To the Congress of the United States:

THE people of the United States have just enjoyed another year of bountiful prosperity. This has enabled us further to strengthen our economy at home, and further to supplement the recovery of freedom-loving peoples elsewhere who seek lasting peace.

The resourcefulness of American business, the skill of our labor force, and the productivity of our agriculture have lifted our standards of living beyond any prewar expectation. We have achieved these blessings through the happy combination of our free institutions, our system of private enterprise upon which we primarily rely for economic results, our vigorous Government, and the mutual respect and trust that we all hold for one another. My pledge to all elements in our economic system is that their Government will continue to steer a course guided by full recognition of these values. Toward this end, I ask of all the cooperation and confidence upon which our way of life depends.

Let us all remember that our unparalleled prosperity has not been maintained by chance, and that we can lose it if we leave the future to chance. Courageous and positive action has contributed to our progress, and some of the most serious difficulties still confronting us exist because our thought and action have not been sufficiently clear and vigorous.

As we work together in 1949 to combat the remaining dangers of postwar inflation, we should bear always in mind that our purpose is at the same time to build strong bulwarks against deflation and depression, and thus to consolidate our past gains and move forward to new levels of sustained prosperity for all.

This third annual Economic Report, under the Employment Act of 1946, affords not only the President but also the Congress and the whole country still another occasion to look to our current economic position, to draw courage from our progress, and to benefit by our mistakes. Now is the time to formulate and execute a practical program of immediate and long-range economic measures pointed toward stability and growth.

Sources of Our Economic Strength

The year just ended has tested the strength of our economy, and challenged our ability and willingness to act to protect our prosperity. When 1948 opened, the inflation which had attained threatening proportions in the preceding months was continuing unchecked. Prices were rising everywhere. They brought higher but uneasy profits to business firms. They squeezed the family budget of workers, who in turn sought to press
wages upward as the cost of living advanced. The rising spiral created more and more maladjustment among prices, wages, and other incomes.

Early in 1948, a sharp break in grain prices spread concern throughout the economy. Commodity speculation, fed by a world demand of unprecedented magnitude and intensified by our own short corn crop, had carried the prices of wheat and corn to levels which could not be sustained. The market structure collapsed of its own weight. On February 13, the price of cash wheat was 25 percent or 74 cents a bushel lower than it had been a month earlier.

But this break did not set off a train of consequences similar to those which, following World War I, had turned the boom into a deflation of unusual depth and rapidity in 1920–1922. In 1948, the decline of the speculative grain market did not bring unemployment, cutbacks in production, general unloading of inventories, or abandonment of plans for capital investment. Our economy showed strength sufficient to withstand shock of a kind which had ended earlier inflations with collapse.

The reasons for this were not just that we were luckier in 1948 than we had been in 1920. Affirmative national policies and greater caution in the business community combined with other developments to make the economy more shock-resistant. The farm price support program guaranteed that the collapse of grain prices would not go far enough to impoverish the farmers, to curtail the farmers’ demand for the products of industry, or to bring about a chain reaction of price breaks in other markets. As the price drop was localized, it did not cause cancellation of the buying and investment plans of businessmen and consumers.

Nor was the farm price support policy the only source of our strength. Our whole financial and banking structure was stronger and more resilient than in the early twenties. Our businessmen, having become better informed, were more prudent. Our working groups were better supplied with current income and accumulated savings. Our social security and related policies added to the feeling of stability. The Government had so employed a large budget surplus as to prevent the inflation from becoming as hectic as it otherwise would have been; and such policies served to moderate the extent of the reaction. This combination of private and Government action helped us to avoid serious trouble last year, although it was not effective enough to terminate the inflationary trend which was soon augmented by the defense program and by the reduction in taxes. Nor did we develop an adequate protective program against hurtful deflation in the future. We must now look to an improved combination of basic private action and supplementary government action to develop still better remedies and safeguards.

Our escape from the danger of a general recession in the spring of 1948 does not mean that no further dangers will appear, or that we can wait until they descend upon us in full force before taking wise preventive measures. We have been granted a breathing spell, but we have not been
granted lasting prosperity without further effort and vigilance. So long as the rising course of incomes and activity continues, there will be in operation many of the forces which have been responsible for the long-sustained advance of prices. There are a few sectors of our economy where dangerous inflationary forces continue to be predominant. For example, the shortages of steel and electric power, and the steadily mounting costs of public utility services, add further to the higher costs of production which up to now have been rather readily passed on to the consuming public.

