⁴ Date of peak employment in manufacturing and munitions-producing industries.

⁵ Not available.

Note: Detail will not necessarily add to totals because of rounding.

Source: Department of Labor.

APPENDIX C

EXCERPT FROM THE STATE OF THE UNION MESSAGE DELIVERED TO THE CONGRESS JANUARY 6, 1947

The year just past—like the year after the First World War—was marred by labor-management strife.

Despite this outbreak of economic warfare in 1946, we are today producing goods and services in record volume. Nevertheless, it is essential to improve the methods for reaching agreement between labor and management and to reduce the number of strikes and lock-outs.

We must not, however, adopt punitive legislation. We must not, in order to punish a few labor leaders, pass vindictive laws which will restrict the proper rights of the rank and file of labor. We must not, under the stress of emotion, endanger our American freedoms by taking ill-considered action which will lead to results not anticipated or desired.

We must remember, in reviewing the record of disputes in 1946, that management shares with labor the responsibility for failure to reach agreements which would have averted strikes. For that reason, we must realize that industrial peace cannot be achieved merely by laws directed against labor unions.

During the last decade and a half, we have established a national labor policy in this country based upon free collective bargaining as the process for determining wages and working conditions.

This is still the national policy.

It should continue to be the national policy.

But as yet, not all of us have learned what it means to bargain freely and fairly. Nor have all of us learned to carry the mutual responsibilities that accompany the right to bargain. There have been abuses and harmful practices which limit the effectiveness of our system of collective bargaining. Furthermore, we have lacked sufficient governmental machinery to aid labor and management in resolving differences.

Certain labor-management problems need attention at once and certain others, by reason of their complexity, need exhaustive investigation and study.

We should enact legislation to correct certain abuses and to provide additional governmental assistance in bargaining. But we should also concern ourselves with the basic causes of labor-management difficulties.

In the light of these considerations, I propose to you and urge your cooperation in effecting the following four-point program to reduce industrial strife:

Point number one is the early enactment of legislation to prevent certain unjustifiable practices.

First, under this point, are jurisdictional strikes. In such strikes the public and the employer are innocent bystanders who are injured

by a collision between rival unions. This type of dispute hurts production, industry, and the public—and labor itself. I consider jurisdictional strikes indefensible.

The National Labor Relations Act provides procedures for determining which union represents the employees of a particular employer. In some jurisdictional disputes, however, minority unions strike to compel employers to deal with them despite a legal duty to bargain with the majority union. Strikes to compel an employer to violate the law are inexcusable. Legislation to prevent such strikes is clearly desirable.

Another form of interunion disagreement is the jurisdictional strike involving the question of which labor union is entitled to perform a particular task. When rival unions are unable to settle such disputes themselves, provision must be made for peaceful and binding determination of the issues.

A second unjustifiable practice is the secondary boycott, when used to further jurisdictional disputes or to compel employers to violate the National Labor Relations Act.

Not all secondary boycotts are unjustified. We must judge them on the basis of their objectives. For example, boycotts intended to protect wage rates and working conditions should be distinguished from those in furtherance of jurisdictional disputes. The structure of industry sometimes requires unions, as a matter of self-preservation, to extend the conflict beyond a particular employer. There should be no blanket prohibition against boycotts. The appropriate goal is legislation which prohibits secondary boycotts in pursuance of unjustifiable objectives, but does not impair the union's right to preserve its own existence and the gains made in genuine collective bargaining.

A third practice that should be corrected is the use of economic force, by either labor or management, to decide issues arising out of the interpretation of existing contracts.

Collective bargaining agreements, like other contracts, should be faithfully adhered to by both parties. In the most enlightened union-management relationships, disputes over the interpretation of contract terms are settled peacefully by negotiation or arbitration. Legislation should be enacted to provide machinery whereby unsettled disputes concerning the interpretation of an existing agreement may be referred by either party to final and binding arbitration.

Point number two is the extension of the facilities within the Department of Labor for assisting collective bargaining.

One of our difficulties in avoiding labor strife arises from a lack of order in the collective-bargaining process. The parties often do not have a clear understanding of their responsibility for settling disputes through their own negotiations. We constantly see instances where labor or management resorts to economic force without exhausting the possibilities for agreement through the bargaining process. Neither the parties nor the Government have a definite yardstick for determining when and how Government assistance should be invoked. There is need for integrated governmental machinery to provide the successive steps of mediation, voluntary arbitration, and—ultimately in appropriate cases—ascertainment of the facts of the dispute and the reporting of them to the public. Such machinery would facilitate and expedite the settlement of disputes.

Point number three is the broadening of our program of social legislation to alleviate the causes of workers' insecurity.

On June 11, 1946, in my message vetoing the Case bill, I made a comprehensive statement of my views concerning labor-management relations. I said then, and I repeat now, that the solution of labor-management difficulties is to be found not only in legislation dealing directly with labor relations, but also in a program designed to remove the causes of insecurity felt by many workers in our industrial society. In this connection, for example, the Congress should consider the extension and broadening of our social security system, better housing, a comprehensive national health program, and provision for a fair minimum wage.

Point number four is the appointment of a Temporary Joint Commission to inquire into the entire field of labor-management relations.

I recommend that the Congress provide for the appointment of a Temporary Joint Commission to undertake this broad study.

The President, the Congress, and management and labor have a continuing responsibility to cooperate in seeking and finding the solution of these problems. I therefore recommend that the Commission be composed as follows: 12 to be chosen by the Congress from the members of both parties in the House and the Senate, and 8 representing the public, management, and labor, to be appointed by the President.

The Commission should be charged with investigating and making recommendations upon certain major subjects, among others:

First, the special and unique problem of Nation-wide strikes in vital industries affecting the public interest. In particular, the Commission should examine into the question of how to settle or prevent such strikes without endangering our general democratic freedoms.

Upon a proper solution of this problem may depend the whole industrial future of the United States. The paralyzing effects of a Nation-wide strike in such industries as transportation, coal, oil, steel, or communications can result in national disaster. We have been able to avoid such disaster, in recent years, only by the use of extraordinary war powers. All those powers will soon be gone. In their place there must be created an adequate system and effective machinery in these vital fields. This problem will require careful study and a bold approach, but an approach consistent with the preservation of the rights of our people. The need is pressing. The Commission should give this its earliest attention.

Second, the best methods and procedures for carrying out the collective-bargaining process. This should include the responsibilities of labor and management to negotiate freely and fairly with each other, and to refrain from strikes or lockouts until all possibilities of negotiation have been exhausted.

Third, the underlying causes of labor-management disputes.

Some of the subjects presented here for investigation involve long-range study. Others can be considered immediately by the Commission and its recommendations can be submitted to the Congress in the near future.

I recommend that this Commission make its first report, including specific legislative recommendations, not later than March 15, 1947.

