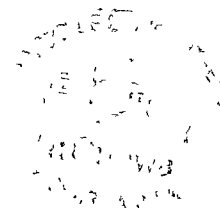
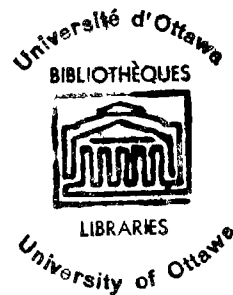


AN APPRAISAL OF THE WORK OF
THE COUNCIL OF ECONOMIC ADVISERS TO
THE PRESIDENT OF THE UNITED STATES OF AMERICA

by Nicholas Peters

Thesis presented to the Faculty of
Social Sciences of the University
of Ottawa as partial fulfillment
of the requirements for the degree
of Master of Arts (Economics)



Ottawa, Canada, 1956

UMI Number: EC56210

INFORMATION TO USERS

The quality of this reproduction is dependent upon the quality of the copy submitted. Broken or indistinct print, colored or poor quality illustrations and photographs, print bleed-through, substandard margins, and improper alignment can adversely affect reproduction.

In the unlikely event that the author did not send a complete manuscript and there are missing pages, these will be noted. Also, if unauthorized copyright material had to be removed, a note will indicate the deletion.

UMI[®]

UMI Microform EC56210
Copyright 2011 by ProQuest LLC
All rights reserved. This microform edition is protected against
unauthorized copying under Title 17, United States Code.

ProQuest LLC
789 East Eisenhower Parkway
P.O. Box 1346
Ann Arbor, MI 48106-1346

TABLE OF CONTENTS

	Page
INTRODUCTION.....	iv
CHAPTER I - THE EMPLOYMENT ACT.....	1
Economic Planning in Other Countries.....	7
Appraisals of the Employment Act of 1946.....	8
CHAPTER II - THE ECONOMIC PHILOSOPHY OF SUSTAINED EMPLOYMENT.....	10
The Theory of Laissez Faire.....	10
The Doctrine of an External Remedy.....	12
The Doctrine of Mutual Adjustment.....	14
Broad Concepts Laid Down by the Employment Act.	14
Explanations and Definitions of Terms Used.....	15
Maximum Employment, Production and Pur- chasing Power.....	15
Free Enterprise.....	19
Competitive Enterprise.....	20
The Labour Contract.....	21
Reconciling Economic and Social Objectives.	21
Limitations of Economic Science.....	22
Political Democracy and the Employment Act.	23
Government, Business, and the Council.....	24
Criticism.....	28
CHAPTER III - THE IMMEDIATE POST-WAR ECONOMY, 1946-1948.....	31
State of Economy.....	31
Recommendations for Immediate Action.....	35
Long Range Objectives.....	39
1. Development and Utilization of Produc- tive Resources.....	39
2. Development and Utilization of Human Resources.....	42
Criticism.....	44
CHAPTER IV - THE 1949 RECESSION.....	51
The Economic Situation.....	51
Recommendations.....	53
Criticism.....	61

TABLE OF CONTENTS		iii
		Page
CHAPTER V - THE KOREAN WAR 1950-1952.....		63
State of the Economy.....		63
Recommendations.....		66
Comments.....		69
CHAPTER VI - THE NEW ADMINISTRATION 1953-1955.....		72
Policy of New Administration.....		72
The Economic Situation 1953-1955.....		72
Recommendations.....		75
Comments and Criticism.....		77
CONCLUSION.....		82
BIBLIOGRAPHY.....		86
APPENDIX		
Statistical Tables Relating to Income, Employ- ment, and Production.....		90

INTRODUCTION

The Council of Economic Advisers, created in 1946 by Section 4 of the Employment Act of 1946, has now functioned for 10 years. This is not a great length of time for the Council to prove its worth considering the complete lack of precedents along the new road it must travel. The following pages will attempt to review and appraise its work and from this arrive at a conclusion as to the value of the Council's work in the first decade of its existence.

Chapter I deals with the Employment Act itself, while Chapter II sets forth the economic philosophy of sustained employment as contained in the 1946 to 1949 reports of the Council.

Chapter III, covering the immediate postwar years 1946, 1947 and 1948, first gives a summary of the economic situation of this period, then a summary of the recommendations the Council makes to cover the situation, and ends with appraisals and criticisms of the Council's reports.

The recession year 1949, the 1950-1952 Korean War period, and the 1953-1955 period of the new administration are dealt with in a similar way in Chapters IV, V and VI respectively.

From all this, conclusions are finally drawn as to the importance and value of the work of the Council of Economic Advisers.

CHAPTER I

THE EMPLOYMENT ACT

The declaration of policy in the Employment Act of 1946 marks an important step in the evolution of democratic government as well as a new venture in the field of economics.

This policy is laid down in Section 2 of the Act and is as follows:

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 co-ordinate 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.

Nourse has pointed out that the wording of this section of the Employment Act of 1946--its declaration of policy--is notoriously vague, and there is, even today, after ten years of operation, widespread disagreement as to whether or not it is really a full employment law or even what course of action a full employment policy would entail for government or require from the business commu-

THE EMPLOYMENT ACT

2

nity (1). President Eisenhower, on the other hand, gives full approval to this section of the Act when he states:

....the objectives of the Employment Act have afforded sound guidance in furthering economic growth and stability. It rightly establishes as the policy and responsibility of the Federal Government the promotion of maximum employment, production and purchasing power. It rightly enjoins us, furthermore, to pursue these goals by means that will foster and promote free competitive enterprise and the general welfare (2).

Under Section 4 of the Act there is created in the Executive Office of the President the Council of Economic Advisers composed of three highly qualified economists whose duties are set forth in Section 4 s.s. (c) and (d) of the Act as follows:

- (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;

(1) "Defining Our Employment Goal Under the 1946 Act" by Edwin G. Nourse, The Review of Economics and Statistics, Vol. XXXVIII, No.2, May 1956, p. 193.

(2) "The Employment Act Past and Future, A Tenth Anniversary Symposium", edited by Gerhard Colm, published as Special Report No. 41 by the National Planning Association, Washington, D.C., February 1956, p. IX.

THE EMPLOYMENT ACT

3

- (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.

Thus the Employment Act of 1946 has set up the Council of Economic Advisers as an arm of the Executive Office, without any administrative powers or responsibilities but purely as a consultive and advisory agency designed to serve as a continuous agency of counsel to the President on the professional plane in regard to administrative decisions as well as his approval or veto of legislative proposals.

As Paul J. Strayer (3) has stated, although appointment to the Council is made by the President with the advice and consent of the Senate, the immediate impact of the

(3) "Stabilizing the Economy: The Employment Act of 1946 in Operation" by Paul J. Strayer, The American Economic Review, Vol. XL, No.2, May 1950, p. 145.

THE EMPLOYMENT ACT

4

Council will be determined, largely, by the extent to which the President accepts or rejects its advice. Assuming that the President accepts its advice there is still no provision in the Act for translating it automatically into an action program because no new authority was granted to either the President or the Council under the Act. Congress still reserves the right to act or not to act on any of the President's recommendations. The discretionary authority of the President has not been increased. In fulfilling its functions, therefore, the Council must consider the political acceptability of its stabilization recommendations. This does not mean that it must follow a policy of political expediency, however great the temptation to do this may be. It does mean that the job of achieving the goal set forth in the Act is much more difficult than generally recognized by economists who choose to ignore the political and administrative aspects of the problem. If the President chooses to ignore the advice of the Council, its influence will be negligible; or if the Congress wishes to ignore the advice of the President, little can be accomplished in the short run.

The President is required under Section 3 (a) to transmit to Congress at the beginning of each regular session an economic report

setting forth (1) the levels of employment, pro-

THE EMPLOYMENT ACT

5

duction, 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.

It is not expected that the President, in his Report to Congress, will merely reflect the recommendations and conclusions of the Economic Council because his decisions and policies are shaped by the most varied political and social as well as economic influences and considerations. It is expected that he will use, as he deems wise, such economic analyses, appraisals, conclusions and recommendations prepared for him by the Economic Council.

It is unfortunate that the Act does not include a definition section that would give the President, his advisers, or the public a rule for determining what is a job or a job opportunity or who constitute the labor force for purposes of employment policy-making--the two benchmarks necessary for establishing the fact of an unemployment "gap" that should initiate, guide, and scale government action.

It is, of course, true that the enactment of this bill into law represents only a declaration of policy by

THE EMPLOYMENT ACT

6

the government. Any future Congress could repeal the Act and establish a new policy. However, as Hansen (4) pointed out, as long as this Act is on the statute books, the declaration of policy stands, and it may be expected to give direction to governmental policies with respect to stability and full employment.