The recent appearance of wider areas in the economy where supply conditions have improved, where the pressure of demand has been reduced, and where price inflation has been halted or reversed, should be looked upon as a desirable development to be welcomed rather than feared. It marks the beginning of the process by which a more stable condition can be reached after a long period of rising prices. But these adjustments have not proceeded far enough to justify a cessation of concern about inflation. Besides, a sharp and uneven adjustment of prices downward may cause dislocations quite as serious as the sharp and uneven movement of prices upward. Since both factors may be at work in different parts of the economy at the same time or in rapid sequence, we need to have available a range of governmental measures which can be applied as brake or as accelerator according to the need.

While the prosperity of the postwar years has been great, it has rested in considerable part on somewhat temporary factors which were the aftermath of war. In 1949, we are entering a period of harder tests. The momentum of war-created demand and war-created purchasing power has waned, and we must now rely more fully on currently generated purchasing power to absorb a full output of goods and services. We must be more than ever on the alert, to make sure that withdrawal or lessening of temporary demand factors is not accompanied by a reduction of productive activity and the mounting unemployment to which this would lead.

I believe that prosperity can be continued and that, with proper action, the prospective volume of business investment, consumer spending, and governmental transactions should promote ample employment opportunities for the coming year. But many adjustments in price and income relations need to be made, and these must flow mainly from the wise action of the leaders in our enterprise economy. These leaders should draw sustaining confidence from the fact that it is the policy of the Government under the Employment Act of 1946 to use all its resources to avoid depression and to maintain continuous prosperity.

These favorable prospects will not be realized automatically. The strength of our economy, the strength of our great Nation, depends upon our capacity and willingness to adopt the salutary policies which are required by changing circumstances and to put them into effect.
In this Economic Report, drawing upon the more detailed information and analysis furnished to me by the Annual Economic Review of the Council of Economic Advisers (transmitted to the Congress herewith), I shall first cover the high points in the current and prospective economic situation, and then propose both policy guides and a program to deal with the situation as I evaluate it.

High Points in the Economic Situation

*Employment* in 1948 ranged from 57 to nearly 62 million civilian workers and averaged more than 59 million. This included over a million workers who were added to the labor force. Unemployment remained at the low level of around 2 million.

*Production* for the economy as a whole was between 3 and 4 percent higher than in 1947. With bumper crops, agricultural output increased about 9 percent. Industrial output increased 3 percent, while employment in the service businesses rose 3 percent and in government 4 percent.

*Prices* ceased the broad upward movement which had persisted with few interruptions ever since the removal of price controls. The trends of prices became more irregular and more selective. Metals and metal products, building materials, fuel and lighting materials, and most durable goods moved upward, while some other groups weakened, with farm products leading the decline. Lower food prices brought the consumer price index down a little in the late months of the year, although other components of the index continued to rise throughout most of the year.

This halt in the upward march of prices has been a welcome sign in the battle against inflation. I hope that it proves more enduring than similar pauses during the past two years. But the sharply divergent movements of prices—both up and down—confront us with urgent problems of adjustment to sustain maximum employment and production throughout the economy.

*Wages* went up during 1948, but there was considerable disparity in the increases obtained by workers in different lines. While some groups managed to keep ahead of rising living costs, others fell behind.

*Work stoppages* in 1948 were at about the same level as in 1947. In most industries, settlements were obtained without prolonged negotiations or strikes. Nevertheless, considerable loss of production resulted directly and indirectly from strikes, especially in coal mining and in east coast and west coast shipping and trucking.

*Profits* in 1948 again surpassed all previous records and were rising throughout the year. Corporate profits after taxes amounted to about 21 billion dollars, contrasted with a record level of about 18 billion dollars in 1947. With sales booming, the ratio of profits to sales was again maintained at around 5 percent after taxes. As I pointed out a year ago, such
profits are in excess of the levels needed to furnish incentives and equity funds for industrial expansion and to promote sustained economic health, although some businesses have not thrived nearly so well as others.

