THIRD ANNUAL REPORT TO THE PRESIDENT

BY

The Council of Economic Advisers

December 1948

Additional copies of this report are for sale by the Superintendent of Documents,
U. S. Government Printing Office, Washington 25, D. C.
Price of single copy 15 cents

Letter of Transmittal

COUNCIL OF ECONOMIC ADVISERS,
Washington, D. C., December 24, 1948.

The President.

SIR: The Council of Economic Advisers herewith submits its Third Annual Report in accordance with the requirements of Congress as set forth in the Employment Act of 1946.

Respectfully,

Edwin G. Nourse
Chairman.

Leon H. Keyserling
Vice Chairman.

John D. Clark

Contents

PART I

PART II

THE Council's first annual report to the President covered only a few months of active work and was largely in the nature of a preview of our task and a statement of our initial plans for attacking it. The second annual report covered our first full year of operation and reviewed the progress of the Council's organization and early activities. Now we look back over a little more than 2 years' experience and the reactions of the public to our work. This suggests that the present report should first present a brief account of our actual operations during 1948 and then review some aspects of our latest thinking as to the role of the Council and the institutional environment within which we operate.

Part I. Organization and Operation of the Council in 1948

It is the major responsibility of the Council to "assist and advise the President in the preparation of the Economic Report" and, to this end, make continuing studies of the functioning of the national economy in order to identify and analyze influences (including Government programs and activities) related to continued national well-being. On the basis of these studies the Council is—

> to develop and recommend to the President national economic policies to foster and promote free competitive enterprise, to avoid economic fluctuations or to diminish the effects thereof, and to maintain employment, production, and purchasing power.[1]

The Council thus provides a staff arm to the President to aid him in keeping abreast of the multifarious economic developments within and without the Government, focusing analysis on the salient issues where public policy affects national prosperity. The tangible product of its labors is a series of reports, formal or informal, public or internal. An important intangible product should be an influence toward harmonizing economic thinking among Government agencies and between Gov-

[1] Besides the annual Economic Report, the President is authorized to make such supplementary reports (with supplementary or revised recommendations) as he may deem necessary or desirable. The Council shall "make and furnish such studies, reports thereon, and recommendations with respect to matters of Federal economic policy and legislation as the President may request."

ernment and the rest of the economy. This intangible product will be discussed after we have reviewed the Council's written reports.

REPORTS

In 1946, only one publication emerged from the Council's work. This was our First Annual Report to the President. It attracted wide attention in the press and on the radio as the first indication of the way in which the Council would interpret the Employment Act and how it would direct its activities. The opening paragraphs of this report explained that it would be devoted primarily to considering the broad philosophy of the Employment Act of 1946 and concluded:

> It is the President's Economic Report to the Congress rather than this Council report which will contain specific economic conclusions and recommendations.

On a later page, it added:

> The [creation of the] Council of Economic Advisers does not reallocate basic public reponsibilities; it merely puts improved professional techniques and resources at the disposition of those who make national policy. Since the President must formulate his policies and shape his program within his own evaluation of the most varied and comprehensive political and social as well as economic influences and considerations, it is not to be expected that his Report to Congress will merely reflect the conclusions and recommendations of his Economic Council. He will simply use as he deems wise such economic analyses, appraisals, conclusions, and recommendations as they prepare for him.

In the early stages of the preparation of materials to be considered by the President for use in his Economic Reports, the staff of the Council maintains close relations with the staffs of the several Government agencies and takes into account the experience and views of these agencies. When drafts of material are prepared by the Council for submission to the President, they are brought to the attention of agency heads, so that these persons may have still another opportunity to bring their individual and agency resources to bear upon the problems discussed. Following this, or sometimes concurrently, there are discussions between the President and the Council during the period when he is formulating his decisions as to what he desires to send to the Congress.

The President's letters of transmittal of his Economic Reports to the Congress have uniformly read:

> 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.

In January and July 1947, and in January 1948, the Economic Reports of the President contained not only his recommendations of policy but also all of the details of statistical description and economic analysis underlying these recommendations. The Midyear Economic Report of the President in July 1948, however, initiated a different practice. The President's report covered broadly but succinctly the high points of the Nation's economy, and embodied also his recommendations in full.

Along with this Economic Report of the President there was transmitted a report by the Council to the President, entitled "The Economic Situation at Midyear 1948." This included the details of statistical analysis and a more technical discussion of the observations and policies which might flow from such analysis as undertaken by professional economists. The reaction to this change in procedure has been favorable; it has brought to the Congress and to the public a keener appreciation of the respective duties of the President and the Council under the Employment Act.[2]

Besides assisting the President in the preparation of his periodic reports, and accompanying these, its own reports, the Council has made two reports on special topics at the request of the President. The first of these analyzed the *Impact of Foreign Aid upon the Domestic Economy*. This study was made primarily for the benefit of the President's Committee on Foreign Aid[3] but was given general distribution as a mimeographed document (112 pages). It was submitted on October 28, 1947. In response to another request of the President, the Council made an analysis of the reasons for and probable consequences of certain steel price advances. It reported its conclusions to the White House in a brief memorandum on March 10, 1948. This statement was released to the press by the President.

Preliminary studies of annual wage or employment guaranties, which had been made by the Office of War Mobilization and Reconversion, were referred to the Council for continuation study. We have not yet brought our study of this matter to a state ready for submittal and recommendation. Work is in process also on several other problems referred to in Economic Reports of the President.

We revert now to the annual reports which the Council makes to the President in December of each year as required by section 4 (d) of the Employment Act. In the first annual report, we had made a general preliminary statement of "the economic philosophy of sustained employment." In the second report, we examined at somewhat greater length "the meaning of maximum production and means of attaining it." We stressed the necessity of adequate capital; the significance of the size, efficiency, and industry of the labor force; and the vigor, skill, and "balance" of managerial direction. In conclusion, we pointed out that if our national resources are to be kept in use at the level of maximum production, there must be real price competition, that is, market realities must be allowed to channel the full flow of effort and of product to

[2] In the Economic Report of the President in January 1949, this separation of the President's policy and program and the Council's factual survey and cause-and-result analysis will be continued.

[3] The "nonpartisan committee of distinguished citizens appointed to advise [the President] on the limits within which the United States might safely and wisely plan to extend economic assistance to foreign countries and on the relation which should exist between such assistance and our domestic economy"—the so-called "Harriman Committee."

the points of greatest demand. Attempts to secure desired prices either for goods or for services by methods of monopoly or restriction are a flat contradiction of the principle of maximum production.

In some quarters, this sort of material, as included in annual reports of the Council, has been dismissed somewhat tolerantly as "philosophical essays" superfluous to our real assignment. In some other quarters, it is regarded as an improper alignment of the Council with doctrinal positions and this, it is argued, conflicts with our responsibility to present purely objective statements of economic fact and of demonstrable economic consequences flowing from particular situations or actions. We believe, however, that such neat and precise relationships as this view assumes do not in fact obtain in the complex economic behavior of free human beings. We suspect that some of the dissatisfaction expressed with reference to these discussions in the Council's reports stems primarily from the fact that they have not expounded the particular dogma dear to the heart of the particular critic. Frank disclosure of these differences seems to us likely to prove helpful in the long run.

As we read the declaration of policy with which the Employment Act opens, it does not outline a routine assignment whose accomplishment requires nothing more than the use of methods and tools already familiar to economists and business leaders. On the contrary, it seems to us to give only the broadest outline of a grand purpose and therefore to challenge the President and his economic aides, the Congress and its committees and their staffs, the working world and its executives and technicians to select sound old means and devise sound new ways for gradually bringing this grand purpose closer and closer to realization. Perhaps it is a measure of the vitality of the ideas that we have advanced in our initial exploration of these problems that they have elicited expressions of sharp disagreement or even dismay in some quarters as well as warm approval in others. The criticisms have been stimulative to our own further thinking and have also revealed the fact that some of our ways of stating our thoughts have been obscure or misleading. Insofar as these reports have provoked frank and incisive discussion of the basic issues of how free competitive enterprise can maintain production at maximum practical levels, we believe that we have served the needs of our country and the hopes of the host of forward-looking people who framed the Act. We feel that there must be continuing reexamination of the doctrines of formal economics and the practices of everyday business. Both need to be substantially improved.

Besides the several annual, midyear, and special reports and our quarterly memoranda to the President, the Council collates from the various statistical agencies of Government (particularly the Departments of Commerce, Labor, and Agriculture and the Federal Reserve Board) the latest statistical data available in a book of charts and tables (about 30) titled "Economic Indicators." This publication is issued

monthly through the good offices of the Joint Congressional Committee on the Economic Report of the President. Besides a small free distribution, this pamphlet is sold in substantial and increasing numbers by the Government Printing Office. Subscribers find in it an up-to-date collation of closely related sets of data covering the major aspects of business life. By using many short-cut methods, the Joint Committee and the Council make much of this material accessible to subscribers more promptly than they can secure it through the regular publications of the several agencies.[4]

BASIC STUDY PROGRAM AND STAFFING

The Council has continued to follow the plan of staffing outlined in its first annual report:

> The Council has set up a small (not to exceed 10) top staff of broadly trained economists, selected with a view to their competence to analyze the state of the Nation's business as a whole and appraise the functioning of the entire economy. Each, however, has specialized knowledge of the problems, the methods of analysis used, and materials and personnel available in some special area such as labor relations, plant capacity, agricultural problems, consumer demand, price-wage-cost relationships, money and credit factors, taxation and fiscal problems. Together with a small secondary staff, these "specialized generalists" are utilized under the Council's direction to bring to its deliberations the best thinking of the economic and statistical profession in the Federal Government agencies, in non-Federal governments, and in the private organizations of business, labor, and agriculture. Easy and effective relations were promptly established between the Council's staff and the staffs of these many agencies.