The Act is essentially a planning measure. It places a specific responsibility upon the President and upon the Congress. It commits the government to a periodical and continuous assessment of the employment situation. The procedures outlined in the Act assure that the government will continually take the pulse and temperature, so to speak, of the economy in order to measure how well its policies are succeeding in achieving one of its primary responsibilities. Thus the elected Government currently responsible for the conduct of national affairs must continually face up with the unemployment problem. The procedures provided in the Act would focus the eyes of the nation continuously on goals of economic progress and stability, on rising living standards, and on growth in real national income as rapidly as productivity and high level of employment permit.

(4) "Economic Policy and Full Employment" by H. A. Hansen, McGraw-Hill, New York, 1947, p. 187.

THE EMPLOYMENT ACT

7

Economic Planning in Other Countries

The Council of Economic Advisers differs from its counterparts in other countries in that it is a formal organization set up under an Act which outlines its powers and its duties.

In Britain (5) the economic planning machinery since 1947 consists of (1) the Cabinet, (2) the Chancellor of the Exchequer who, since November 13, 1947, combines with that office the functions and responsibilities of the former Minister of Economic Affairs, (3) the Central Economic Planning Staff, and (4) the Department of State with the relevant Inter-Departmental Committees and Working Parties.

The Central Economic Planning Staff came into being in May, 1947. Some of its members are permanent Government officials, others are economists and statisticians recruited from universities. Its function is to initiate thought and action on general economic matters of vital importance to the nation and to co-ordinate the use of economic resources. Its field of activity is displayed in the annual Economic Survey, which is at once a report on the whole economy and a programme for action in the coming year.

In the Scandinavian countries ministers and senior civil servants meet informally not only to initiate thought

(5) "Economic Planning", Central Office of Information Bulletin, London, October 9, 1948.

THE EMPLOYMENT ACT

8

and action on general economic matters but also to blueprint legislation to carry these ideas into effect. Therefore they differ from the set up of the Council of Economic Advisers not only in organization but also in duties and powers.

Appraisals of the Employment Act of 1946

The ten years in which the Employment Act of 1946 has been in operation have given us some experience for appraising the successes and shortcomings of its policies and objectives. While there has been some adverse criticism, the general consensus of opinion is that the policies of the Act have been successful and the objectives are being achieved.

Former President Truman, in expressing his approval of the Act he signed ten years before, says:

There is almost no other piece of domestic legislation enacted while I was President to which I would attach equal significance. This legislation proclaimed a new responsibility of government; namely, the promotion of conditions for employment opportunities for those able, willing and seeking to work... (6)

The opinion of labor is expressed by Walter P. Reuther, President, United Automobile Workers, who believes that the Employment Act is the "most important legislative

(6) "The Employment Act Past and Future, A Tenth Anniversary Symposium", edited by Gerhard Colm, published as Special Report No. 41 by the National Planning Association, Washington, D.C., February 1956, pp. X, XI.

THE EMPLOYMENT ACT

9

achievement in the field of domestic economic policy adopted by this nation in the past 15 years (7). He sums up his appraisal:

Despite inadequacies of the Employment Act and gaps in its implementations, it stands as a monument to the assumption by democratic government of its responsibilities for the economic well-being of the nation.

The opinion of business is ably expressed by Herman W. Steinkraus, President, Bridgeport Brass Company, and former president of the U.S. Chamber of Commerce, when he states:

The existence of the Act has strengthened our economy during the last decade. Because of the existence of the Employment Act I look with greater confidence into the future of free competitive enterprise. Business investments have become steadier because of the existence of a Government stabilization policy, and a Government stabilization policy has become more manageable because of steadier business investments (8).

(7) Ibid., pp. 58, 61.

(8) Ibid., pp. 52, 53.

CHAPTER II

THE ECONOMIC PHILOSOPHY OF SUSTAINED EMPLOYMENT

In its first annual report to the President in December 1946, the Council of Economic Advisers set forth their economic philosophy of sustained employment. Economists, and others, who now and in past generations have given an increasing amount of attention to the ups and downs in employment, business activity, and market demand have come up with three main theories for the achievement of maximum employment, production and purchasing power. These three theories are (a) laissez faire, (b) external remedy, and (c) mutual adjustment. The following is a summary of the Councils' understanding of these three theories as set forth in its First Annual Report to the President.

The Theory of Laissez Faire. - Early thinking about the general upswings and downswings of business was essentially fatalistic in character. The business cycle is accepted by those who uphold this theory, as being a result produced by causes deeply rooted in physical nature or in fundamental human behaviour and following an intricate pattern of short-, medium-, and long-time swings which, though rhythmic in character, are never precise as to timing and magnitude. Supporters of this theory think essentially in terms of mechanical relationships and automatic

ECONOMIC PHILOSOPHY OF SUSTAINED EMPLOYMENT 11

adjustments rather than in terms of human institutions that can be modified by intelligent action, and human behaviour that can be changed by wise leadership.

The real danger in this type of thinking lies in the fact that once a businessman is convinced that a recession is coming at a certain time he will take the necessary steps to protect himself such as (a) reducing his inventory by cutting down on his purchases, thus reducing employment at the factories; (b) reducing staff and cutting wages, thus further reducing employment and, therefore, consumption and demand; (c) trying to convert his current assets, i.e. accounts receivable, notes receivable, inventories, etc. into cash to hoard, thus reducing loanable funds and credit; etc.. Thus, when a majority of businessmen become convinced that a recession is about to take place their combined actions, in trying to save themselves, will bring about the very depression they fear, so that the theory itself becomes the engine of its own verification.

The laissez-faire theory does not consider it possible, practicable, or even advisable to attempt to take any conscious action to avoid or even mitigate the swings of the business cycle and, therefore, since nothing can be done about it, businessmen should adapt their operations to it or exploit it for individual profit.

ECONOMIC PHILOSOPHY OF SUSTAINED EMPLOYMENT

12

There is no room for such fatalism in the practical economics of to-day.

The Doctrine of an External Remedy. - According to this doctrine the essential phenomenon of a business depression is a too restricted volume of purchasing power being turned into the system, especially in the field of capital expenditures. The remedy for this lack of purchasing power is for the central government to measure or determine the amount of this deficiency and inject the appropriate amount of the purchasing medium to restore the nation's business to a satisfactory level. In other words, government monetary and fiscal policies are the panacea for all our economic difficulties.

There is undeniable logic in the suggestion that government spending can be substituted for private spending and certainly monetary and fiscal policies are two of the most important fields of action in promoting maximum employment, production and purchasing power but this simple remedy fails to take into consideration the complexity of our economic system i.e. the countless specific price-wage-profit relationships that are body and soul of the nations' economic life.

Jobs and markets depend on very specific wage-price-cost relationship and not on purchasing power in general.

ECONOMIC PHILOSOPHY OF SUSTAINED EMPLOYMENT

13

If labour is pricing itself out of jobs or manufacturers and farmers are pricing themselves out of a market, or capital is pricing itself out of investment, the basic remedy should correct each of these specific situations, not inject some aggregate purchasing power in a dose or doses measured in size to exactly offset an estimated decline in employment. If certain industries are suffering set-backs, or if economic development in certain regions of the country is lagging, or if consumers are bidding up prices for scarce goods, a regulation of purchasing power in general by fiscal measures will not help. We cannot assume that deficiency of demand in one particular area or of one particular character can be made up just by adding purchasing power in general, e.g. a decrease in general taxes will not necessarily correct an insufficiency of demand for houses.

In placing sole reliance on actions external to the markets and the bargaining tables where investment, output, prices and wages are determined, this doctrine fails to marshal the abilities of individuals and leaders of groups in the world of affairs, where many of the causes of depression originate, to aid in maintaining maximum employment, production, and purchasing power by wise and statesmanlike decisions in their conduct of affairs.

Therefore, this doctrine is rejected as a cure-all, but monetary and fiscal policies remain among the most

ECONOMIC PHILOSOPHY OF SUSTAINED EMPLOYMENT

14

useful tools of the central government in its effort to promote maximum employment, production and purchasing power.

The Doctrine of Mutual Adjustment. - This doctrine rejects both the extremes of laissez-faire and external remedy. The two underlying principles of this doctrine are:

(1) the specific price-wage-profit-investment-disbursement relationships must be adjusted at the points where business is actually done, markets found, and jobs created; and (2) not all economic functions should be or ever have been performed entirely by private enterprise, and it is essential that those parts of national business that we find it convenient or necessary to perform by the government or by public enterprises be as soundly conceived, as flexibly modified in the light of changing conditions, and as efficiently operated as our knowledge of managerial principles and economic forces will permit.