The supply of money and credit, which increased enormously during the war, continued to expand thereafter. During 1948, however, partly as a result of restrictive actions adopted by governmental authorities and voluntary restraints observed by banks, and partly because of a decline in the demand for short-term capital, the expansion of bank credit was substantially slowed. A large Government surplus used to retire bank-held debt, together with the slackened growth of credit, resulted in a slight decrease in the amount of privately held bank deposits and currency. While bank loan expansion was less in 1948 than in 1947, this was in good part offset by increased lending by other financial institutions.

Credit expansion has been an important element in the process of inflation. In the first months of 1948, it was offset by the large Treasury surplus. When that surplus disappeared, the Government did not have authority to take other action which would effectively restrain inflationary expansion of bank credit and at the same time assure the maintenance of an orderly market for the vast public debt.

Consumer income in 1948 increased per capita about in proportion to the increase in consumer prices, which meant that consumers had no appreciable gain in real incomes despite an increase of 3 to 4 percent in total national output. Income from most major sources was greater than in 1947. But in the latter half of 1948, income from farming fell relative to the normal seasonal pattern and that from other unincorporated business and from rents ceased to rise, while that from dividend payments increased sharply. Income distribution is less unequal than it was in prewar years, but this improvement has probably been halted as a result of inflation and of changes in income taxes in 1948.

Consumption expenditure went up less than income in 1948. While personal saving increased, this was not reflected in the rate at which people accumulated liquid assets—currency and bank deposits, insurance policies, and securities. A larger proportion of saving was invested in housing, unincorporated businesses, and farms.

Business investment continued at a high level throughout 1948. Plant and equipment outlays by businesses other than farms totaled about 19 billion dollars, slightly above the level reached in the latter half of 1947, although with higher costs the physical volume of such investment was not quite maintained. Expansion to catch up with postwar demands appeared to be nearing completion in some lines, but substantial further increases in capacity are planned in a number of industries—chemicals, petroleum, metals, utilities, and transportation. Even where expansion goals have been met, modernization to reduce costs and improve products should continue to require substantial investment, though at a rate of growth lower than that of the past two years.
Inventories of nonfarm businesses likewise continued to increase in value throughout the year, the increase amounting to about 7 billion dollars. Of this amount, 4 billion was accounted for by price increases. Restocking after wartime shortages appears to have been virtually completed except for metals and some building materials.

Corporate financing of investment in plant and equipment, inventories, and customer credit required 26 billion dollars in 1948, 2 billion less than in 1947, but that part of new investment which went into plant and equipment increased. Of the total, 65 percent was internally financed. For the part externally financed, bonds were a more important source, and bank loans and stock issues less important sources, than in 1947. While stock market financing has been less important during the postwar years than in the late 1920's, this has been offset by greater retained earnings so that equity-debt ratios are generally more favorable now than in the last two decades.

The housing supply was increased by well over a million residential units during 1948. But since last May the number of new housing starts has been falling off rapidly. This does not mean that the housing shortage has been overcome. Rather it means, as I have pointed out in previous reports, that the construction industry has been pricing itself out of the market for all but expensive homes. A continued decline in home building would constitute a threat, not only to the improvement of living standards for millions of low-income families who are still inadequately housed, but also to the maintenance of maximum employment over the years.

The housing shortage is one that calls for prompt and bold action by Government and by industry—action by Government that will produce low-rent public housing, slum clearance, and rural housing for families of low incomes; action by industry to reduce costs so that decent homes can be built at prices that wage earners with moderate incomes can afford.

The major portion of the housing job must be done by private industry. Here the bottleneck is cost. At this time of national stock-taking I urge all elements of the building industry substantially to lower costs so that housing production may reach new record levels. The present decline in housing starts points up the danger that inflated building costs can bring down upon the industry. If housing costs are lowered and the consumer gets better value, builders will be able to continue to build in volume and the building industry need not fear a continued downward trend.

Municipalities can perform a major role in reducing costs by modernizing their obsolete building codes, which add to costs unnecessarily.

The surplus of exports of goods and services in 1948 was substantially less than in 1947, being 6 billion dollars compared with 11 billion. This reflected in part an increase in imports, a necessary development for placing our international transactions on a sustainable basis. It reflected even more a decrease in exports, because foreign purchasers lacked dollars with which to buy from us, and because of increased supplies of needed goods
produced abroad. The impact of this decline has been selective. Foreign countries have continued to buy products which they consider essential, like wheat, petroleum, agricultural and industrial machinery, and chemicals. Other items have been cut very drastically.