Under this plan, the Council had by the end of 1947 recruited a professional staff of 8 senior (P–8) and 9 junior (P–4 to P–6) economists (or statisticians), a clerical and administrative staff of 20, and 2 messengers—a total regular staff personnel of 39, excluding members of the Council. Several part-time professional staff members add to this the equivalent of one full-time person. Since then our staff has been reduced from 39 to 34 because of budgetary curtailment which will be explained presently.

Supervision of the work of the Council in these fields of study has been distributed among the members of the Council, under a plan which permits each member to keep in touch with the work supervised by the others and to call upon any member of the staff for assistance in any problem which he is studying.

An important phase of our study program consists in the grouping of workers around four major problem areas of basic importance to the

[4] A special selection of about half these charts and tables covering matters of most immediate concern is prepared for the President even more promptly than the Committee publication can be put through the Government Printing Office. These are put in a loose-leaf book, stamped "The Economy in Operation" which the President keeps constantly at hand in his desk. A companion book, "The Budget in Operation," is provided by the Bureau of the Budget each month.

long-range development of our capacity to detect, measure, and appraise current situations and changing trends, to analyze the factors and relationships making for stability or instability, to define maximum employment, production and purchasing power, and to recommend national economic policies.

The first of these four areas of concentration relates to capital needs, investment policy, and sources of funds. While economic science has not yet developed a clear and uniform concept of the exact ratio between capital investment and total output which will be most conducive to economic health, none will deny that the wide fluctuations in capital investment have been among the foundation causes for excessive economic instability, and that much further work of a critical character is called for in this area.

The second area of concentration has to do with wage-price-profit relationships and policies. This clearly indicates the Council's realization that the voluntary decisions affecting these policies are the main conditioning forces within our economy. It embodies the hopeful expectation that we may gradually evolve some broad standards for wage and price policy which should help voluntary agents to make more amicable and more economically satisfactory decisions in their daily dealings.

The third area of concentration has to do with the Nation's Economic Budget. This Budget is a device for blending the various quantitative aspects of the economy into a total description, as a basis for evaluating the interrelationship among the parts. As this particular study proceeds, it should shed light upon such questions as workable relationships between industrial income and farm income, business investment and consumer expenditures, the private economy and the budgets of Federal, State, and local governments.

The fourth area of concentration in our staff work has to do with economic stabilization devices and their application. Starting with the economic analyses involved in the three other areas of study, this project centers on the various private and public techniques for influencing the economy through conscious decision, private and public. It therefore sets such matters as tax policy, public works, and regulation—in fact, the whole range of relevant government programs—within the context of their instrumental relationship to the maintenance of maximum employment, production, and purchasing power.

These four basic studies are each organized through a staff committee operating under the close direction of a Council member. The provisions in the Employment Act setting forth in detail the qualifications for members of the Council clearly intend that each report by the Council shall represent the professional judgment of the members themselves. This establishes the character of the relations between the Council and its professional staff, and makes the Council members their

own chief economists. Subsidiary to this, the staff committees, sometimes with Council member participation, confer with outside economists and sometimes form or join in interdepartmental committees of specialists in particular phases of their work. Several of these staff committees are now preparing to present their formulation of problems and suggestions for needed work at round-table meetings of the American Economic Association, so that the work of the profession may thereby be directed more specifically toward new problems which arise as the Council explores the task of sustained employment and high production.

SOURCES OF MATERIALS

One of the most satisfying experiences of the Council has been the cordial cooperation it has received from the several Government offices upon which it must rely for economic facts. Reduced appropriations have seriously hampered them in those important services to the public, to the Congress, and to the business world. But where they have been forced to discontinue some part of their work, they have responded to the desire of the Council as far as possible in determining which part to continue. And they have cheerfully undertaken a serious burden of extra work in order to enable the President and the Council to include in the various reports preliminary data for the quarter which is only closing as the report is completed.

The periodical data collected and classified by the Department of Agriculture which the Council finds most important cover agricultural production, farm income, and prices received and paid by farmers. The Treasury Department furnishes regular reports on budget receipts and expenditures, and on public debt transactions. The contribution of the Bureau of the Budget includes quarterly reports and current estimates of Federal cash receipts from and payments to the public, and aid in a quarterly reconstruction of the Nation's Economic Budget. Data of the profits of manufacturing corporations, of personal savings, and of corporate security issues are compiled each quarter by the Securities and Exchange Commission.

The statistical series maintained by the Department of Commerce are numerous. The more important which are used regularly by the Council are the following: monthly reports of labor force, employment, and unemployment; quarterly computations of gross national product and gross national income; monthly reports of construction; monthly reports of the inventories and sales of manufacturing, wholesale, and retail firms; and many types of international trade data. An especially important service is the collection of information about the new investment of business firms for plant and equipment, and about their investment plans for the current and future quarters of the year. The Council has been criticized because it does not attribute to business investment the dominant place among the factors determining the course of the economy,

which many business analysts do. Nonetheless, we assign great importance to this factor and welcome the fine service of the Department of Commerce in furnishing information which was never before available and which, at least during the last 2 years, has been surprisingly accurate.

The Department of Labor is responsible for some of the most important statistical data used by the Council. It makes daily, weekly, and monthly reports of wholesale prices, and monthly reports of retail prices of goods which enter the consumers' price index, formerly known as the cost-of-living index. Labor data furnished by the Department include monthly reports of non-agricultural employment by industry groups, manufacturing employment by industry groups, labor days lost by strikes, and (by industry groups) hourly earnings, weekly earnings, and work hours per week. It also publishes monthly reports of construction activity and of housing starts, and at irregular intervals issues data relating to productivity.

The service offered by the statistical division of the Board of Governors of the Federal Reserve System covers, in addition to all aspects of banking, the monthly data of industrial production and a quarterly report of the profits of large manufacturing corporations. Its recent studies of accumulation, distribution, and use of savings have furnished the basis for much of the analysis of economic trends prepared by the Council, and the industrial production index is invaluable.

The many experts in the Government agencies have become very skillful in analyzing preliminary data, however meager, and in detecting the situation which will be fully disclosed when complete information has been collected. They have an acute sense of the relation of the business conditions in the area which they study to those of the total economy. They freely afford to the staff of the Council the benefit of their talent in this respect, and join in informal discussions of economic trends from which the Council receives much valuable assistance in its own work. Many technical staffs in the Government offices are engaged in research projects of direct interest to the Council, and it is kept advised of the progress of these studies and is able to learn of important results before the whole project is completed and a report prepared for publication.

All of these splendid services save the Council from bogging down in an enormous detail of fact-finding and research, and thus leave us free for the general analysis, interpretation, and consideration of policy which are our vital and special function.

RELATIONS WITH OTHER AGENCIES

We have continued and developed our working relations with other agencies during the past year, in line with our function as an over-all general economic staff, relying upon existing fact-gathering agencies

for our basic materials. This aspect of our work has been quite fully discussed above.

The consultative groups drawn from the public, which the Act admonishes the Council to organize, have been the source of much valuable information about business conditions and about the attitudes, expectations, and purposes of those whose decisions so largely determine the condition of a free economy. We have periodical conferences with advisory committees representing business, labor, agriculture, and the many consumers' and public-interest groups in the country. These are supplemented by many informal meetings with similar bodies and with the organizations which represent local and State governments, regional associations, and professional associations.

In the early stages of the preparation of materials to be considered by the President for use in his Economic Reports, the staff of the Council maintains close relations with the staffs of the several Government departments and agencies, and takes into account the experience and views of these agencies. When drafts of material are prepared by the Council for submission to the President, they are brought to the attention of agency heads, so that these persons may have still another opportunity to bring their individual and agency resources to bear upon the problems discussed. Following this, or sometimes concurrently, there are discussions between the President and the Council during the period when he is formulating his decisions as to what he desires to send to the Congress. We have continued our effort to promote coordinated consideration of economic problems in the interest of the Nation as a whole by department heads together with the Council prior to the making of recommendations to the President.

A development which has come into the interagency phase of our work during the past years relates to the National Security Resources Board set up under the Security Act of 1947. This Board, under a civilian chairman and with membership from seven of the major departments,[5] is primarily entrusted with advising the President on the coordination of military, industrial, and civilian mobilization in a national emergency. This task necessitates careful study of the policies followed during peacetime as to national resources, manpower, and other requirements and the implications of such policies for the achievement of orderly and complete mobilization in time of war.

There is thus an evident interpenetration of the functions of the National Security Resources Board and the Council of Economic Advisers. This calls for cooperation and mutual strengthening of the Presidential staff function rather than competition or duplication in its performance. The Board staff is 10 times the size of the Council's staff and gives greater attention to requirements arising from the military program

[5] Besides its Chairman, it includes the Secretaries of the Treasury, Defense, Commerce, Interior, Agriculture, Labor, and State.

(now accounting for more than one-third of the total budget) than we could expect to do. The work of the Board staff therefore affords a rich resource of factual material for our use in appraising the functioning of the civilian economy. We on our part can properly be expected to supply the Board with projections or practicable assumptions as to national production, income distribution, investment outlook, market demand, or other matters of broad policy significance.