Broad Concepts Laid Down by the Employment Act (1). - While no details are set forth in the Employment Act of 1946 as to how its objectives are to be achieved it does include some broad concepts of national economic life. It states clearly that the objectives of maximum employment, production, and purchasing power are "a continuing policy

(1) "The Employment Act of 1946", Section 2.

ECONOMIC PHILOSOPHY OF SUSTAINED EMPLOYMENT

15

and responsibility of the Federal Government" and are to be pursued in ways "calculated to foster and promote free competitive enterprise and the general welfare." There is no intention to create jobs artificially but "to create and maintain conditions under which there will be afforded useful employment opportunities including self-employment for all those able, willing, and seeking to work." It enunciates the sustained full utilization of productive resources in peacetime that was demonstrated during the war but without the legal controls that were necessary during the war. When the Act advises the Council to pursue its studies and make its recommendations "with the assistance and co-operation of industry, agriculture, labor, and state and local governments," it sets the stage for a realistic understanding and a workable, efficient organization of private and public business activity.

EXPLANATIONS AND DEFINITIONS OF TERMS USED

1. Maximum Employment, Production, and Purchasing Power.

The framers of the Employment Act of 1946 used the term "maximum employment" rather than "full employment" because, in a democracy, full employment is an unattainable ideal. As long as men are free to seek employment, there will always be frictional, seasonal and voluntary unemployment. But maximum employment, on which maximum purchasing

ECONOMIC PHILOSOPHY OF SUSTAINED EMPLOYMENT

16

power depends, can be achieved in a rich economy or in a poor economy, in a static economy or in a dynamic growing economy. The full employment of countries having low levels of production, where everyone works long hours with feeble tools to eke out a mere living, is not what is sought. It is only by maximum production, using the most efficient methods, that an economy can translate its resources and skills into the highest standards of living attainable at any particular stage of economic development. Therefore, maximum production, rather than maximum employment or maximum purchasing power, is the key to the problem.

When the Employment Act sets up an objective of maximum production, it is not reasonable to interpret that phrase as meaning the very largest total mass of goods and services that could be turned out for consumption during a given year by lengthening the working day and drawing upon the labour of children, women and old people. Rather, it must mean that volume of production which the people of a country, when given an opportunity to apply their labour whenever they see fit and under efficient conditions of employment, will want to turn out before they prefer to turn their time to the enjoyment of leisure.

Furthermore "maximum production" does not mean the greatest volume of goods that can be turned out today regardless of how that will effect our future but, rather, it

implies that the scale of production shall be adjusted to a reasonably long-time perspective for the conservation of resources, enlargement of capital, training of workers and research and experimental work necessary for the systematic improvement of technology. Let us look at maximum production more closely from these several angles.

Development of Resources. - Some natural resources, e.g. minerals, are irreplaceable while others, such as forests, can, by wise management and reforestation, be developed into permanent self-reproducing resources. But the yield from all natural resources can be tremendously increased by wise and scientific conservation and development. Soil conservation and development by the proper use of each type of soil, proper crop rotation, the correct application of manure and fertilizers and the correct methods of cultivation will not only preserve but increase the fertility and yield. The proper use and development of water resources for irrigation, flood control, navigation, and better recreation will bring lasting economic benefits to all. The development of ore reserves and the complete utilization of all the ore rather than skimming off the richest part, will greatly extend the life and yield of our mineral resources.

Enlargement of Capital. - Productivity in a modern industrial and scientific age depends as much on adequate supplies of capital or working equipment as it does on labour

effort and availability of natural resources. Without the previous capital formation in the form of machinery and instruments many natural resources would be unattainable and many of the things in every-day use impossible. The central problem is how to strike the best working balance between (a) current consumption, (b) wise conservation and development of resources, and (c) capital formation and technological progress.

The Labour Aspect. - The ideas of working people, as to the conditions under which they will work, and the labour practices that follow from them seriously affect the "maximum" to which production will attain even if adequate working plant and natural resources are available. Public sentiment has progressively curtailed the labour force by restricting child labour and by the earlier retirement of older workers. On the other hand, the labour force has been systematically expanded by developing opportunities for the efficient use of women's labour and the better utilization of the physically handicapped.

Due to better physical development, better education, better understanding of proper selection and placement, better training and supervision on the job as well as greater attention to safety, lighting, working conditions and morale, the basic conditions for labour productivity have been greatly enhanced, the demands on physical fitness have

ECONOMIC PHILOSOPHY OF SUSTAINED EMPLOYMENT 19

become less exacting, and the "deadline of 40", characteristic of the early machine age, has disappeared. Under modern conditions, workers can continue to much greater ages and enjoy the security of much better financial provision after retirement.

Productivity per hour's work has also increased due to the shortening of the working day, but the disinclination of workers to accept overtime has raised the amount of capital necessary to bring plant and equipment to the adequate level. The latest trend has been the demand for greater continuity of employment and the guarantee for year-round employment.

2. Free Enterprise.

The work of the council is carried on in an atmosphere of free enterprise that is strongly opposed to a planned economy and, therefore, the policies and recommendations of the council must be conditioned by the social and political environment as well as by the range of economic knowledge.

But "free enterprise" has never been completely free of government policies and regulations. Our understanding of the term allows such things as protective tariffs, financial aid in promoting the development of transportation facilities and regional development, the operation of the post office and public utilities, the imposition of taxes,

ECONOMIC PHILOSOPHY OF SUSTAINED EMPLOYMENT 20

the control of banking activities, the regulations of credit, regulations concerning such semi-monopolies as the Stock Exchange and meat packing plants, etc. The very existence of the Economic Council indicates that the Employment Act of 1946 contemplates much greater government activity in the control of the economy.

3. Competitive Enterprise.

The American definition of a competitive economic system, as drawn from national policies, falls far short of the theoretical standard of completely free and unfettered competition. The classical doctrine of the Sherman Anti-Trust Act of 1890, that in a free enterprise economy the effect of competition not only assures fair prices but spurs the individual enterpriser to expand his operations and enlarge his production, has yielded to a policy of "ethical competition". Accompanying this change, and probably one of the causes of the change, was a change in the structure of American business. In 1890 the nation's business was carried on by a huge number of small business organizations, each controlling only an insignificant part of the total market and, therefore, providing a proper setting for competitive enterprise. Since 1890 many large businesses and some huge business and industrial giants have been created, some controlling as much as 40 per cent of the total market. Completely free competition under this

set-up is not possible.

4. The Labour Contract.

Except in a national emergency and aside from legislation directed against substandard wages and working conditions, the Employment Act clearly imposes the limitation that the fixing of the terms of the labour contract shall in general be left to the voluntary action of management and labour. Thus the corporate manager and the labour leader make choices which permit the economy to continue to flourish or which accelerate its decline and, no matter how deeply concerned each may be over the economic breakdown caused by major strikes in critical industries, both labour and management have been firm in their opposition to any plan to have the terms of the labour contract fixed by some official authority when collective bargaining has collapsed.

5. Reconciling Economic and Social Objectives.

Since the Employment Act is an endeavour in political science no less than in economics, the whole range of questions touching why economic man acts as he does falls within the scope of the council's study. While it should and does strive for the highest degree of objectivity obtainable by economists in the public service it cannot neglect programs which have become a settled part of national policy. A nation has many objectives and social and political programs to which popular voice has assigned supreme

ECONOMIC PHILOSOPHY OF SUSTAINED EMPLOYMENT 22

importance and which cannot be set aside in order to simplify the making of purely economic policies. Therefore, it is necessary for the council to devise those economic policies which will be effective and at the same time permit other programs to move forward. This can only be done by compromise to effect overall reconciliation.

6. Limitations of Economic Science.

The whole philosophy of the Employment Act is that it is possible to devise and follow policies, geared to changing business conditions, which will serve constantly to check the excess or deficiency at any one of the many points which might snowball into either explosive boom or paralyzing depression.

Because economics is a social, not a natural, science, its basic laws "express themselves through the inadequately informed, whimsical and often perverse behaviour of millions of human individuals" (2). Economists, therefore, must not only know the basic principles, but they must also know how to apply these principles reasonably to the realities of human behaviour within the setting of legal institutions, accepted policies and existing circumstances. Under these conditions, it is inevitable that even the best-trained economists and the most able business and labour executives disagree in some measure as to how masses of free, but not

(2) "Third Annual Report to the President", by the Council of Economic Advisers, December 1948, p. 28.

ECONOMIC PHILOSOPHY OF SUSTAINED EMPLOYMENT 23

always enlightened consumers and producers will respond to economic forces and incentives.

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. Another 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.

However, most of the differences among economists are not due to the absence of any useful body of principles but, 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. Each of several conflicting rules of economic conduct may operate 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.