As shipments under the European Recovery Program continue to expand, some increase in the level of exports can be anticipated. For certain products, especially those for which the domestic market is tight, countries are being authorized to use European Recovery Program funds for purchases outside the United States. This will not reduce total export demand, since the sellers of such goods will generally spend here the dollars they receive. However, the expansion of exports under this program will, it is hoped, be offset in part by further increases in imports.

Government fiscal transactions were again a strong anti-inflationary factor in the early part of 1948, due to the excess of receipts over expenditures. But this factor declined substantially during the year. Federal receipts from the public exceeded cash payments by about 6 billion dollars in the calendar year 1947. Measured after adjustment for seasonal factors, the excess ran at an annual rate of 12.5 billion dollars in the first half of 1948, and only at a rate of 4 billion dollars in the second half. One of the main supports of an anti-inflation policy is a large Treasury surplus. As a result of the tax reduction of last year and the necessary increase in Government expenditures, this powerful weapon is not now available. Tax receipts, it is true, have been rising but this has been largely due to the inflationary rise in incomes, profits, and pay rolls. This inflationary rise, in turn, was aggravated by the effects of the tax reduction. Rising expenditures of State and local governments are expected to add to deficits in 1949, and these deficits increase the general inflationary pressure.

In the Nation's Economic Budget, retained earnings of business and business investments showed the largest percentage increase from 1947 to 1948. Among the other components, consumer incomes and expenditures increased less, government payments rose only moderately, and net foreign investment declined substantially. Expectations of continued inflation have added to the incentives for business investment, while the price rise has acted as a brake on the demand of consumers with relatively fixed incomes. The proportion of consumer expenditures in the total national product has never been lower in any peacetime year for which statistics are available. This is not an immediate problem so long as the sum of government expenditures, business expenditures, and net foreign investment is still rising. It could become a critical problem as these other factors begin to turn down or even to assume a declining relative importance in a constantly growing total economy. This situation calls for a vigorous anti-inflation program now, while at the same time we must pursue those policies of adjustment and expansion which will be needed to promote balanced economic growth over the years.
As we turn from consideration of the facts of our economic situation to a program of action, there are several broad principles which I believe should guide us. These principles should help us to keep clearly in mind where we want to go and how certain roads rather than others are the surest and quickest way of getting there.

First. We should remember that the goal we seek is the greatest prosperity for the whole country and not the special gain of any particular group. That is why the Employment Act of 1946 calls upon the President to present an economic program aimed at continuous “maximum employment, production, and purchasing power.” I firmly believe that this goal is attainable.

Maximum employment for 1949 means that nearly 1 million additional job opportunities should be provided for the growing labor force. Maximum production means that our increased labor force and modernized plant should strive for a 3 to 4 percent increase in total output. Maximum purchasing power means that the sum total of market demand by government, business, and consumers, domestic and foreign, should be proportionate to our productive capacity. It must not be more or we shall suffer inflation. It must not be less or we shall suffer unemployment and under-utilization of our resources.

Second. We should think and work with a reasonably long look ahead, not keeping our eyes just on the problems of the moment. Our immediate tasks must be placed in the perspective of our long-range national objectives. While we must deal promptly with the problem of inflation, we must not unduly hold back undertakings that are needed to preserve and develop our employment opportunities and our productivity in later years. Policies needed to develop our resources and to prevent depression in the long run must be reconciled with policies needed to curb inflation in the short run.

We must pursue affirmative programs for housing and health, for education and resource development. Yet the fight against inflation prevents us from undertaking these long-range programs with the speed and on a scale that would otherwise be desirable. In the recommendations made in this Economic Report and in the Budget which will be transmitted to the Congress in a few days, I have sought to reconcile these objectives in a way that strikes the safest balance.

Third. In order to have a yardstick for appraising strength and weaknesses in our economy and the adequacy of Government programs, we need concrete objectives for economic growth, and particularly standards for a better balance between production and consumption, income and investment, and prices, profits, and wages which will be conducive to sustained economic progress. In the Annual Economic Review of the Council of
Economic Advisers, transmitted herewith, there is a detailed treatment of our growth possibilities over the next few years. This shows how our employment, our output, and our standards of living can rise if we encourage and place major reliance upon our free enterprise system, conserve and develop our natural and human resources, retain our faith in responsible Government, and do not relax our efforts.