With this collaboration in our current activities, the eventual staff service of the two agencies to the President moves in parallel lines. We advise him as to the maintenance of the highest attainable level of peacetime prosperity; they advise him as to the mobilization implications of current policies and as to steps which must be taken to attain maximum security in the event that we have to face an international emergency as a temporary interruption to peacetime economic progress.

BUDGET

Though given a large task, the Council is conceived as a small review and policy agency and had a personnel ceiling placed upon it in the original Act—$300,000 for staff. We have had to move slowly in order to secure professional staff who measure up to the exacting requirements of our special function. Under a total appropriation of $350,000 in fiscal 1948 we showed a top figure of 17 professional employees (besides the three Council members) and 22 administrative and clerical employees. The last Congress reduced our appropriation to $300,000, and this has compelled us to forego the filling of several posts important for the carrying out of our basic functions and indeed to reduce our clerical staff by five positions.

Our budget request for fiscal 1950 is $350,000. Hearings before the Appropriations Committees of the Congress have not yet been held.

Part II. The Environment Within Which the Council Operates

Unlike the Council's reports on the concrete facts and the analyses of the economic situation which are transmitted with the Economic Reports of the President to the Congress, the Annual Reports of the Council to the President attempt to set forth our thinking about the novel and difficult tasks assigned to us under the Employment Act of 1946. We believe that this serves a useful, democratic purpose by affording public officials, the business world, and the interested citizen an intimate glimpse into the working problems of a significant agency of their Government.

In our first Annual Report to the President we discussed the political philosophy of the Employment Act and the economic philosophy of sustained employment. In the second we treated of the meaning of maximum production and means of attaining it. In this third Report we seek to develop better understanding of the Council's role by choosing as our central theme the environment within which the Council operates.

The Employment Act of 1946 instituted a process of integrating national economic policies of the United States quite unlike anything in our past experience, in a setting very different from that of any effort for a similar purpose in other countries. Hence it has been necessary for the Council of Economic Advisers, the professional body established in the Executive Office by the Act, to sail uncharted seas. The dynamic changes of the postwar era have thrust upon the Council in its first 2 years problems quite unforeseen by the sponsors of the legislation and have developed situations which have tested the usefulness of the agency. We here present some of the more important lessons drawn from our experience in undertaking to carry out the policy declared by the Congress in section 2 of the Employment Act:

> The Congress hereby declares that it is the continuing policy and responsibility of the Federal Government to use all practicable means consistent with its needs and obligations and other essential considerations of national policy, with the assistance and cooperation of industry, agriculture, labor, and State and local governmets, to coordinate and utilize all its plans, functions, and resources for the purpose of creating and maintaining, in a manner calculated to foster and promote free competitive enterprise and the general welfare, 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.

The policy thus declared does not create a "planned economy." By that term, people who speak with precision designate the kind of economic system in which the main objectives for which productive resources shall be used and the means to direct them to the desired ends are determined by the agencies of a central government. This choice must always be made by someone because the desires of the people for goods and services always far exceed the capacity of available resources. The planning authorities determine what productive enterprises shall be undertaken; what kinds of goods and services shall be produced by each producing unit, and in what volume; when, how, and to whom they shall be distributed; and at what price.

There is no theoretical necessity that in the planned society the political state shall be nondemocratic or that in a free economy political democracy must prevail. But the pragmatic need for these conditions in the respective systems is very great. For in what we Americans believe to be the only true democracy, in which the people have the right to use political means to further their own purposes and to combine with others

815629°—48——3

of like economic interests to bring about action by government, no planned economy could meet the test of success. The planners, having made their plans, would not have the power to make them come true. It would also be conceivable for an absolutist government to decree a free economy. But it is not conceivable that such a government would long be able to tolerate some of the collateral consequences of the free system; for instance, the expanding organizations of groups of capitalist enterprisers, workers, and farmers which are bound to arise in a free economy.

A planned economy is thus markedly different in kind, and not merely in degree, from the free competitive economy which the Congress stipulates as a continuing objective of the Employment Act. In the free economy, most of the decisions about economic activity are made by individual enterprisers. The competitive price mechanism is relied upon to cause enterprisers to respond to the wishes of the people about the goods and services that shall be produced.

Yet the policy adopted in the Employment Act, being realistically responsive to modern conditions, does not arbitrarily limit the intervention of Government to the "police" functions of an earlier day. It is designed to permit cooperative attention to those problems which an individual or group cannot solve alone in a highly integrated economy through the sheer application of competitive strength, and therefore to permit, where the people approve, those kinds of Government activity which may influence or even control some types of economic activity so long as they do not transform the essential character of the economy. The Act calls for an integration of policy toward affirmative objectives, rather than the random development of disconnected policies to deal with evils after they have appeared. It calls for foresight as well as hindsight.

The Socialists and other supporters of a planned economy, believing that the forces leading to the severe swings of the business cycle are inherent in a system of free competitive enterprise, contend that there is an inescapable and fatal self-contradiction within the provisions of the Employment Act. This is not the view of the sponsors of the legislation nor of the members of the Council. Those involved in the framing and application of the Act believe confidently that our free economy can be directed along a fairly regular course without imposing upon it intervention so extreme as to weaken private enterprise or destroy basic freedoms of choice.

Other conditions within which the Council must develop national economic policies are established by the range of economic knowledge and by the social, and especially the political, environment. One who would understand the process set up by the statute and the role of the Council must consider these limitations. The Council cannot offer professional advice more certain than economic knowledge permits, and the

advice which it does offer must be adapted to other social policies which are so thoroughly accepted that it must be assumed that they will not be abandoned.

THE MEANING OF "FREE ENTERPRISE"

American sentiment has always been firm in support of a system of free enterprise and in opposition to a planned economy. Yet our political history is replete with accounts of policies adopted by Government for the very purpose of influencing the economy and of restricting or conditioning the choice of a course of private action. The most venerable of these policies is the protective tariff, justified by its advocates upon the ground that it is necessary in order to permit domestic industries to thrive.

Federal, State, and municipal governments, likewise, have repeatedly furnished financial aid to promoters of transportation facilities to hasten regional development beyond the plans or resources of private enterprisers. Direct business activity by Government has by no means been uncommon, though bitter-end battles have frequently been waged when a step in this direction has been proposed. When the parcel-post system was established and when urban communities have undertaken to take over water or electric power plants, the people have made a deliberate choice between a wholly free economy and one in which the Government engages in business activities which they believed to be inadequately undertaken by private enterprise.

In the field of regulation, interference by government with complete business freedom has existed throughout our history. In colonial days, this regulation extended beyond the public services in such matters as wages and prices. In the first half of the nineteenth century, conditions in the new Nation did not require much regulation. But the National Bank Act, passed during the Civil War, used the taxing power to wipe out note issues by State banks and established rigorous control of the activities of the national banks which it authorized. Soon after that war, the Midwestern States enacted what were known as the Granger laws, to regulate rates of railroads and grain elevators. These were sustained by the courts against claims of unconstitutionality upon the significant ground that the regulation of services and charges of public service businesses had been a recognized function of government since colonial days.

The Interstate Commerce Act of 1887 established a pattern of regulation of public utilities which has become general in Federal and State legislation applying to an expanding list of businesses. To the regulation of rates and service, there has been added the control of financial practices. The one-time privilege of the citizen to enter any lawful business he chose has been modified by a requirement that an official certificate of convenience and necessity must be issued before one may undertake a new public utility enterprise. This extensive and important area of

American business has now been almost completely covered by legislation which blends the system of free enterprise with the principle of public responsibility.

Other areas of business have been placed in an intermediate position by regulation which merely limits the discretion of the manager. The Securities and Exchange Act and the Packers and Stockyards Act are among the more important Federal laws which have imposed some degree of supervision upon activities not usually listed in the public service category. In the States there have also been similar trends.

These measures, and many more, have been designed to keep business operations honest, orderly, and economical. They have been introduced mainly, but not wholly, in areas where some considerable degree of monopoly power was inherent or economically desirable. They have sought to prevent the unscrupulous operator from enriching himself at the expense of the buying or investing public who were not in a position to protect their own best interests.

Our national policy has not been entirely free, however, from experiments in government action for the direct purpose of influencing general economic conditions. Prior to the Great Depression, the most notable instance was the use by the Federal Reserve Board of the power of the new Reserve System to influence credit conditions. Operations under the National Recovery Act of 1933 were a spectacular attempt to impose government controls upon private business enterprise for the purpose of dragging prices upward from depression levels and inducing business revival. Government sanctions were put behind codes of practice under which the individual enterpriser was denied the right to fix his own prices, to determine the volume of his production, or to expand his facilities of production.

The congressional debate upon the bill for the Employment Act supports the history of American policy in affording an interpretation of the phrase, "freedom of enterprise," which is broad enough to permit the Council to propose comprehensive programs of taxation, monetary and credit control, public-works construction, regional development, and social welfare. How far we might properly go in proposing more positive controls is not made specific. The course of Federal and State legislation since the First World War does not permit the conclusion that these categories are frozen, but there are no clear guides by which the Council may determine for which businesses and under what circumstances it may propose positive controls beyond those applied in the past. But we cannot go far astray in this respect, because no proposal of this character by the Council or even by the President can be implemented without congressional consent, which in the long run involves the consent of the people and—where constitutional issues may be raised—of the courts as well.