7. Political Democracy and the Employment Act.

Experience under the Employment Act of 1946 has shown up many practical difficulties which lie between the initiation of a national economic policy and the adoption of that policy by the Congress. Since it is the right and obligation

ECONOMIC PHILOSOPHY OF SUSTAINED EMPLOYMENT 24

of every citizen in a free democracy to express his judgment upon all proposals related to government action, and endeavour through his ballot to make it effective, the formation of special interest groups, the struggles and trades among economic blocs, and political log-rolling on the gravest matters of economic well-being are inevitable. It is the task of the Council of Economic Advisers to furnish the 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.

8. Government, Business, and the Council.

In the last century the philosophic base was laid for the extremist doctrines that free government and free enterprise are irreconcilable and that one or the other would have to give way under the impact of industrial concentration, disparate wealth and popular communication. These extremist doctrines have been adopted in many countries, but the atmosphere in which the council works is that of a free government and free enterprise where moderation and adjustment, rather than authority and force, must be used and, therefore, the following trends in the government's attitude towards business cannot be ignored by the council:

(a) The doctrine of secular stagnation has been replaced by the idea of continuous growth.

ECONOMIC PHILOSOPHY OF SUSTAINED EMPLOYMENT 25

(b) Efforts to promote expansion of the total production and income of the economy are more significant than measures to redistribute the current product.

(c) The flow of income to different parts of the economy is an economic no less than a social problem and the nub of the problem is to provide sufficient funds and incentives for the growth of productive facilities which fully absorb our technology and manpower, while promoting sufficient flow of income to ultimate consumers to clear the markets of goods and thus avoid periodic overproduction.

(d) The government, while still preventing any one group from taking unfair advantage of another, must center its national economic policy mainly upon the basic interdependence of the long-range interests of various groups, i.e. the things which unite the various economic groups are infinitely more important than those which divide.

(e) While a modern economy requires "big business", the antitrust policy, directed against excessive cartelization should not ~~beve~~ vitiated or abandoned but, rather, small businesses, in fact, all businesses, should be protected from any predatory practices by its neighbors.

(f) The fiscal, credit, monetary and other facilitative operations by which the government may promote an environment conducive to business expansion are at least as important as the mere traditional watchdog functions.

ECONOMIC PHILOSOPHY OF SUSTAINED EMPLOYMENT 26

(g) While specific controls are necessary in emergencies such as war, in peacetime they are not the answer to economic stability and growth.

(h) The purely "compensatory" theory has been replaced with the idea that while compensatory public action may still be necessary, chief reliance should be placed on the government creating a climate favourable to business and depending primarily on private investment to fill the gap.

There have also been very significant trends in the attitude of business toward government. The war effort brought a very large number of business men in contact with or into the public service and gave them an opportunity to observe at close range the operations of the whole economy, the interdependence of its parts, and the common problems of all, and has brought about a realization of the immense influence of public policy upon the economy. This has brought about a change in the business outlook from the earlier notion that government should just let business alone, to the prevalent view that government should adopt policies which create a favorable environment for business.

This experience of business men in the public service has caused two other important trends in the attitude of business men. Firstly, recognition of the complexity of the modern economy has made a majority of business men distrustful of mere slogans or shibboleths as a guide to the

relationship between enterprise and government and has brought them to the more pragmatic view that certain functions performed by government may be more consistent with the practical welfare of free enterprise, both management and labour, than excessive efforts by private business to perform those functions. Secondly, the greater understanding of the whole economy, obtained by so many business men in their close association with government has brought about the realization that great instability in the economy can be avoided and another depression must be avoided.

For the future, the Council has made some general recommendations for both government and business:

- (a) There is a need for greater harmony and consistency among those outstanding government programs which affect the whole economy, i.e., there is required a unifying framework within which each separate economic policy may be tested against its effect upon the general economy. Whatever the scope or extent of government programs, there should be applied to them those principles of consistency and harmony that apply to any undertaking of business as well as government.
- (b) Government policy should become more stable, i.e. government should stop planning for only 12 to 18 months ahead but should have specific plans for

ECONOMIC PHILOSOPHY OF SUSTAINED EMPLOYMENT 28

10, 25, 50 and even 100 years ahead.

- (c) The excessive separation between "economic" and "social" programs--between a government interested in encouraging the growth of the economic system and a government interested in welfare--should be lessened, because welfare becomes an economic, rather than a social, problem as soon as we raise the question of how much the welfare will cost and whether the economy can stand it.
- (d) The business system must recognize, as its enlightened leaders have already done, the goal of continuous maximum production and employment.
- (e) The business system must learn to work in harmony with public sentiment, strive to achieve sufficient concert to help promote stability, and assume increasing responsibility for participation in public affairs in order to assist the government with its best thought and leadership.

Criticism.

From a purely economic point of view the above points are essential, yet, from the practical point of view they will be difficult to achieve.

The overall economic planning envisioned by point (a), while absolutely essential to achieve the best results,

will not be readily achieved under the present political and social setting because each department and agency of government is jealous of its own authority and powers, and each makes its own plans within the scope of that authority and power. To get the full benefit of such overall economic planning would require a major change in the present legislative and administrative set-up.

For the government to plan ahead for 10 to 100 years, as envisioned by point (b), is ideal economically but, where the life of the government is limited to four years and new governments, with new ideas and ideals, are elected periodically, continuity of planning becomes difficult.

Under a democratic government social programs cannot be determined by economic expediency. A certain program may be too costly, in the opinion of economists but, if the people really want it, political expediency will supersede the economists views. On the other hand, if the people are not ready and do not want a certain social or economic program, no American government would dare to force it on them just because it was economically desirable.

Under points (d) and (e) the Council expects that businessmen should fall in line with public sentiment and the requirements of the overall economy. This would be a most desirable situation and, if achieved, would ensure complete stability and continuous progress. However,

ECONOMIC PHILOSOPHY OF SUSTAINED EMPLOYMENT 30

while most enlightened businessmen recognize the need and will give lip-service to the idea, businessmen as a whole are too narrowly profit-conscious to really work in complete harmony with these principles.

CHAPTER III

THE IMMEDIATE POST-WAR ECONOMY, 1946-1948

State of Economy

Before dealing with the recommendations of the Council, let us look at the state of the economy for which the recommendations were made.

Employment. - Civilian employment was at an all-time high averaging 55.3 million in 1946, 58 million in 1947, and 59 million in 1948. Unemployment averaged 2.3 million in 1946, 2.1 million in 1947, and 2 million in 1948.

Production. - Bottlenecks, shortages of materials and components, labor-management disputes, and other reconversion difficulties had a retarding influence and, therefore, peak production in relation to plant and manpower resources was not achieved. However, production in 1946 was the highest on record in peacetime and only 15 per cent below the wartime high. In 1947 the total physical output increased about 7 per cent over 1946 and in 1948 showed a further increase of about 4 per cent achieving a new record each year.

Purchasing Power. - Although consumer income in 1946 was the highest on record in peacetime and climbed to a new high in 1947 and again in 1948, the rise in prices in 1946 and 1947 more than offset the increased dollar income so

THE IMMEDIATE POST-WAR ECONOMY, 1946-1948

32

that consumer purchasing power out of current income declined considerably. In 1948 the rise in prices approximately offset the increase in per capita income so that there was no appreciable change in purchasing power in 1948.

Prices. - In the first half of 1946 the price increase was moderate but from June 1946 to the end of the year the wholesale price index rose from 112.9 in June to 140.9 in December, and the consumers' price index rose from 133.3 in June to 153.3 in December. By December 1947 the wholesale price index rose to 163.2 and the consumers' price index to 167. Prices held more firmly in 1948, reaching a high in August and then declining a little so that the wholesale index for December was 162.3, nearly one point lower than December 1947, and the consumers' price index was 171.4, only 4.4 points above December 1947.

Wages. - Although wages increased during each year there was considerable disparity in the increases obtained by workers in different lines. However, prices increased more rapidly than wages so that wage earners in many lines had substantially less real income at the end of 1948 than at the beginning of 1946.

Profits. - In 1946 profits in most lines were higher than in any previous year but in some industries, especially reconversion industries, where volume production was slow in getting under way, profits were low and some actual

losses were sustained. The removal of the Excess Profits Tax in 1946 and price increases in each of the years further increased profits. In 1947 and again in 1948 new high peaks of profits were reached even after making full allowance for the increase in prices.