This study by the Council of Economic Advisers shows that action is now needed on the long range programs which I set forth in the concluding section of this Economic Report.

Fourth. We are dedicated to the principle that economic stability and economic justice are compatible ends. The fact that our total purchasing power is now at record levels cannot blind us to the equally important fact that the incomes of many people have not risen apace with the cost of living and that they have become the victims of inflation. A prosperity that is too uneven in the distribution of its fruits cannot last.

Fifth. We must fulfill the requirements of our essential programs—national defense, international reconstruction, and domestic improvements and welfare—even if doing so may require the temporary exercise of selective controls in our economy. We want the greatest amount of economic freedom that is consistent with the security and welfare of the people; but we do not want to sacrifice that security and welfare because of narrow and selfish concepts as to the acceptable limits of government action. If we could have the amount of national defense that we need, make the contribution to international reconstruction to which we are committed, and at the same time maintain and expand our standards of living now and in the future without any kind of selective controls over the economy, that would be most highly desirable. And it is possible that we may not, in fact, be forced to use such controls. But we would rather have these relatively unpleasant restrictions on our freedom of action for a while than imperil our security or allow our human and material resources to deteriorate.

Sixth. The vigorous commitment by the Government to an anti-inflation policy should not obscure the fact that the Government is equally committed to an anti-depression policy. In fact, curbing inflation is the first step toward preventing depression. And in times like the present, when the economic situation has mixed elements, the Government needs both anti-inflationary weapons and anti-deflationary weapons so that it will be ready for either contingency. It may even be necessary to employ both types of measures concurrently in some combination, for some prices or incomes could rise too rapidly while others could be falling dangerously. The same dictates of prudent policy which call for higher taxes in a period of inflation would call for tax adjustments designed to counteract any serious recessionary movement.
Legislative Recommendations

With these principles as a guide, I turn now to the recommendations which I am presenting to a new Congress invested by the American people with enormous responsibility for their welfare and security. We are pledged to prompt action when needed. We must not wait to act only in the eleventh hour of crisis. Moderate measures, taken in time, can save us from drastic action later on.

1. Policies to Combat Inflation and to Promote Production in Certain Industries

Fiscal policy

It is essential to sound fiscal policy to have a budget surplus now. This is our most effective weapon against inflation. It will enable us to reduce our debt now; it would be much more difficult to do so in less prosperous times.

I recommend legislation to increase the Government revenue from taxation by 4 billion dollars a year. The principal source of additional revenue should be additional taxes upon corporate profits, which can be applied without unduly interfering with prospects for continued business expansion and with assurance that profits, after taxes and dividends, will be sufficient for investments and contingencies.

Another source of additional revenue should be the tax upon estates and gifts. The already small yield from this tax was reduced by one-third by the Revenue Act of 1948. Careful study should also be directed to the increase of rates of individual income taxes in the upper and middle brackets. Some additional excise taxes may be desirable, but some excise taxes, particularly on oleomargarine, should be repealed.

I also recommend an increase in social security contributions under existing and extended social insurance programs. This would exert an anti-inflation effect in addition to that of the 4 billion dollar increase in taxes which I have recommended above.

The national tax policy should be flexible and should be promptly adjusted to the changing needs of business and consumers in the course of evolving economic events.

Increased taxation is only one of the means by which we can accumulate a budget surplus. The other is a careful limitation of Federal expenditures. It is essential that our fiscal policy under present circumstances contemplate not only a surplus of revenues over expenditures, but also a surplus achieved at the lowest level of expenditures which is consistent with our needs. The implications of this policy requirement will be discussed at length in my Budget Message.
Debt management

The public debt will continue to be managed in a manner that will make a maximum contribution to the stability of the economy. An important factor in this program will continue to be the maintenance of stability in the Government bond market.

Such stability in the Government bond market has been a most significant element in the smooth reconversion from a wartime economy to a civilian peacetime economy. It contributes to the underlying strength of the financial structure of the country. It engenders business confidence. It has made it easier for business and industry to obtain the capital funds necessary for their reconversion and expansion projects.