The Council is specifically directed by the Act to define *needed* levels of employment, production, and purchasing power throughout the economy. This, of itself, embarks us on a task more far-reaching in scope and bolder in purpose than any previously undertaken with a Congressional mandate.

THE MEANING OF "COMPETITIVE ENTERPRISE"

The American definition of a competitive economic system, as drawn from our national policies, is unique. It falls far short of the theoretical standard, but calls for competition far beyond the requirements of the economic system of any other country.

The Sherman Antitrust Act of 1890 embodied the classical doctrine that in a free enterprise economy the effect of competition extends beyond the assurance of fair prices; it spurs the individual enterpriser to expand his operations and to enlarge his production. There was no distrust of competition nor any fear that its effects might be undesirable. More than 20 years later, Woodrow Wilson expressed the popular view when he said that he took off his hat to the businessman who by selling more at lower prices and by improving the quality of his product was able to run his competitors out of business.

This stalwart opinion has been seriously modified since the First World War, if one may judge public and congressional sentiment by the series of statutes added to the antitrust laws. Warm admiration for the policy of the Sherman Act has often been expressed, but efforts to strengthen that policy in two substantive provisions of the statute and in the improvement of the enforcement process have been blocked while one exception from the antitrust laws after another has been provided. These began with the exception of exporters in the Webb-Pomerene Act of 1918 and closed, as of this date, with the exception of the railway rate bureaus in the Reed-Bulwinkle Act of 1948.

The tendency toward soft competition has likewise been exhibited in the Robinson-Patman Act, which prohibits price-making policies previously accepted as legitimate features of hard rivalry for business, and in the so-called fair trade practice acts of the States which are supported by the Federal Miller-Tydings Act. The philosophy of the Sherman Act appears to be yielding to a policy of "ethical competition" which does not differentiate between the stability of the individual firm and the stability of the total economy.

There has also been a substantive change in the structure of American business during the past generation, which requires a modification of the concept of "competitive enterprise" if the term is used to describe our economy as it actually exists. This change presents new problems of the utmost difficulty in the task of maneuvering toward economic stability

under a system where the direct decisions are made by private business managers.

As late as when the Sherman Act was passed, the normal structure of competitive business contained many firms, each controlling a small part of the total market. In that kind of business world, the restraints upon competition which required attention were those arising from agreements beween competitors to fix prices or to control production and those arising from efforts by individual firms to gain a monopoly position by using unfair methods of competition. The Sherman Act was appropriate to enforce the continuance of competition in such an environment. But we now find many industries dominated by a few large corporations. The process of concentration has proceeded so rapidly that, even before the war, it was reported to the Temporary National Economic Committee that four or fewer firms controlled 75 percent or more of the production of each of the industries which together produced one-third, by value, of all industrial products.

The assumption in classical doctrine that the productive resources of capital and labor were so fluid that they flowed readily into any profit-making opening was supported by observable facts. But it is not true today of a large part of American industry, where mass-production methods have led to the creation of great units which alone can exploit the new technology. The requirements of capital and of organization of forces to initiate a new enterprise present a serious obstacle to the appearance of new competitors in many of our most important industries. These requirements also affect existing firms, and there has been a steady movement in the direction of increasing size as smaller units are merged into larger ones.

The quality of competition becomes very different when industrial control becomes thus concentrated, because the viewpoint of the business manager changes accordingly. If the manager whose firm produces 2 percent of the total supply sees an opportunity through more aggressive or more skillful marketing methods to double his sales, he will not be deterred by concern about the effect upon the market price. If he must meet the problem of a falling market, he knows that he cannot prop it up by reducing or even halting his production. And so long as the price returns his out-of-pocket costs, there is little reason for him to limit his operations and reduce employment. Indeed, the instinct of the manager at all times is to expand his production, to seek new markets, and to improve his sales efforts. In times of rising markets, he is lured by the prospect of greater profits; when the markets are receding, and unit profits are falling, he responds to the even more urgent motive to avoid loss. Some firms in the competitive industries are always striving for greater production, and the efforts which they must put forth to market more goods force them and their competitors in turn to reduce cost by improving the techniques of production.

The managerial point of view is very different when the firm controls a large part of the industry, say 40 percent. A change of 10 percent or more in its production would increase or reduce the total supply of goods coming into the market in such significant degree that the market price would be affected. The firm may not be a monopoly by any standard of law, but the manager must make his decisions about production schedules upon considerations quite similar to those which influence the monopolist. If the current market price yields a highly satisfactory profit, he is not inspired to expand his operations forthwith; he carefully avoids action which might spoil the market and leave him with a smaller total profit on a larger volume of business. If market demand falls, he has a choice different from the one which the small firm in a truly competitive indusry must make. Instead of reducing prices in order to mitigate the drop in production and employment, he may try to sustain the market price by reducing his volume of output.

There are few industries in this country where a single corporation controls as much as 40 percent of the business. But where three or four firms control more than two-thirds of the industry, much the same policy prevails. Each manager of a major firm knows that each of the others is similarly concerned to maintain a satisfactory market price and will rate his production to that end. The industry has an historical pattern of the share of the business to be enjoyed by each of the leaders, and each manager keeps within that pattern while adjusting his production to changes in demand. Each is confident that the one thing his nominal competitor will not do is to cut price in order to maintain production and sales.

The administered-price industry, as it is called, is not a new phenomenon. While there was no name for it at the time, President Theodore Roosevelt recognized it in 1908 and demanded legislation to abandon the effort to apply the Sherman Act to big business units and to substitute a policy of Government control. In his campaign as the candidate of the Progressive Party in 1912, he endeavored to make this a principal issue; but he was unable to arouse any great interest in the subject among the people who preferred to follow Woodrow Wilson in upholding the Sherman Act. Little attention was given to the defeated Roosevelt's program in the succeeding Congress, which added the Federal Trade Commission Act and the Clayton Act to the antitrust laws.

The problem created by the administered-price industries did not receive congressional attention until the Temporary National Economic Committee was directed to study the concentration of economic power 10 years ago. The Committee struggled with a complex situation, but its report proposed no specific plan to meet it. Since then several congressional committees have labored without producing any program of legislation.

The three most important respects in which the policies of an administered-price industry depart from the policies of a competitive industry relate to the expansion of production and plant capacity, to the volume of employment, and to price levels. These departures have not yet been striking since World War II. With a strong inflationary situation, which has made the problem of securing materials and labor for full-scale operations more acute than the problems of capacity or price policy, there have been only a few incidents where administered-price industries have exhibited a disposition to go slow on plant expansion and to reduce the volume of production. In fact, some of these industries have maintained some prices so far below those which would normally prevail in a competitive market that it has been possible for irregular gray markets to flourish with prices far above the official schedules.

It is rather in periods of business recession, the economist believes, that the production, employment, and price policies of administered-price industries may endanger the public welfare. It has been more than 10 years since we have had a chance to test this conclusion. But there is little reason to doubt that prices will be more stable in such businesses, and it is probable that production and employment will drop more rapidly than in competitive areas, although this is sharply disputed. However, complications arise in final evaluation because we really do not know how much these areas of relative stability may aid the economy in the struggle to halt deflation. The economic analysis which indicates that the course of deflation is accelerated by the spiraling effect of successive failures also indicates that those economic groups which remain solvent must exercise some general stabilizing influence.

The extensive consideration which has been given by official commissions and by congressional committees to the problems resulting from the increasing size of business units has not yet led to any clear judgment about the proper national policy. It is the opinion of many students of the subject that the advantages of increasing size are all realized when a firm reaches a stature much less imposing than that of our larger corporations, and that there is no reason to permit unlimited growth in order to secure all of the benefits of technological progress. But there is no agreement upon any plan to break up existing industrial giants or to erect positive limits to the expansion of others.

On the other hand, few economists and few legislators are willing to abandon the effort to make our economy truly competitive. They do not accept the view of Theodore Roosevelt that our business institutions are those of big business and that they cannot be forced into the policy of the Sherman Act. Study of the problem must continue, toward the end of creating competitive conditions throughout industry and thereby removing the need for those positive controls which alone could protect the public if it cannot be protected by restored competition.

As we give further thought to the subject, the business world itself has the opportunity to influence the final decision. Restraint in price policy, courage in expanding facilities to meet the expanding needs of the people, and the display of social responsibility in supporting programs of stabilization in the interest of maximum production and employment, will go far toward adjusting the relations of business and government. This may offer a better solution of the administered-price problem than can be found in legislation. The work under the Employment Act can make its greatest contribution toward this end, not necessarily by the institution of forceable policies, but rather by developing those analyses of how the economy as a whole functions which will further enlist the support of all in its smoother operation.

The increasing concentration of industry in large corporations is responsible for the "small business problem." It exists only because there is also big business. If our economic machine comprised only the 3.3 million small concerns, their problem would be that of general economic stability; there would be no distinct problem of small business. The small business problem exists because the small firm is at a disadvantage in competition with industrial giants, and this is implicitly recognized in the character of proposed measures of assistance. They are largely designed to afford the small businessman some special compensating advantage in the competitive struggle. Those most frequently cited are preferential treatment in the granting of Government contracts, exemption from the antitrust laws, abatement of taxes, and priority in the allocation of raw materials.

The circumstances of the small enterprise become formidable when it must compete with large corporations having operations so extensive that the processes of mass production can be installed and the cost of expert management, of research, and of advertising and sales promotion can be spread over many units of production and sales.