Inflation. - From the end of the war to the end of 1948, the demand for goods for final consumption, private capital formation, Government services, and exports, far exceeded the supply. To make this demand effective, funds from current income and profits were augmented by: (1) the liquidation of dollar balances and sales of gold by foreign countries as well as spending of loans and grants provided by the United States; (2) the spending of liquid funds accumulated by business firms during the war; (3) the liquidation of private savings; (4) the increase of bank credit to finance inventory accumulation, capital expansion, and construction; (5) the increase of consumer credit; and (6) the cashing of veterans terminal-leave bonds.

The excess demand, together with actual and anticipated shortages of specific commodities, caused price rises at particular points and from there spiraled into higher costs and prices all through the economy. The most important shortage developed in grains which led to higher prices in food products and an increase in the cost of living. This led to new wage demands which resulted in higher costs

transmitted into higher prices and a spiraling inflationary trend.

Break in Grain Prices. - Commodity speculation, unprecedented world demand, and a short crop in 1947 had carried the prices of grains, especially wheat and corn to levels which could not be sustained and the market collapsed of its own weight. On February 13, 1948, the price of cash wheat was 74 cents lower than it had been a month earlier.

The fact that this break did not bring about the deflation and collapse brought about by a similar break in 1920 shows that the present economy was stronger and more shock resistant than after the First World War. Some of the reasons for this greater strength and resistance are:

- (1) the farm price support program guaranteed that the collapse of grain prices would not go so far as to impoverish the farmers, rob industry of their demand, or bring about a chain reaction of price breaks;
- (2) the whole banking structure was stronger and more resilient;
- (3) businessmen were much better informed and more prudent;
- (4) consumers had more accumulated savings as well as more current income;

- (5) social security and related policies gave people a feeling of security and stability;
- (6) Government fiscal policy had been used to moderate the inflation somewhat and this served to moderate the extent of the reaction.

This first break in the inflationary spiral again pointed out the need for a range of government measures which can be applied as a brake or accelerator according to need.

As will be seen from the foregoing, the problem during this period was how to achieve maximum employment, production, and purchasing power while at the same time controlling the inflationary tendency inevitable in a world-wide situation of excess demand and short supply.

Let us now look at the recommendations made to deal with the situation under (a) recommendations for immediate action, and (b) long-range recommendations.

Recommendations for Immediate Action

1. Fiscal Policy. - The government should operate at a substantial surplus during a period of prosperity, when inflationary pressures persist. This is one of the main bulwarks of an anti-inflationary policy if based on the following principles: The tax measures adopted should (a) provide a budgetary surplus now; (b) absorb some of the high current profits, while avoiding tax measures which

would lead business firms to charge higher prices or impair their ability to maintain desirable rates of expansion; (c) guard against aggravating any recessionary tendencies and provide sufficient fiscal flexibility to enable quick adjustments to be made if such tendencies should become strong; (d) reduce the inequities of previous legislation and strengthen the enforcement of the tax-collecting system.

2. Controls. - (a) Rent control should be extended until the housing situation becomes less critical and shortages in the other items of the cost of living have eased.

(b) Mandatory allocation controls should be set up to allocate scarce products and materials where voluntary allocation is inadequate or unworkable.

(c) Selective price controls should be set up to prevent the prices of certain critical materials or commodities, presently in short supply, from starting another serious round of inflation.

(d) Selective wage controls should be set up to allow increases to remedy hardship, correct inequities or prevent an actual lowering of living standards and to prevent an increase that would necessitate the raising of a price ceiling.

(e) Export controls should be continued in order to minimize the adverse impact on the domestic economy as well as to help achieve the political aims of foreign policies.

(f) In cases of extreme shortage, rationing of selected commodities should be used.

(g) To avoid excessive speculation or the manipulation of prices the government should be given more specific and more adequate authority to regulate speculative trading on the commodity exchanges.

3. Credit Policy. - Proper management of the huge war debt makes it difficult to curb effectively any substantial pressure towards the expansion of bank credit because the Reserve Banks must purchase government securities offered for sale by bank and non-bank holders and these purchases create an equivalent quantity of reserves upon which a multiple expansion of credit can be based. Without power to immobilize these reserves, the ability of the Board of Governors of the Reserve System to restrain credit creation is severely limited in view of the huge amounts of Government securities held by commercial banks, savings banks and insurance companies. The following action, consistent with debt management policy, is recommended:

- (a) Raise the rates on short-term Government securities in order to make them more attractive to bank and non-bank holders and to raise the price of short-term money generally;
- (b) Raise the discount rate; and
- (c) Increase reserve requirements.

Consumer instalment credit should be regulated in order to check credit extension of an inflationary character.

4. Debt Management. - The public debt must be managed in a manner that will make a maximum contribution to the stability of the economy.

5. Voluntary Adjustments. - The progress of a free economy depends mainly upon the voluntary pursuit of sound economic policies by business, labour and other groups. Since profits are the central and legitimate pursuit of a business undertaking it is the natural inclination of business men to take whatever profits they can. The informed business man knows that maximum profits depend upon sustained prosperity rather than upon grasping every dollar of profit during the present inflation by charging the highest possible prices. Prudent price adjustments at the right time would strengthen demand and help sustain continuous maximum production and prosperity.

Labour's interest in the maintenance of a stable prosperity is even greater than that of management, and informed labour leaders recognize that wage advances that contribute to inflation are undesirable. In its own interests labour should refrain from pushing for the highest possible wage advances when these advances necessitate higher prices.

6. Social Security. - While social security is a long-range program and will be treated under that heading, it is recommended that social-security benefits be increased immediately and old-age and survivors insurance benefits be adjusted as a further support to mass purchasing power.

7. Housing. - The provision of adequate housing is a long-range program but an immediate start should be made to alleviate shortages of materials, to attract more investment capital, to acquire and develop suitable land, and, above all, to try to reduce costs.

Long Range Objectives

In order to attain the maximum employment production and purchasing power over the long pull, it is necessary to transform the high post-war demand into a balanced sustained demand of an expanding peacetime economy. To accomplish this, the following long-range recommendations are made. By blending all these programs in wise proportions the economy can be stabilized at a very high level.

1. Development and Utilization of Productive Resources.

Water Resources and Power. - Programs to prevent floods, provide for navigation, furnish urgently needed power, promote recreation, control pollution, conserve fish and wildlife, and maintain and improve underground and surface water supplies should be started immediately. All

these programs should be placed under one planning authority and re-examined in a broad perspective to determine which are most essential and to insure a proper and logical sequence of development.

Land. - The yield of present cropland should be increased by improvements in plant breeding, increased use of better machinery, better fertilizers, supplemental irrigation and more efficient marketing. Marginal cropland should be returned to grass and timber while new cropland should be provided through drainage and irrigation. Such a program requires expanded research, education, and demonstration, as well as co-operation between individuals and all levels of government.

Forests. - Improved forest management practices should immediately be applied to government owned forest lands, and technical assistance and improved long-term credit should be extended to private owners so as to rebuild the forests and improve forest management practices to meet the need for lumber and pulp on a sustained-yield basis.

Minerals. - Continuing research to develop more efficient methods of mining and utilizing minerals and petroleum, especially submarginal deposits, is essential. The search for substitutes and alternative sources of supply should be stepped up.

Regional Development. - Special efforts should be made to develop those regions which are below the national average in material well-being but which possess the basic raw materials, population and locational advantages for much greater development.

Public Works. - There has been an overemphasis on the use of public works as a stabilizing factor. Experience has shown that they are too slow to get under way and the necessity of completing the program carries them over into the inflationary period so that they aggravate the fluctuations. No one device is an adequate safeguard against recession or an adequate fighting apparatus against depression. Instead of regarding public works as the first and foremost device to restore the economy when it sags, they should be regarded as merely one of the useful devices that need to be thought through in advance and blended into a consistent program. The regularization of all public works expenditures at all levels of government over a long period, not only offers the best assurance of stabilization but also paves the way for more effective emergency use than in the past.

Research and Patents. - More extensive and co-related Federal research and development programs are called for, together with a uniform patent policy.

2. Development and Utilization of Human Resources

Consumption. - To continue the steady economic growth after shifting from post-war to peacetime conditions, it will be necessary that final consumers absorb at least 75 per cent of all goods and services by the time the unusual post-war demand is satisfied. This must be brought about by a substantial increase in total consumer income and improvements in the distribution of that income to avoid higher saving than is necessary to permit the expansion of investment needed for stable growth.

Education. - The maldistribution of educational opportunities is both result and cause of differences in wealth and income in different areas. Federal aid should be given to elementary and secondary education so that educational opportunities in various parts of the country will be equalized and will fit youth for living and working in the kind of economy expected when they are grown up. Opportunities for higher education should be expanded through the co-operation of the Federal Government with all other agencies and institutions and through a system of general scholarships and fellowships.