The stability of the Government bond market was maintained throughout 1948 by the joint effort of the Treasury Department and the Federal Reserve System. Despite the necessity for market support at times during the year, there was only moderate increase in the total Government security holdings of the System as a result of the support program. There were occasions, however, when the bond price support policy proved its value in stabilizing the market and the need for continuance of the policy was demonstrated.

Only during the last few years have we had experience in dealing with the problems of managing a public debt of the size the country now bears. The policy of supporting the price of long-term Government bonds at the 2¼ percent yield level has been eminently successful.

Through its vigorous promotion of savings bond sales during the year, the Treasury has placed a large volume of bonds in the hands of individuals, who have thereby aided in the battle against inflation by adding to their savings. The most gratifying aspect of this situation is that the amount of Series E bonds outstanding was brought to the new high level of 32 billion dollars, and that this was accomplished with the cooperation of the banks of the country, thousands of business firms and their employees, and an army of patriotic volunteer workers.

Credit policy

On previous occasions I have recommended that adequate means be provided in order that monetary authorities may at all times be in a position to carry out their traditional function of exerting effective restraint upon excessive credit expansion in an inflationary period and conversely of easing credit conditions in a time of deflationary pressures. The temporary authority to increase reserve requirements of member banks of the Federal Reserve System, granted by the Congress last August, will expire on June 30, 1949. The expiration of this authority without further action of the Congress would automatically release a substantial volume of bank reserves irre-
spective of credit needs at the time. The Congress should promptly provide continuing authority to the Board of Governors of the Federal Reserve System to require banks to hold supplemental reserves up to the limits requested last August, 10 percent against demand deposits and 4 percent against time deposits. This authority to the Board of Governors should not be confined to member banks of the Federal Reserve System but should be applicable to all banks insured by the Federal Deposit Insurance Corporation.

Authority for the regulation of consumer installment credit, which likewise expires under present law on June 30, 1949, should be continued in order to exert a stabilizing influence on the economy.

Promotion of supply and production

There are shortages of supply in certain critical areas which are so serious as to impede maximum production in an expanding economy and to limit programs related to national security.

I recommend immediate legislation to deal with this problem of capacity and supply. It should impose upon the Government the specific responsibility and provide the funds to make careful surveys of future supply needs and productive capacity. It should further require that these specific studies be correlated with the general requirements of an economy operating at maximum employment, production, and purchasing power. To the extent that facts reveal the need, it should provide additional authority to deal more effectively with inadequacy of capacity and supply.

Allocation powers

In my Economic Report of last year, I stressed the need for the supplementation of voluntary action with mandatory controls over key materials in short supply. The need for mandatory controls still exists. I propose the temporary extension of the law under which voluntary agreements are now permitted. However, there is grave danger that the problems of acute shortage cannot be adequately met by voluntary agreements. I therefore recommend that the use of mandatory allocation powers be authorized so that they may be employed on a selective basis without delay where they prove to be needed.

I also recommend that the Congress continue the priorities and allocation authority in the field of railroad transportation.

Selective price and related wage controls

I recommend that selective price control authority should promptly be made available to the Government. My reasons for this have repeatedly been set before the Congress and the country. I have not earlier and do not now propose general or over-all price control of the wartime variety. But we are still in a situation where the prices of certain critical materials or commodities of vital industrial or consumer importance are moving upward for the third consecutive year or longer. Sharp rises in the prices of essential products may be harmful to the economy even when the general
price level is fairly stable. Further, we cannot be certain that another upsurge of general inflation will not reappear this year under the composite pressures which are at work throughout the economy.

Legislation to authorize selective price control should encourage voluntary adjustments without the actual imposition of price control. It is in this spirit that I would administer the authority. But I am firmly convinced that such voluntary efforts, which have been tried with partial but insufficient results since the middle of 1946, cannot meet the problem unless the Government possesses the authority to act firmly. With such authority available, however, its actual application might not be required. It should be supplemented with a provision permitting the Government to order the withholding of price advances for a reasonable period while public inquiry into their justification is being made.

In my message to the special session of the Congress in July 1948, I said: "Where the Government imposes a price ceiling, wage adjustments which can be absorbed within the price ceiling should not be interfered with by the Government. The Government should have the authority, however, to limit wage adjustments which would force a break in a price ceiling, except where wage adjustments are essential to remedy hardship, to correct inequities, or to prevent an actual lowering of living standards."