Lack of capital is not a characteristic inherent in the small firm. This is proved by the hundreds of thousands of small businesses which are backed by more capital than they require. And no amount of capital would enable the small manufacturer to install mass-production methods; he would have to become a big manufacturer to do so. The tiny enterprise could, of course, employ expensive management and research technicians and engage in Nation-wide advertising if it had the money. But it would also have to become a big enterprise to succeed; for the cost of this policy, when spread over a small volume of production or sales, would establish a unit cost barring goods from the competitive market. The disadvantage of lack of capital is reflected in minor degree in inability to take advantage of trade discounts upon large purchases of materials and of cash discounts for prompt payment, and more importantly in attempting to survive periods of misfortune.

The very large corps of successful small firms suggests that their competitive disadvantages have been somewhat exaggerated. Many of them prosper, it is true, because they live as satellites of the corporations which dominate their industry much like feudal lords. But more of them have proved that their counteradvantages of personal management and of elasticity in operations permit their survival in the competitive struggle. The case cannot, however, be left at this point. Year by year, the control of the market is passing more largely into the hands of the large corporations, not only by internal growth but by the absorption of smaller firms. The process of expansion of large corporations by swallowing the smaller continues, and the concentration of economic power becomes more intense.

A recent study summarizes the social interest in small business in these words:

> With more than 3,000,000 centers of business initiative, the realm of small business offers a moving panorama of self-employment and responsibility for the employment of others, of competition for the patronage of customers, of new ideas and trials and errors that taken together make for a dynamic society and ensure the American economy against sterility.

These are the reasons the Council of Economic Advisers must be concerned with the fate of small business when it considers its responsibility under the Employment Act of 1946 "to develop and recommend to the President economic policies to foster and promote free competitive enterprise." The very existence of the problem of the administered-price industries warns that the competition offered by the myriad of small business units must not be lost but instead must be strengthened and expanded. A good in itself, this will also reinforce such salutary policies as the larger firms may themselves adopt.

DETERMINING THE LABOR CONTRACT

One limitation upon the character of policies proposed by the Council, clearly imposed by the Employment Act, is that the fixing of the terms of the labor contract shall in general be left to the voluntary action of management and labor. In the light of our legislative and industrial history, the phrase "free competitive enterprise" cannot be interpreted otherwise. Except in a national emergency, it is settled national policy that employers and adult workers shall be permitted to make their own agreements about wages and other features of the labor contract, aside from legislation directed against substandard wages and working conditions.

This national policy compels the economist to attempt to discern business trends when employment, the most important single factor, is subject to specific individual decisions. Our modern economy is dependent upon the making of labor contracts. If they are not made, there is no employment, and activity is crippled at vital points. The terms of labor

agreements also determine whether the distribution of income affords inducement and opportunity for business to expand, and permits workers as consumers to play their important role in the market for goods.

Individual vagaries distort the working out of all economic theories, but for most purposes these may be overlooked because they are merged in the decisions of the mass of people. Collective bargaining in large-scale industry elevates the sentiments of individuals into a position of potent influence upon economic activity and business conditions. The corporate manager and the labor leader make choices which permit the economy to continue to flourish or which accelerate its decline.

The strategy on each side has been comparable. Each has wished to use all of its economic power to secure the best possible terms. Freely to use that power, each has opposed any move by government to join in the making of the labor contract or to fix it when negotiations break down. The ultimate economic power of labor rests in the strike. That of management springs from its legal control of operations and its right to sit tight upon its wage offer. Each has felt that its weapon must be bright and sharp or it will lose its effectiveness.

Labor believes that it must not permit management to suspect that the workers are desirous at all costs of avoiding a strike, because then labor would be crowded into a corner at the collective bargaining table. An occasional strike, with whatever suffering it entails, and over a final difference which of itself may not be large, is the price labor must pay in order to maintain the force of its only economic weapon. The same concept is responsible for the occasional decision of management to forfeit profits and thrust upon its stockholders heavy losses which could be avoided by an additional concession involving only a tiny fraction of the cost the strike will impose. The principle apparently is that management must remain firm to maintain its long-run position.

Our evolving national labor policy has expedited the organization of labor, and brought "equality of bargaining power" closer than a decade ago. The result has been the multiplication of the instances of specific controversy between labor and management. What was once an occasional major battle has become a running skirmish which now and then develops an emphatic issue and a spirited contest. All of the old issues, except the right to organize and the 40-hour week, remain and furnish the cause of disputes or crises in industrial relations. To these has been added a long list of minor controversies about seniority, supervision, vacations, retirement plans, waiting time, and the interpretation of formal contracts. All this may be desirable in the interest of greater social justice and even general economic progress or long-run stability; yet it increases the number of points of dispute.

Labor and management have both been firm in their opposition to any plan to have the terms of the labor contract fixed by some official authority when the collective bargaining process has collapsed. Even the

more moderate leaders on both sides, who are neither arrogant nor stubborn and who feel keenly the burden of responsibility which they carry, are distrustful of any policy which would substitute official compulsion for their voluntary decision. In their meetings with the Council, they have shown their deep concern over the economic break-down caused by major strikes in critical industries. But they turn away from every proposal of direct action by government which might finally determine the labor contract.

Meanwhile, disputes generally affecting the economy remain a perennial threat to the attainment of economic stabilization and maximum production which is the objective of the Employment Act. President Truman, in his State of the Union Message on January 6, 1947, proposed the appointment of a joint commission to study and make recommendations on "the special and unique problem of Nation-wide strikes in vital industries affecting the public interest." He described the problem in these earnest words:

> 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 lock-outs until all possibilities of negotiation have been exhausted.
>
> Third, the underlying causes of labor-management disputes.

The one point upon which most labor and businessmen were in agreement, in the ensuing congressional battle over labor legislation, was their opposition to any decisive intervention by the Government in a dispute over the terms of the labor contract. Despite many other important differences, both the National Labor Relations Act of 1935 (the Wagner Act) and the Labor Management Relations Act of 1947 (the Taft-Hartley Act) contemplated broadly that these terms be settled by voluntary action. The latter statute authorizes the President to secure judicial injunctions to delay work stoppages of critical national importance, but after 80 days both management and labor are free to choose their own course.

There is no strictly logical answer to the proposition that the concept of a public interest superior to any group interest, which has found its way into so many other fields, will ultimately impose upon the Government the responsibility for settling labor disputes if they reach a stage where the national interest will not permit their continuance. And many prudent men would deem it better to establish a pattern for such settlements before some crisis arises which might in a moment of clamor develop a pattern inimical to one or both of the parties. But while this proposition is clear, its application is extremely difficult. In the final analysis, men cannot be compelled to work in a free society, and even where the effort has been made in societies that are not free the results have been poor. Besides, settlement by government does not avoid but rather intensifies the need for adequate standards as to what precise decisions will be fair to both parties, acceptable to the public, and consistent with the needs of the whole economy. These standards include a wage structure in relation to prices that will maintain the producing power of industry and the buying power of labor in sound proportion. In the absence of such standards, no forced settlement could be desirable and therefore could not last. If such standards can be developed and win adherents, the prospects for voluntary settlements will become so bright that the need for compulsion would be rare indeed.

This suggests that, while continued attention should be shown to the legal status of employers and workers in their relations to one another and to methods of dealing with serious and extensive break-downs in their negotiations, increasing thought should be focused upon the form of the labor contract as determined through the collective-bargaining process. In fact, except in time of war, the occasional break-down of negotiations may do less long-run damage to the economy than is done by the conclusion of many negotiations on terms which do not reflect the economic requirements for sustained general prosperity but reflect only the relative strength of the parties. Hundreds of contracts are signed for every one that cannot be signed; and the cumulative effect of working arrangements is of larger significance for the economy than the cumulative effect of work stoppages. Recognition of this would reduce the number of work stoppages by introducing broader perspective into wage negotiations.

To foster these broader perspectives, it is not enough to ask in a vague and generalized way that management and labor each consider the national interest and the requirements for a prosperous economy. For each party tends to think that its own interest is the national interest, and each tends to believe that a counsel of moderation is needed only by the other side.

While there is no gainsaying the fact that "far-sightedness" and "moderation" on the part of both management and labor are necessary, this can be furthered only by developing some standards shedding light

upon what wage or other provisions will in fact be advantageous to both in the long run. Without this, there is little point in asking moderation of workers who have a strategic position which enables them to obtain more, or of an employer who is in such a strong position that he can compel settlement upon terms less favorable to workers.

The value of collective bargaining as the machinery to maintain labor peace and economic stability would be enhanced in considerable degree if it were possible to propose a standard of a fair wage—related to a given price structure—which would be at all acceptable. Neither party to collective bargaining would be so resolute and dogmatic if its proposal had to be discussed in its relation to a generally approved standard, even if that standard were so general that it could not be used as a precise rule for any particular case.

The proposal so often made, that there be established a process which will lead to an adjudication of the fair wage by some kind of tribunal, is based on the assumption that the determination of a fair wage or proper wage can be reached by the judicial process. The courts never hesitate to determine the countless questions of fair value, reasonable cost, fair prices, and the like which come before them, it is said, and the same method could be used to determine fair or proper wages. The analogy is appropriate where the controversy is over the amount due an individual for services he has already performed without a clear agreement fixing his wages. But it has no usefulness in a controversy over a labor contract fixing future wage rates. In the former case, the court applies a definite legal standard, which is the going rate, or the customary rate of wages in similar employment. However, when a round of new labor contracts is being negotiated, the very purpose is to abandon the going rate of wages and to establish a different one; or to substitute new contract terms for the old in respect to hours of labor, vacations, retirement funds, union shop arrangements, and other non-wage features of the labor contract. The current practice is relevant only as the starting point from which the parties depart in reaching a new agreement. If it were used as the standard by which the parties or some tribunal are to determine the new wage rate, there would never be any changes and labor would be helpless in its effort to improve and not merely to stabilize its standard of living.