Health. - A comprehensive national health program and Federal grants in support of hospital construction are recommended as the only way to assure that all individuals will have access to the medical care they need.

Social Security. - Since a sense of individual security is conducive to high productivity, job security must be promoted by a national policy of vigorously promoting maximum employment. Unemployment insurance and old age and survivors benefits should be extended to include all classes and the amounts of the benefits should be kept in line with the cost of living. All these social security payments are consumer purchasing power and tend to stabilize the economy.

Housing. - The cost of housing must be reduced as part of a long-range program in order to bring the supply of housing into line with the rise in the general standards of living. This will require research and experimentation to devise better techniques, the modernization of building codes, land assembly programs, better long-term financing arrangements, special forms of insurance to encourage large-scale projects and publicly-aided housing for families of low income.

Urban Redevelopment. - This offers a tremendous investment opportunity for private capital but can only be done with the full co-operation and assistance of local governments in acquiring the land, state governments in supplying the enabling legislation and the Federal Government in giving some financial assistance. Small government outlays in this direction would result in large, sustained

private investment over a long period.

International Economic Relations. - Barriers to World trade must be reduced and the acceptance of the charter of the International Trade Organization and the General Agreement on Tariffs and Trade are important steps in that direction. Foreign trade should be further increased by foreign loans and by making capital goods and knowledge of technology and production methods available abroad.

Promoting Economic Growth. - The promotion of economic growth should be geared to present-day conditions. Government sponsored research and development and fact-gathering and statistical services for business are among the most important methods in a present-day economy. Standardization and grading of commercial products and regulation of containers and practices will promote equitable and economical commerce. Better and more economical sources for financing business expansion will promote long-range private investment. The promotion of free competitive enterprise will tend to keep a proper balance between prices, wages, and profits, and minimize the role which the government will be called upon to play in maintaining high levels of employment.

Criticism.

Controversial as these reports must necessarily be, it is only normal that each report should have its supporters

and its detractors. However, on the whole the economic profession has hailed these reports as well written, the material well presented, and the effort most worth while.

In the words of Paul J. Strayer "There is general agreement that the Council has done a good job in presenting the basic statistics necessary to appraise the trends in the economy and its status at any particular time" (1).

However, Mr. Strayer believes that the Council should have been content with a summary of conditions and trends in the past and not attempted to predict developments in the immediate future because, although these forecasts have been well hedged, they have, nevertheless been used by the Council and the President as the basis for legislative recommendations. "The results of this attempt at forecasting have been unfortunate" (2), because in the January 1947 report of the President, "his conclusion and the conclusion of the Council that there was immediate danger of a depression led to the minimization of the immediate problem of inflation" (3). The lack of any positive program to check inflation and the

(1) "Stabilizing the Economy: The Employment Act of 1946 in Operation" by Paul J. Strayer, The American Economic Review, Vol. XL, No. 2, May, 1950, p. 146.

(2) Ibid.

(3) Ibid.

emphasis on the unfavorable outlook for the next year probably weakened public resistance to inflationary policies both in the public and private sectors of the economy. In the January 1949 report of the President and the supporting Council statement, the balance was weighted in the direction of inflation and "changing conditions made the Presidents' recommendations for legislative action seem rather futile almost as soon as they were made" (4). Mr. Strayer believes that the danger is both that inappropriate action may be taken in the face of changing conditions and that the failure of the Council and President to respond rapidly to changed conditions will discredit their future recommendations to the detriment of the whole program.

The above criticism can be summarized as follows: First, the council should not try to predict developments in the immediate future, and second, if it does make predictions, then those predictions cannot afford to be wrong.

Supporters of the Council have answered the first criticism by pointing out that Section 3 of the Employment Act of 1946 requires the President in his report to set 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;

(4) Ibid.

(2) current and foreseeable trends in the levels of employment, production, and purchasing power.

In order to set forth the "foreseeable" trends and the "needed" levels of employment, production, and purchasing power it is necessary to attempt to predict developments in the immediate future. Moreover, since this is a new venture in economics, we should be prepared for a considerable amount of error until through further study and trial-and-error, more accurate methods have been developed. We can succeed eventually only if we are willing to try even at the risk of failure.

Another criticism of the first three reports of the President and Council is that they have given a disproportionate weight to the various social, welfare, and other economic programs of the administration bearing only indirectly upon the immediate problem of economic stabilization. While the Council must appraise all economic, social, and welfare programs and determine their impact upon the economy, "the advocacy of welfare legislation within the economic report of the President tends to direct attention away from the main issue the Act was designed to solve: the prevention of, or great reduction in the severity of, business fluctuations"(5). As an example, the anti-inflation program of the President

(5) Ibid., p. 147.

in the January 1948 report was generally discounted when he advocated legislative action to curb inflation but suggested specific legislation which included measures with inflationary implications, such as a major housing program, and the cost-of-living tax credit of forty dollars.

A further criticism of the work of the Council as shown in the reports of the Council and the President is that fiscal and monetary policy and debt management policy have not been given the prominence they deserve. As Strayer said:

Monetary policy was lumped with fiscal policy and over the three years of the Council's life has been even more neglected. The issue of debt management policy has been largely avoided (6).

In the Council's reports and in public statements by Council members, stress has been placed upon the fact that changing business conditions do not follow any consistent pattern and that each situation is in many ways unique. From this Mr. Strayer has gained the impression that "the Council has seemed to draw from this generalization the conclusion that no general stabilization devices can be developed that will operate more or less automatically and that such devices do not merit serious consideration at the present time" (7).

Mr. Strayer, in the above criticism, has taken a rather extreme attitude because the Council, in its first

(6) Ibid., p. 147.

(7) Ibid.

report, did not, as he says, "dispose of fiscal policy, with minor exceptions, as the Roman doctrine of an external remedy" (8), but has merely rejected this doctrine as a cure-all. Fiscal and monetary policy are discussed in every report along with such automatic stabilizers as social security payments, debt management, progressive taxation and farm price supports.

The Council seems to have taken for granted that the present concentrated economic control of both industry and labor is inevitable and has given no consideration to the fundamental changes in the structure of the economy that may be desirable and necessary if stabilization is to be achieved in the near future and within a free market system. Since there is a substantial opposition to such a view, the Council should make the public aware of its thinking on this matter and also on changes to improve the governmental machinery to make effective action possible.

The Council has stressed the need for a better price policy and laid strong emphasis on the wage-price-profit relationships. However, it has failed to say what a proper wage-price-profit policy is or how the proper relation could be discovered or how, if it is approached by accident, the relationship could be maintained. And this

.....failure to establish standards for wage-price-profit relationships that can be translated

(8) Ibid.

into specific guides for action at the level of the individual firm or labor union, is sufficient evidence that dependence upon this route to stabilization is doomed to failure in the immediate future (9).

The Council is also open to criticism for its tendency to suggest specific or selective controls to correct or control undesirable conditions. It is almost impossible to determine whether in a specific situation, controls would be a wise policy, but in view of the possible dangers of perpetuating or extending direct controls, this is a dangerous approach to any problem.

Mr. Strayer also criticizes the set-up under which the Council works when he says:

However, the decision to give the Council of Economic Advisers three members rather than one made certain that it would be divided on many issues to the detriment of its influence. The actual differences among the members of the Council have been well known and have undoubtedly hurt it within the executive branch and in the public eye (10).

Whether it is better to have three members and have the Council's recommendations a composite or compromise of divergent views, or give one economist's ideas a clear field is open to argument. But it would appear that, in view of the fact that all the Council's work will be ineffective unless it is politically acceptable, a Council composed of three competent economic minds is preferable.

(9) Ibid., p. 150.

(10) Ibid.

CHAPTER IV

THE 1949 RECESSION

The Economic Situation

During 1949 the economy went through a sharp recession from the peaks achieved by the end of 1948, reaching a low in July and then showing a reversal of trend in the last two quarters of the year.

Employment. - Average civilian employment was 58.7 million compared to 59.4 million in 1948. This was .7 million below 1948 instead of the one million above, which was required to absorb the growing labor force. Unemployment averaged a little over 5 per cent of the labor force compared to 3 percent in 1948.

Production. - Total production of goods and services was \$258.7 billion compared to \$262.4 billion in 1948. After adjusting for lower prices this represents a drop of about one per cent. Since a reasonable objective for the year was set at 3 to 4 per cent above 1948, production fell 4 to 5 per cent short of the goals set at the beginning of the year.

Prices. - A general but moderate decline in prices during the first half of the year was followed by relative stability in the second half. Wholesale prices at the end of 1949 were 7 per cent ^{below} the level at the end of 1948 and 11 per cent below their post-war peak. Farm prices fell

THE 1949 RECESSION

52

about 12 per cent during the year and ended the year 20 per cent below their post-war peak in January 1948. Consumers' prices were firm during the year but showed a small decline from 171.2 in December 1948 to 169.1 in December 1949.