I then stated my belief, which I still firmly hold, that wage increases based upon productivity and designed to provide a rising standard of living embody the American way. The facts show some current situations where non-inflationary wage increases can be granted by employers without price increases. I firmly believe that the normal processes of collective bargaining will result in sound wage adjustments without the actual application of any governmental authority related to wages if business and Government make genuine efforts to hold down excessive prices and profits and to reduce the cost of living.

Rent control

The present housing shortage makes it necessary to continue rent control for at least two years, and to strengthen its enforcement. I recommend that this be done.

Even if the most optimistic interpretation is placed upon the slight reduction in the cost of living in recent months, it would be unwise to lift living costs again by rent increases even larger than the moderate ones taking place under the present system of control. Such a course would inflict further hardship upon the families who have already been the prime victims of inflation, and would make it harder to exercise moderation in wage demands.

Export controls

In view of the large volume of exports required to carry out our program of aiding economic reconstruction abroad, it is essential that those exports be controlled, both to minimize their adverse impact on the domes-
tic economy and to make them most fully conformable to our foreign policies. I therefore recommend that the existing powers of control over exports be extended, and that the machinery for enforcement be strengthened.

**Commodity exchanges**

Excessive speculation in grains, cotton, and other agricultural commodities results in wide and harmful fluctuations in prices. The experience in the fall of 1947, and in the winter and spring of 1948, demonstrated the need for more effective governmental supervision over speculative trading on the commodity exchanges. I recommend that the Congress grant more specific and more adequate authority to prevent excessive speculation or the manipulation of prices.

2. **POLICIES TO PROTECT THE VICTIMS OF INFLATION**

While we are fighting further inflation, we should recognize that severe hardship has already been imposed on those whose incomes have lagged far behind the increase in the cost of living. Whatever is feasible to alleviate this hardship should be accomplished without delay. I recommend specifically:

- That the benefits under the old-age and survivors insurance be substantially increased in order to bring them in line with the increase in the cost of living;
- That the coverage of the Fair Labor Standards Act be broadened and the minimum wage increased from the present 40 cents an hour—a figure determined in 1938—to at least 75 cents an hour. It should be permissible to provide higher minima by tripartite action of employers, unions, and the Government on an industry basis;
- That the public assistance program for relief be improved to meet the basic human needs of the less fortunate.

The housing program which I recommend will make a start toward providing decent housing for those whose low incomes confine them to slums in these days of grossly inflated housing prices.

3. **POLICIES TO PROMOTE BALANCED ECONOMIC GROWTH**

While alleviating the hardships of inflation and overcoming maladjustments which threaten our future prosperity, we must continue to develop our resources for healthy growth. We should press forward at once with some programs of high priority needed now to conserve and increase the strength of our Nation. In addition, we should be prepared with fully formulated plans for others. We cannot accept the dangerous idea that inflation's end will automatically bring about a period of stable prosperity. The continuing need for prudence in Government expenditures must not be translated into false economy.
Natural resources

The Federal Government has an important role in the development of our natural resources which is essential to the achievement of programs to relieve shortages which threaten economic development. These shortages include many of our most essential minerals and metals, our energy resources, especially electric power and oil, and some chemicals and fertilizers.

Present shortages of electric power in many areas are not temporary; our long-range needs require enormous expansion of existing capacity. It is essential that public power programs be expanded this year, even where this requires use of scarce materials for construction of dams and generators. Such expansion should include the construction of transmission lines where needed. A start on the St. Lawrence River waterway and power project should be made immediately. The programs in the important river basins should be examined and prompt action taken where needed to provide improved coordinated development plans.

Agriculture

With certain abnormal postwar demands for farm products diminishing, problems of adjustment to longer-range conditions are becoming more pressing. We need to fit a prosperous and equitably treated agriculture consistently into an economy seeking to operate continuously at maximum levels of employment, production, and purchasing power.

We must make sure that our long-range price-support legislation moves toward the goal of farm living standards comparable to those of the rest of the population. We need farm production even more abundant than we have yet attained to supply the industrial and consumer needs of a full employment economy. But at the same time, we need measures to encourage shifts in the composition of farm output realistically adjusted to our domestic and export needs. We should supplement such measures with others, including the provision of adequate storage facilities, the improvement of distribution, and adequate credit facilities.