In groping for some more promising solution, the suggestion is often made that the President call a conference of representatives of management and labor, and perhaps of the public, similar to that which he summoned in the autumn of 1945. There were high hopes for that conference, and it took place under conditions far more favorable to its success than those which normally prevail. There was little disturbance in labor relations. Prices were stable. Industrial managers were looking forward to great and profitable markets which would absorb their total possible production, and were eager to prepare the foundation for peace-

ful labor relations which would protect them against interruptions in their profitable operations. Labor was enjoying a standard of living which was far above any in its experience, but was disturbed by the knowledge that many adjustments would have to be made in the reconversion process and was searching for the highest possible degree of security. On each side, there was a disposition to enter upon negotiations upon the assumption that in the postwar world the relations of labor and management would be marked by the cooperation of the war period, not by the mutual distrust of old. But even under these favorable conditions, the conference had few results. After weeks of earnest effort, the participants were unable to convert into specific agreements and understandings the promptings of good-will which had brought them together.

If an attempt is made to make further progress toward the goal of better economic adjustments by organizing a labor-management conference rather than by establishing such a commission as the President proposed in his State of the Union message in January, 1947, preparatory work would be as necessary as in the case of international conferences. The area within which there is some real chance of agreement should be ascertained by extensive preliminary inquiry, and an agenda should be prepared and agreed upon through which fruitful subjects might be carried to a conclusion and the conference not led into disagreements upon points not yet within the area of possible agreement.

Such an agenda should not concentrate upon those legislative efforts through which management or labor has in the past endeavored to obtain some advantage over the other. Nor should it endeavor to arrive at specific wage or price agreements. It should concentrate upon those discerning analyses of conditions throughout the economy, both immediate and long-range, from which might be deduced some standards that management and labor could later apply in the course of their negotiations. These standards would not be binding; they would be primarily informational in character. But from them might emerge, after a testing period of time and experience, a better reasoned and therefore more workable formulation of wage policies to be applied through collective bargaining. Agricultural representatives should also participate in any such conference, because industrial wage and price policies cannot be disassociated from the problem of agriculture's share in the output of the whole economy. Basic economic studies that would be relevant to such an endeavor have been undertaken by the Council of Economic Advisers, in cooperation with many groups and individuals, and they are referred to in Part I of this report.

Above all these specifics, management and labor must have ever-increasing confidence, based upon deeds rather than promises, that the Government is fulfilling its commitment under the Employment Act to use all its resources to help maintain an economy of maximum employ-

ment, production, and purchasing power. The haunting fear of another depression must be removed. So long as it overhangs, no group can be expected to surrender its immediate prospects of gain in favor of a future that is too hazy and threatening to be relied upon.

RECONCILING ECONOMIC AND SOCIAL OBJECTIVES

The Council was not furnished with a clean page upon which to write policies, consistent with free competitive enterprise, which might contribute to economic stability. We could no more neglect programs which have become a settled part of national policy than fail to consider the limits of human and material resources. A great nation has many objectives, and social and political programs to which the popular voice has assigned supreme importance cannot be set aside in order to simplify the making of purely economic policies. The task is rather to devise those economic policies which will be effective and at the same time permit other programs to move forward. And even among economic policies, there are bound to be conflicts of method and emphasis which often cannot be resolved by abandoning one in favor of the other. Compromise among them must be made to effect reconcilement to over-all objectives.

The farm price support policy of the Government has been under continuous attack during discussion of the anti-inflation program of the President. It has been argued that the farm policy is responsible for much of the inflationary pressure and is an obstacle to the reduction of food prices. The Council has approved the general policy of supporting farm prices, so that the agricultural segment of the economy might not again collapse as it did in 1920 and undermine the financial, commercial, and industrial segments. The fact that this support-machinery has not yet been perfected is not a sufficient reason for abandoning it. But even if the Council did not approve that policy, we would not be realistic if our recommendations were based upon the assumption that it would be abandoned. A long legislative history has attested the strength of the popular affirmation of the farm price policy.

The Government's housing program, with its deliberate promotion of easy credit, may seem an anomaly in a period when the country is seriously concerned over an inflationary movement. It must be accepted because of the seriousness of the housing shortage, and anti-inflationary policies must be devised to curb inflation even while the expansion of housing is being encouraged.

Social-security laws and related statutes may add to the cost of production in the short run by imposing upon employers an obligation to contribute to reserve funds for unemployment insurance and disability and retirement allowances, and may limit the efforts of management to reduce costs of production by paying sweat-shop wage rates, by establishing long workweeks, or by employing women or children. The

judgment of the Council members as economists is that these measures, wisely adjusted, add to productivity and thus lower costs in the long run. But even if we held the view of those economists who think otherwise, we would have to recognize that these measures are firmly established and that they will be expanded rather than restricted. Our analysis must be directed to questions of how fast and in what forms.

A basic feature of our economy for many years to come will be a Federal budget much greater, in proportion to the national income, than any before World War I. Despite the inveterate propensity of businessmen and other citizens to complain about the cost of government and to argue that the level of taxation required to cover this cost was oppressive, the earlier Federal budgets which represented only 2 or 3 percent of the national income had little influence upon economic conditions. The budgets of all levels of government before World War I were not large enough to create real difficulty in putting into effect any desirable economic policy supported by confirmed public opinion.

The consequences of World War I carried the Federal budget high enough, in relation to national income, to give a new importance to fiscal policy. World War II has compelled the adoption of national policies which require a Federal budget of $40,000,000,000 or more. This is about one-fifth of the national income, and the collection and expenditure of this amount has an important impact upon the economy. Every suggestion that stability should be fortified by the reduction of public expenditures runs up against the hard fact that they are determined by Government activities which are given overwhelming support by the American people. The military ingredient is apparently destined to be a much larger factor for some time than we had supposed would be the case after World War II was "won."

A major part of our large budget is fixed by the requirements of the interest charge on the public debt, pledges of awards and allowances to veterans, and the established peacetime functions of Government under settled programs. But almost half of the budget is related to national defense, foreign aid, and public works. In theory, there is a very wide area of discretion in fixing expenditures for these purposes. Actually, there is no basis for any plan which assumes that there will be any substantial reduction. Public sentiment firmly supports the foreign-aid policy; it demands a national defense program sufficient to protect national security; it refuses wholly to defer during the period of our greatest national prosperity the public works which had to be set aside during the war years and which are now needed more badly than ever.

As the discussion of the anti-inflation program of the President has progressed, it has become increasingly evident that one of the central issues in national policy for years to come will be the management of the public debt. A debt of more than $250,000,000,000 determines some aspects of every economic policy and comes into the analysis of every

economic problem. The proposal to increase bank reserve requirements was countered by the proposal that there should be a change of the debt-management policy because it foreclosed the control of credit by the use of the orthodox method of increasing discount rates. Most of the bankers supported the policy of the Treasury and Board of Governors to sustain the Government bond market, but powerful leaders among them are outspoken in challenging the policy and they are joined by many professional experts.

The Government bond-support program presents a situation which well illustrates the problems of the Council in devising policies to stabilize the economy. We cannot propose that the inflationary threat be met by action which would create even greater danger. Whatever plan we propose must fit into the pattern established by all other important and necessary policies of the Government. Inflation is dangerous, and it is fed by our cheap-money policy. But it would be reckless to modify that policy by changes which might create uneasiness about the national credit and disorder in financial markets at a time when the nation must support a vast public debt. A large part of this debt matures within a few months and must be refunded by new loans. Additions to it could be required by some new emergency.

Some business writers and economists may find easy sport in pointing out that the Council of Economic Advisers takes into account "political considerations." The Council strives constantly for the highest degree of objectivity obtainable by economists in the public service. But we would be subjective indeed if we failed to recognize that the Employment Act is an endeavor in political science no less than in economics; that the whole range of questions touching why economic man acts as he does falls necessarily within the scope of our study; and that the raw materials which we have to process and synthesize in formulating "national economic policies" must pay attention to all three of these words and not only to the word "economic."

SOME LIMITATIONS OF ECONOMIC SCIENCE

Economics is a social science, not a natural science. While a few of its basic laws are of a somewhat mechanistic character, they express themselves through the inadequately informed, whimsical, and often perverse behavior of millions of human individuals. The professional economist and the lay economist in the post of industrial, financial, or labor executive must, therefore, not merely have a grasp of basic principles. They must also know how to apply these principles reasonably to the realities of human behavior within the setting of legal institutions, accepted policies and existing circumstances—however much they may seek to improve these conditions in the future. To attempt to secure economic stabilization at high levels of production and consumption,

under these complex facts, is a formidable undertaking. And yet everything implicit in the Employment Act of 1946 and free America will be satisfied with nothing less.

Inevitably, even the best-trained economists and most able business and labor executives in some measure disagree as to how masses of free but not always enlightened consumers and producers will respond to economic forces and incentives. Perhaps psychologists will some day give us much-needed light on the real springs of human action—both logical and whimsical. Meanwhile economic analysis and statistical recording and correlation should give us a better understanding of these phenomena from the outside, in terms of how they are actually working in contemporary action.