Wages. - Due to the slackening of production the pressure for wage increases lessened and became more selective in 1949. The wage increases actually negotiated were mainly by organized workers and were fewer in number and smaller in amount than in 1948. Some organized workers negotiated new contracts without asking for an increase, i.e. the shoe industry, the Amalgamated Clothing Workers of America and the Textile Workers Union of America. However, average weekly earnings in manufacturing increased from \$54.14 to \$54.78 and the total labor income increased from \$135.1 billions in 1948 to \$136.8 billions in 1949. Since the consumers' price index went down, the real income of labour increased a little more than is indicated by the change in money income.

Profits. - The moderate decline in economic activity and in prices was accompanied by a sharper drop in profits. Corporate profits dropped 20 per cent, from \$34.8 billion in 1948 to \$27.6 billion in 1949. Farm profits dropped 18 per cent, from \$18.4 billion in 1948 to \$15.0 billion in 1949. The profits of unincorporated businesses and the professions were the most stable, dropping only 6 per cent.

However, the drop in prices and the reduction of inventories that this brought about left businesses with more available funds than in 1948 and resulted in a reduction in bank borrowings, an increase in dividends, and continuing high investment in plant and equipment.

Credit. - Business loans, reflecting the liquidation of inventories, declined sharply during the first six months but began to advance again in the latter part of the year. Interest rates declined and credit terms generally eased during the year. Instalment credit declined slightly in the first quarter of 1949 then reversed its trend and reached a new post-war peak in the last quarter.

RECOMMENDATIONS

Since the trend was reversed in the second half of the year and the economy as a whole was well on its way to full recovery and further inflation the recommendations of the Council were designed to (a) aid and speed up the full recovery from the recession, (b) prevent further inflation, and (c) put the economy on a more stable basis.

1. Fiscal and Monetary Policy. - The large expenditures for national security and world political stability make little direct contribution to increased standards of living and should be decreased as soon as international conditions permit. Constant vigilance against the dangers of

THE 1949 RECESSION

54

waste and inefficiency are essential, but measures of economy must not be distorted so as to involve the sacrifice of essential objectives.

Immediate action should be taken to reduce the deficit and move as rapidly as possible toward attaining a surplus to apply on the Government debt. It is most important that a surplus be attained in periods of high business activity to offset deficits which will appear under less favorable conditions. Since countless business relationships are based on the existing tax rates, any change in the tax structure will result in maladjustments in business. However, the whole tax structure should be reviewed as soon as possible with the view of making certain adjustments to improve the equity of the tax structure and toward the end of establishing a sound base on which to rest a long-range program to achieve stability in fiscal policy.

The Board of Governors of the Federal Reserve System should be given greater authority to change bank reserve requirements and its authority over instalment credit should be restored.

2. Housing. - The pressing problem was to provide housing for the middle-income groups. This is important both from the point of view of the investment opportunities it would afford to business enterprise as well as the people's needs for shelter. It should be achieved partly by a

reduction in housing costs and further income gains in an expanding economy, but chiefly by providing adequate funds for this type of investment at sufficiently low interest rates and for a sufficiently long period of amortization. Since most investors require a greater degree of security than is offered by this kind of investment, legislation should be enacted to allow the government to back private ventures into this field.

3. Business Loans. - Because it is so difficult for small and medium-sized businesses to obtain long-term financing, it is recommended that the Reconstruction Finance Corporation be authorized to increase the maximum maturity of its business loans to considerably over the present ten year limit and financial institutions be encouraged to furnish equity capital to the smaller concerns.

4. Farm Policy. - A pattern of farm production to suit present and future demands should be encouraged by new methods of market supports, so that less acreage will be devoted to wheat and cotton, of which there is a substantial surplus, and more to dairy products, meat, fruits and vegetables, which are needed if diets are to be improved. To aid low-income groups in agriculture, the education of farm youth must be improved, not only to make them more efficient farmers but also to help some of the under-employed find useful work in other fields. Research and conservation programs

and credit and management aids will help farmers enlarge and improve their farms.

5. Development of Physical Resources. - Programs for the conservation and development of natural resources should be expanded at a somewhat greater rate than the secular growth of the economy. Public expenditures in this field are investments indispensable to economic growth since they make available the potential that exists in each region. The gathering of geologic, topographic, hydrologic, and other basic data, upon which resources development projects rest, should be speeded up. In the Government's long-range effort to develop new techniques and alternative sources of supply in the interest of conservation of diminishing resources, the synthetic liquid fuels program and underground coal gasification programs should be emphasized.

River valley development, along the lines of the T.V.A., should be started in the Columbia and other river valleys and the St. Lawrence Seaway and power project should be begun immediately. By the time the seaway could be completed, the inland steel industry will have dire need of it.

Soil conservation and improvement should be speeded up and put on a broader scale and a long-term forest development program should aim to build up the annual growth of saw-size timber to double the present rate.

A highway program should aim at replacing poor highways with good ones rather than attempt to keep the poor roads usable.

Further development of atomic power and radioactive atoms offers the greatest field for human betterment and should be pushed ahead as fast as possible.

6. Development of Human Resources. - It is people who translate the potential resources into goods and services, therefore health and education are the necessary foundation for improved technology and social organization upon which economic growth depends.

The disparity of wealth among the different states makes it inevitable, under present conditions, that the children in the wealthier states will receive a better education than those in the poorer states. This should be overcome by direct Federal aid to elementary and secondary education and the provision of wider opportunities for higher education generally and the professional training of doctors and nurses particularly.

The provision of adequate health facilities should become the problem of the nation as a whole. The economic costs of preventable illness are so high that public expenditures on improved health are not only major contributions to individual well-being but are also sound economic investments. To provide adequate health facilities the present

hospital capacity will have to be doubled within the next ten years, public health service units should be made available in more than 1000 counties now without them, access to competent medical help must be made available to everyone, vocational rehabilitation and medical research activities should be expanded and expanded training for medical and health purposes provided, all through the aid of the Federal Government in order to achieve reasonably high standards throughout the nation.

7. Timing of Development Programs. - The programs for the development of physical and human resources should be planned many years in advance and based on the assumption of a long range, steady growth of the economy. This would not only contribute to the stability of the economy but would also allow of a very flexible program in achieving these plans both in case of a recession and in the elimination of economic trouble spots, as well as allow for greater co-ordination between the different agencies and levels of government.

8. Social Security. - A comprehensive social security system protecting all, or nearly all, workers and their families against old age, unemployment, disability, illness, and death of the family wage-earner should be instituted as soon as is practicable. Since all workers are more productive when assured of protection against foreseeable hazards, the social security program should be measured against what a

THE 1949 RECESSION

59

strong economy can afford, and the present program adjusted to a \$300 billion economy rather than the \$70 billion economy for which it was constructed in 1935 and to which it has since been kept adjusted. Moreover, the higher the social security payments and the more extensive the program, the greater will be the cushioning effect against any recessionary tendency.

Unemployment insurance coverage should be immediately extended to cover all employers with one or more employees; the benefits should be raised to cover at least 50 per cent of the wage loss and be payable for at least six months; and Federal reinsurance should cover the solvency of the State funds.

The Old-Age and Survivors Insurance program should be enlarged to approach universal coverage, and the benefits raised to permit the aged worker a real choice between retirement and continued work, and to provide widows and children and the disabled with a healthful standard of living.

A national program of health insurance, with universal coverage is becoming more necessary each year.

Only a public and nearly universal social insurance program can be financed and adjusted to the overall needs of the nation. The future costs of such a program should be measured against the expected future size of the economy, not against the current size, because the goods and services to

THE 1949 RECESSION

60

be consumed by those who retire 25 years from now are the goods and services produced then, not now.

9. Controls. - Controls are not needed under present conditions except rent control which, due to the shortage of housing, should be extended for at least another year.

10. International Economic Policies. - The long range purpose of American international economic policies is to expand international trade and investment and thus aid world political stability and reduce the need for extraordinary grants. Imports should be encouraged by tariff reductions, the modification of burdensome customs procedures, and the elimination of legislative restrictions on imports consistent with the proposed charter for the International Trade Organization. Under the Point Four Program the United States should furnish technical assistance and expedite the flow of capital to under-developed countries where economic development and the raising of the standards of living would provide large new markets for the expansion of world trade. Guarantees should be provided to private capital against the risks peculiar to foreign investment. The approval of the Charter for the International Trade Organization would help to expand international trade and certain revisions in the tax laws governing the taxation of income from foreign investments would make these investments more attractive.