Even with farm production and national income at their present high levels, many families lack adequate diets. We should assure maintenance in the future of a level of consumption consistent with real food needs. This will help to stabilize domestic markets for farm products.

To stabilize foreign markets, consultations are already under way toward preparing a new International Wheat Agreement.

I urge the Congress to reexamine existing and proposed farm legislation in the light of all these objectives.

International economic relations

The European Recovery Program is designed to further world recovery and reconstruction. It must be continued. Its success will facilitate a return to reasonable freedom of world trade. The proposed Charter of
the International Trade Organization, which was signed by 54 nations last year, lays the foundation for this return.

The present inadequate authority for the conclusion of reciprocal trade agreements expires June 30, 1949. I urge that immediate action be taken to restore the Trade Agreements Act to full effectiveness and to extend it for three years.

**Housing**

The steady decline in new housing starts since last May adds fresh evidence of the need for housing legislation. I again recommend immediate passage of the unenacted portions of the comprehensive housing bill; and the need has now become so great that its meager quota of 500,000 units of low-rent housing over 5 years should be increased to provide for 1,000,000 units within 7 years.

If we are to achieve levels of housing production adequate to our needs, construction materials in the necessary volume must be available continuously and in balanced proportions. If it proves necessary, I shall not hesitate to use the allocation authority, which I have requested, to channel such materials into home building.

**Urban redevelopment and community facilities**

The comprehensive housing bill includes substantial Federal aid to the States and localities to enable them to make more rapid progress in clearing slums and in assembling land for balanced redevelopment. Such action can be taken now without adding significantly to inflationary pressures, and it is an essential basis for future progress.

While the Annual Economic Review of the Council of Economic Advisers this year does not deal at length with programs, such as education, health, and social security, which are directed toward the improvement of our human resources, my Economic Report last January stressed the intimate connection between the conservation and improvement of these resources and the prosperity and productivity of our economy. The Council this year firmly reiterates this principle.

Because the programs flowing from this analysis have not yet been authorized, I submit the following recommendations.

**Education**

The crisis facing education must be met, and the basis for the continued improvement of our system of education made firm. Only with Federal resources can we meet adequately the increased cost imposed by expanding enrollments and the general rise in expenditures for maintenance and operation. I recommend that a Federal program for aid to elementary and secondary education be initiated. We should make plans whereby the opportunities for higher education would be expanded through cooperation
between the Federal Government and public agencies and private institutions, including a system of general scholarships and fellowships. And a study should be initiated to determine authoritatively our national needs for educational facilities and the most feasible methods of providing them.

**Health**

The high percentage of rejections under the military recruitment programs has provided striking evidence of the unsatisfactory state of the Nation's health. National health insurance is the only workable way to assure that all individuals have access to the medical care they need. I recommend the enactment of such a program this year. Federal grants in support of hospital construction are an indispensable support to such a program. We also need to augment the number of doctors, dentists, and nurses in order to overcome the present serious national shortage of medical personnel.

**Old age, disability, and unemployment insurance**

Millions of workers are excluded from the benefits of our old age and unemployment insurance systems. Such exclusion denies to individuals protection to which they are entitled by every consideration of equity. I urge that the coverage of these systems be widened this year and the benefits made more adequate.

Few of our workers enjoy systematic protection against loss of income through temporary or permanent disability. We should inaugurate a system of insurance against such loss.

I have included in this Economic Report only those legislative recommendations which have large significance for maintaining maximum employment, production, and purchasing power and which require the immediate attention of the Congress. There are a number of other important projects on which we should make further progress this year. Our conservation practices in many areas require improvement, including the regulation of timber cutting, the protection of public range lands, and the development of our tidelands oil resources. We should press forward with our programs of basic research and exploration. We should seek continually to encourage the bargaining of labor and management along lines most consistent with national progress and stability.

This is a period in which our ability to master our affairs in our own way will be rigorously tested. Abundant resources and rapidly advancing technology are both a blessing and a responsibility. Our strength lies, however, less in these resources themselves than in our will to use them effectively. This task requires adapting our private and Government institutions to changing circumstances.
We are committed to working out our economic problems in a way that combines economic and social progress with democratic self-responsibility. This is the spirit in which the Employment Act of 1946 was conceived and in which we shall attempt to live up to its high purpose.