It is the responsibility of the Council to synthesize the most adequate and reliable statistical data and the objective record of intentions and attitudes of those groups and agencies which in fact determine what the economy will or can do. We do not rely only upon a conventional theory of *the* business cycle. The very philosophy of the Employment Act is that a free and intelligent people can devise and follow policies geared to changing business conditions, which will serve constantly to check the excess or deficiency at any one of many points which might snowball into either explosive boom or paralyzing depression.

The Council looks at the unfolding record of income payments and interprets the foreseeable trend of future markets for various goods. It learns all it can of the investment plans of business firms and the schedule of public works—Federal, State, and local; thereupon it estimates future demand for equipment and construction. It follows the course of public revenues and expenditures and the use of credit. It watches changes in the cost of living and observes the strength in the several parts of the labor market. On such data and the policies and attitudes expressed by the spokesmen of labor and management, it judges what is likely to develop in wage negotiations. It studies technological change and managerial improvement to gauge the trend of production costs, and feeds into that situation the prospective changes in wages. With this analysis, and taking careful account of crop prospects, it projects a moving picture of prices and price prospects. Adding up these many empirical observations and applying relatively simple principles of economic influence and consequences, the Council is prepared to make its recommendations of preventive or corrective measures to lessen the disastrous swings of business.

It is too much to hope that all economists will agree with our conclusions. But such differences as appear are not due to the absence of any useful body of principles among economists. They are due rather to differences in view as to the state of present and prospective facts to which the principles are being applied, and to differences as to what institutional situations and public policies should be taken for granted.

The explanation of the reason for the confusion which seems to exist in economic theory when it is turned into simple judgments upon specific policies is that usually there is a lack of agreement upon the situation to which the judgment applies. An economic phenomenon which will lead to one result under one set of circumstances may lead to another and very different result when the circumstances are changed. A tax reduction which is inflationary in a given factual situation might quickly have the opposite effect upon prices if the larger business activity induced by it brought about a large increase in the volume of production. The judgment of the economist about the way it would actually work would depend not upon his opinion about the general economic principle, but upon his views of an entirely different matter, namely, the possibility that the factual situation involving the volume of production might be altered.

It is also true that each of several conflicting rules of economic conduct may operate at the same time in a given economic environment, and what seems to be a difference between economists who comment upon a subject may only mean that each is looking at a different segment. A lowering in the rate of interest may very well cause those who are saving for reasons of future security to save more, while those who save for investment for current income purposes may save less. This will mean that the lowered interest rate will reduce the volume of investment by the latter group, thereby vindicating the economist who says that low interest rates retard investment; but the same lowered interest rates will induce the entrepreneur to expand his operations, proving that the opposite economic judgment is also correct.

The task of bringing economists into sufficient agreement upon a question of specific policy to meet national needs, and to find a process by which the professional consensus may be established, is hard but by no means hopeless. There is an unbridgeable chasm between those who adhere to ultraconservative theories of governmental nonintervention and those who advocate collectivism, but there are relatively few economists in either extreme group. Most of the profession are to be found within a rather limited area in the center, where their differences upon basic principles are few. Their vigorous arguments about the precise practical policy to which their analysis leads often hide the fact that there is a central point not far from the position each of them takes.

It is out of the question to consider the creation of a supreme tribunal to declare economic principles and to apply them to practical problems in the manner the courts declare legal principles and order their application to legal disputes. When the highest court declares a rule of law, it becomes the law; no official pronouncement makes an economic principle true. The controversy about every point of economic theory and analysis does not permit the Council to emulate the courts and thus give

to their judgments the solemn appearance of science by generous quotations from "authorities."

Upon some major points, professional opinion is fairly well crystalized and the Council can move with confidence. The ways in which the Government might act to halt inflation are standardized in the textbook. What the Government might do to counteract depression is an evolving subject, but the new items being added to the list are little more than refinements of points which had gained general acceptance 10 years ago.

In some degree this is true of the economic theory of taxation. A considerable consensus is developing among economists concerning the principle of tax policy to be applied to different economic circumstances. The arguments which rage in congressional halls may have the appearance of being buttressed with conflicting professional support. But they are likely to be the outmoded products of earlier theories applicable, if at all, to simple conditions and not relevant to the present search for economic stability.

There are a few major gaps which the economist must fill, however, before business analysis can be perfected and policy determination can proceed upon a more confident basis. Notwithstanding the great amount of attention given to the influence of capital investment upon economic conditions, the Council has not found adequate quantitative analyses that determine a sustainable relationship between the increase in productive capacity and the increase in consumers' markets. As a matter of fact, in our corporate economy we know little about the way investment decisions come about and what decisive factors are taken into consideration. The Council has joined the few economists and groups who have pioneered in this area. The work must of necessity be of an experimental character. It is hoped that the economic profession will give increasing attention to the problems of relationships among production, capacity, investment, and consumption for the economy as a whole and for specific branches.

It is important to know whether the continued good health of our free economy requires capital investment at a rate which bears some ascertainable relation to national income or to some other economic landmark. A determination that it does would immediately give distinct form to the problem of bringing about those conditions which induce and support the necessary volume of investment.

A condition which has given the Council great difficulty is the lack of criteria by which to determine the relationships among prices, wages, and profits which are workable, in the sense that they contribute in the largest possible degree to economic stability. Adequate knowledge upon this point would add to the certainty of judgment about maladjustments in the economy. It would furnish the objective basis which must be found for the determination of proper wage rates ere collective bargaining between labor and management can be anything but a match-

ing of economic power. It would supply a standard of proper prices in the expanding area of administered-price industries, where the forces of small-unit competition do not control the market.

It is not to be expected that abstract theory can produce any rule which determines this stabilizing relationship among wages, prices, and profits, or between any two of them. But it is not too much to hope that, through empirical observation, reenforced by economic analysis and judgment, it will be possible to make progress in ascertaining the respective movements which will contribute toward improved stability. This process can lead to no single categorical conclusion. There are countless other conditions which influence the level of business activity, and no combination of them is ever repeated. But it should be possible to weigh with some assurance whether the particular relationship among wages, prices, and profits in any given situation had contributed to satisfactory general results. From this might be derived the character of adjustments needed in changing circumstances.

The Council, in performing its function, cannot await the perfecting of economic analysis. We must use the best formulations available, and seek to improve the methods by which they can be applied to real and fast-changing conditions. The consultative method which the Council is slowly building up is a step in that direction. The collective-bargaining procedure affords a large area for experimental methods of economic adjustment as general principles are applied to stubborn economic facts. In questions of Federal spending and taxation, the Halls of Congress offer the laboratory in which workable economic adjustments have to be sought. At this point the guidance of the Joint Committee on the Economic Report of the President should prove especially valuable.

But beyond these and other intimate associations with those who influence the course of events, the Council has at its disposal whatever sources of facts and whatever methods of technical economic analysis are available to anybody. Its success depends in part upon the qualities of judgment which it brings to bear upon the fertile intellectual work to which it is heir. The principal limitations are imposed by the fact that no collection of data can comprehend the enormous variety of economic relationships and no techniques of analysis can forecast with assurance the actions and reactions of a free people.

There is no royal road to economic stability by the route of informed judgment, to say nothing of the route of political vagaries. But there is a slow and painful road, through the process of bringing the best available thought and knowledge to bear upon the process, and through the willingness of those who exercise political and economic power to be guided by such thought.

Early experience under the Employment Act of 1946 has brought into sharp focus the practical difficulties which lie between the initiation of a national economic policy and the adoption of that policy by the Congress. Our American democracy will yield only slowly to the need for the deliberate formulation and integration of national policies in the interest of sustained prosperity.

It is a fundamental assumption in our political philosophy that it is the right and obligation of every citizen to express his judgment upon all proposals related to government action, and endeavor through his ballot to make it effective. It is the established practice within our political system for any citizen to exert such influence as he may have in the interest of any legislative proposal in which he is concerned. It is his acknowledged right to join with others of like interests in an organized and aggressive effort to induce legislators to protect and foster those interests. Americans like these political privileges, and they exercise them confidently, with no sense of social impropriety. This has led, however, to the formation of special interest groups, to struggles and trades among economic blocs, and to political logrolling on the gravest matters of economic well-being.

Toward meeting the difficulties of reconciling coordinated national economic policy with the practices of universal suffrage and the unlimited freedom to unite group interests, we believe that the Employment Act of 1946 offers both a sound policy objective and an important dual machinery in the executive branch and in the Congress. The Council of Economic Advisers in the Executive Office of the President furnishes professional staffing, to enable the President to have national economic issues studied on an integrated basis above but not oblivious to the play of legitimate group interests. It facilitates his task of declaring his leadership in proposing annually to the Congress an economic policy conceived in the continuing interest of the whole people. The Joint Committee on the Economic Report in the Congress facilitates in a similar way the study of the policies embodied in all particular legislative proposals to see whether they comport with a comprehensive and internally consistent national economic policy.

The first experience of the Council of Economic Advisers has thrown needed light upon the problems of integrated economic policy making. It has disclosed the tools which economic science has furnished to the economist who would foresee the course of economic events and who is charged with the task of proposing policies to maintain prosperity. It has tested the ability of the profession to offer guiding lights to the statesmen. It has furnished some indication of the attitudes of important economic groups and of the prospect for voluntary, self-denying action by them.

The period has been one of economic changes which have tested the ability of the Council to interpret correctly the trend of business, without which its advice would be irrelevant. A major and dangerous inflationary movement has required the Council to propose a program which, while fitting into the pattern of total national policy, will forestall the economic collapse which is the usual sequel to an inflationary boom. Several times the Council has had occasion, as required of it by the Employment Act, to appraise important government policies as they affect the attainment of the objectives of the Employment Act. It has had many meetings with advisory committees of labor leaders, businessmen, farmers, and consumers.

In the jagged manner which is typical of the progress of social policy in this country, we shall move in developing our own peculiar pattern of business and government activity in a mixed economy which is neither a planned society nor a system of laissez faire. Every problem met by the Council of Economic Advisers in the first 2 years will be repeated many times, and its experience is accumulating lessons of future value.

In its first report in December 1946, a few weeks after it had begun to operate, the Council expressed the opinion that the provisions of the Employment Act of 1946 were well adapted to carrying out the policy of economic stabilization, and that the President and the Council have been given ample authority to prepare and propose programs as broad as is possible if the system of free competitive enterprise is to be maintained.

After 2 years, this favorable view of the Employment Act has been confirmed, and the Council sees no need for any amendments. The desirability of the general terms of the statute, rather than detailed and specific provisions, has been demonstrated. The bill which was introduced in the Senate was focused upon the problems of unemployment and depression, but the conditions which have called for the formulation of a program turned out to be those of an economy of full employment and of rising prices. The Employment Act, as it evolved from the fire of congressional debate, is just as well fitted to the needs of that situation as it is adapted to action to enlarge employment and to counteract deflation. If the integration of government policies and programs to maintain maximum production and employment proceeds haltingly or ineffectively, it will be because of the difficulties inherent in our economic and political institutions, or because of the human shortcomings of those administering the Act. The Act gives to the President and the Council of Economic Advisers the fullest opportunity to draw upon all of the resources of economic science as well as upon the practical experience of business, labor, and agricultural organizations. It permits the President to propose and the Congress to consider whatever measures may result from the application of these resources to the economic problems of our times.

APPENDIX

Employment Act of 1946

[PUBLIC LAW 304—79TH CONGRESS, 2D SESSION]

[15 U. S. C. 1021]

[S. 380]

As amended by Public Law 601, sec. 226, 79th Cong., 2d sess. (Legislative Reorganization Act of 1946) and Public Law 405, 80th Cong., 2d sess.

AN ACT

To declare a national policy on employment, production, and purchasing power, and for other purposes.

Be it enacted by the Senate and House of Representatives of the United States of America in Congress assembled,

SHORT TITLE

SECTION 1. This Act may be cited as the "Employment Act of 1946".

DECLARATION OF POLICY

SEC. 2. The Congress hereby declares that it is the continuing policy and responsibility of the Federal Government to use all practicable means consistent with its needs and obligations and other essential considerations of national policy, with the assistance and cooperation of industry, agriculture, labor, and State and local governments, to coordinate and utilize all its plans, functions, and resources for the purpose of creating and maintaining, in a manner calculated to foster and promote free competitive enterprise and the general welfare, 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.

ECONOMIC REPORT OF THE PRESIDENT

SEC. 3. (a) The President shall transmit to the Congress at the beginning of each regular session [1] (commencing with the year 1947) an

[1] In the original Act, before amendment, this read: "within 60 days after the beginning of each regular session."

economic report (hereinafter called the "Economic Report") setting forth (*1*) the levels of employment, production, and purchasing power obtaining in the United States and such levels needed to carry out the policy declared in section 2; (*2*) current and foreseeable trends in the levels of employment, production, and purchasing power (*3*) a review of the economic program of the Federal Government and a review of economic conditions affecting employment in the United States or any considerable portion thereof during the preceding year and of their effect upon employment, production, and purchasing power; and (*4*) a program for carrying out the policy declared in section 2, together with such recommendations for legislation as he may deem necessary or desirable.

(b) The President may transmit from time to time to the Congress reports supplementary to the Economic Report, each of which shall include such supplementary or revised recommendations as he may deem necessary or desirable to achieve the policy declared in section 2.

(c) The Economic Report, and all supplementary reports transmitted under subsection (*b*), shall, when transmitted to Congress, be referred to the joint committee created by section 5.

COUNCIL OF ECONOMIC ADVISERS TO THE PRESIDENT

SEC. 4. (a) There is hereby created in the Executive Office of the President a Council of Economic Advisers (hereinafter called the "Council"). The Council shall be composed of three members who shall be appointed by the President, by and with the advice and consent of the Senate, and each of whom shall be a person who, as a result of his training, experience, and attainments, is exceptionally qualified to analyze and interpret economic developments, to appraise programs and activities of the Government in the light of the policy declared in section 2, and to formulate and recommend national economic policy to promote employment, production, and purchasing power under free competitive enterprise. Each member of the Council shall receive compensation at the rate of $15,000 per annum. The President shall designate one of the members of the Council as chairman and one as vice chairman, who shall act as chairman in the absence of the chairman.

(b) The Council is authorized to employ, and fix the compensation of, such specialists and other experts as may be necessary for the carrying out of its functions under this Act, without regard to the civil-service laws and the Classification Act of 1923, as amended, and is authorized, subject to the civil-service laws, to employ such other officers and employees as may be necessary for carrying out its functions under this Act, and fix their compensation in accordance with the Classification Act of 1923, as amended.

(c) It shall be the duty and function of the Council—

(*1*) to assist and advise the President in the preparation of the Economic Report;

(*2*) to gather timely and authoritative information concerning economic developments and economic trends, both current and prospective, to analyze and interpret such information in the light of the policy declared in section 2 for the purpose of determining whether such developments and trends are interfering, or are likely to interfere, with the achievement of such policy, and to compile and submit to the President studies relating to such developments and trends;

(*3*) to appraise the various programs and activities of the Federal Government in the light of the policy declared in section 2 for the purpose of determining the extent to which such programs and activities are contributing, and the extent to which they are not contributing, to the achievement of such policy, and to make recommendations to the President with respect thereto;

(*4*) to develop and recommend to the President national economic policies to foster and promote free competitive enterprise, to avoid economic fluctuations or to diminish the effects thereof, and to maintain employment, production, and purchasing power;

(*5*) to make and furnish such studies, reports thereon, and recommendations with respect to matters of Federal economic policy and legislation as the President may request.

(d) The Council shall make an annual report to the President in December of each year.

(e) In exercising its powers, functions and duties under this Act—

(*1*) the Council may constitute such advisory committees and may consult with such representatives of industry, agriculture, labor, consumers, State and local governments, and other groups, as it deems advisable;

(*2*) the Council shall, to the fullest extent possible, utilize the services, facilities, and information (including statistical information) of other Government agencies as well as of private research agencies, in order that duplication of effort and expense may be avoided.

(f) To enable the Council to exercise its powers, functions, and duties under this Act, there are authorized to be appropriated (except for the salaries of the members and the salaries of officers and employees of the Council) such sums as may be necessary. For the salaries of the members and the salaries of officers and employees of the Council, there is authorized to be appropriated not exceeding $345,000 in the aggregate for each fiscal year.

JOINT COMMITTEE ON THE ECONOMIC REPORT

SEC. 5. (a) There is hereby established a Joint Committee on the Economic Report, to be composed of seven Members of the Senate, to

be appointed by the President of the Senate, and seven Members of the House of Representatives, to be appointed by the Speaker of the House of Representatives. The party representation on the joint committee shall as nearly as may be feasible reflect the relative membership of the majority and minority parties in the Senate and House of Representatives.

(b) It shall be the function of the joint committee—

(1) to make a continuing study of matters relating to the Economic Report;

(2) to study means of coordinating programs in order to further the policy of this Act; and

(3) as a guide to the several committees of the Congress dealing with legislation relating to the Economic Report, not later than March 1 [2] of each year (beginning with the year 1947) to file a report with the Senate and the House of Representatives containing its findings and recommendations with respect to each of the main recommendations made by the President in the Economic Report, and from time to time to make such other reports and recommendations to the Senate and House of Representatives as it deems advisable.

(c) Vacancies in the membership of the joint committee shall not affect the power of the remaining members to execute the functions of the joint committee, and shall be filled in the same manner as in the case of the original selection. The joint committee shall select a chairman and a vice chairman from among its members.

(d) The joint committee, or any duly authorized subcommittee thereof, is authorized to hold such hearings as it deems advisable, and, within the limitations of its appropriations, the joint committee is empowered to appoint and fix the compensation of such experts, consultants, technicians, and clerical and stenographic assistants, to procure such printing and binding, and to make such expenditures, as it deems necessary and advisable. The cost of stenographic services to report hearings of the joint committee, or any subcommittee thereof, shall not exceed 25 cents per hundred words. The joint committee is authorized to utilize the services, information, and facilities of the departments and establishments of the Government, and also of private research agencies.

(e) There is hereby authorized to be appropriated for each fiscal year, the sum of $50,000, or so much thereof as may be necessary, to carry out the provisions of this section, to be disbursed by the Secretary of the Senate on vouchers signed by the chairman or vice chairman.

Approved February 20 1946.

---

[2] In the original Act, before amendment, this read: "May 1." This was changed to "February 1" in the Legislative Reorganization Act of 1946, and subsequently to "March 1" in Public Law 405, 80th Cong., 2d sess.

U. S. GOVERNMENT PRINTING OFFICE: 1948