Criticism

The comments and criticism appearing on pages 45-50 and referring to the reports for the three immediately preceding years would also apply to this year's report.

On the whole, the tone of this report is less confident and the recommendations are a little more indefinite than in the three previous reports. While the recession of the first half of 1949 was reversed by July and the economy was well on its way to full recovery and another round of inflation by the end of the year, the President in his report of January 6, 1950, states:

The basic economic problem facing the country now is not to combat inflation. Instead it is to increase production, employment, and incomes to complete the recovery from the 1949 downturn, and to go on to the higher levels which will be made possible by a growing population and rising productivity (1).

The general uncertainty and pessimism which pervades this report is further illustrated by the President, in discussing business investment, when he states:

The trend of business investment, however, has recently been downward, and its continued decline would be a cause for real concern (2).

Under the heading of "Fiscal Policy" the report is again rather vague. Instead of making a definite recommendation the report merely states:

(1) "The Economic Report of the President of January 6, 1950". U.S. Government Printing Office, Washington, pp. 8-9.

(2) Ibid., p. 9.

THE 1949 RECESSION

62

As business conditions continue to improve, we should bring Government receipts and expenditures into balance, and provide some surplus for debt reduction at the earliest date consistent with the welfare of the country (3).

Except for the above statement on fiscal policy and the recommendation that rent control be continued for another year, all the recommendations contained in this report were inflationary and tend to confirm the uneasy and pessimistic feeling the Council must have had about the state of the economy.

Except for rent control, none of the recommendations are for immediate application. The recommendation on fiscal and monetary policy are for the future "as business conditions continue to improve"; the recommendations on housing, business loans, farm policy, the development of physical and human resources, the timing of development programs are all long or medium range objectives; the social security recommendations "should be instituted as soon as is practicable"; and the international economic policies are "long range.... economic policies to expand international trade and investment" and thus "aid world political stability and reduce the need for extraordinary grants" (4).

(3) Ibid., p. 11.

(4) "The Annual Economic Review" by the Council of

CHAPTER V

THE KOREAN WAR 1950-1952

State of the Economy

The Korean war broke out in 1950 before the economy had fully recovered from the recession of the previous year and led to increases in employment and production, and created strong inflationary pressures.

Production. - The production of goods and services at current values rose from \$258.2 billion in 1949 to \$284.2 billion in 1950, \$329.2 billion in 1951 and \$345.1 billion in 1952, representing increases of 11 per cent, 8 per cent and 5 per cent respectively (1).

Employment. - The total labour force, including the armed forces rose from 63.6 million in 1949 to 64.6 million in 1950, 65.8 million in 1951 and 66.5 million in 1952. The civilian labor force was 62.1 million in 1949, 63.1 million in 1950, 62.9 million in 1951 and 63 million in 1952. Unemployment, as a percentage of the total civilian labor force, dropped from 5.5 per cent in 1949 to 5.0 per cent in 1950, 3.0 per cent in 1951 and 2.7 per cent in 1952 (2).

(1) Department of Commerce as quoted in the Economic Report of the President, January 1953, p. 165.

(2) Department of Commerce (1940-1952) and Department of Labor (1929-1939), as quoted in the Economic Report of the President, January 1953, p. 177.

THE KOREAN WAR 1950-1952

64

Prices. - The wholesale index (1947-49 = 100) rose from 99.2 in 1949 to 103.1 in 1950, to 114.8 in 1951 and then dropped to 111.6 in 1952. The consumers' price index (1935-39 = 100) rose from 170.2 in 1949 to 171.9 in 1950, 185.6 in 1951 and 189.7 in 1952 (3). The General Ceiling Price Regulation issued in January 1951 left many items uncontrolled or only partially regulated and was, therefore, not effective in stopping price increases, especially in agricultural and food prices which were not controlled.

Wages. - The average hourly earnings increased in all lines from 1949 to 1952 and the average number of hours worked increased in 1950 and 1951 and then showed a slight decline in 1952. The average gross weekly earnings in manufacturing, which were reasonably representative of earnings in other lines, increased from \$54.92 in 1949 to \$59.33 in 1950, \$64.88 in 1951 and \$67.79 in 1952 (4).

Profits. - Corporate profits before taxes reached new high in 1950 and again in 1951 then declined in 1952. However, the trend was different in each year being upward in each quarter in 1950, downward in the two middle quarters of 1951, fairly steady in the last quarter of 1951 and the first

(3) Source: Department of Labor as quoted in the Economic Report of the President, January 1953, pp. 188, 190.

(4) Ibid., p. 181.

THE KOREAN WAR 1950-1952

65

three quarters of 1952 and then again sharply upwards in the last quarter of 1952. Corporate profits before taxes increased from \$26.2 billion in 1949 to \$40.0 billion in 1950, \$41.2 billion in 1951 and then declined to \$35.9 billion in 1952 (5).

Credit and Money Supply. - There was a general increase in credit and money supply during the whole period. Using the figures at the end of each year, consumer credit increased from \$16.8 billion in 1949 to \$20.1 billion in 1950, \$20.6 billion in 1951 and \$23.7 billion in 1952; loans and investments of commercial banks increased from \$120.2 billion in 1949 to \$126.7 billion in 1950, \$132.6 billion in 1951 and \$142.1 billion in 1952; deposits and currency increased from \$173.9 billion in 1949 to \$180.6 billion in 1950, \$189.8 billion in 1951 and \$200.4 billion in 1952 (6).

The Flow of Goods and Purchasing Power. - Personal consumption expenditures, domestic investment, and government purchases of goods and services showed large increases each year, as did the gross national product, while foreign investment was below the 1949 level each year. See Table A-1.

(5) Department of Commerce as quoted in the Economic Report of the President, January, 1956, p. 223.

(6) Board of Governors of the Federal Reserve System as quoted in the Economic Report of the President, January, 1953, pp. 193-195.

Recommendations

Since political conditions during this period ranged from peace to a limited war in Korea to an unstable truce, the economic policies recommended were meant to build up defense production immediately to the limited requirements of the Korean war, to prepare the economy for a major conflict if the war should spread, to minimize business dislocation during these changes and to attain maximum employment under all conditions. The specific recommendations were:

1. Planning. - The first requirement is a comprehensive programming of the whole economic effort. The plans should be flexible, constantly reviewed, and changed according to current requirements in order to balance the competing requirements against available supplies.

2. Increasing the Productive Capacity. - Only by increasing the productive capacity for war goods can the military build-up be speeded up and only by increasing the productive capacity for civilian goods can the supply of civilian goods be brought into line with the demand, and thus put a brake on inflation. This increase and speed-up must be programmed and guided by the government and made effective by materials allocation, tax amortization inducements, loans, guarantees, etc.

3. International Economic Programs. - The free countries of Western Europe should be built up through technical

and economic aid so that their productive capacity, especially that of Germany and Italy, can be used to full advantage to help supply and equip the free world. This will require the allocation to them of raw materials and certain technical assistance and capital.

The productivity of underdeveloped countries should be built up by supplying technical aid and capital in order to decrease their vulnerability to subversion and to aid the common cause by greater production of strategic raw materials.

The control of exports and imports is necessary in order to insure that scarce goods and materials are used to the greatest advantage while tariff barriers should be reduced and customs procedures simplified in order to increase the free flow of goods not controlled.

In order to lift one of the inflationary pressures and at the same time increase world trade, the restriction that loans made to foreign countries must be spent in the U.S.A. should be removed.

4. Civilian Needs. - In spite of the high priority of the defense program some civilian needs cannot be curtailed or postponed.

Education must not be allowed to suffer because, in the long-run, both the standard of living and the nation's economic and defensive strength depend upon it, and the education of children cannot be deferred. Federal aid should be provided.

THE KOREAN WAR 1950-1952

68

Health standards must not only be kept high but must be improved to avoid the tremendous loss of working time and improve the nation's fitness for military service.

Morale must be sustained by ensuring adequate food, shelter, clothing and social security.

Benefits under the Old-Age and Survivors Insurance should be revised and the Federal-State unemployment insurance system should be improved and strengthened.

5. Controls. - Legislation providing for rent, price and wage control should be strengthened and applied vigorously.

6. Small Business. - The war effort should be spread as widely as possible by encouraging small businesses to take war contracts and subcontracts and providing the necessary funds for needed conversion.

7. Labor-Management Relations. - Legislation concerning labor-management relations should be revised to produce sound and healthy labor relations and uninterrupted production.

8. Taxes. - Loopholes and special privileges should be eliminated and the tax rates substantially increased both to increase the revenue and control inflation. The full cost of the Korean war should be paid out of current taxes.

9. Monetary Policy. - The Board of Governors of the Federal Reserve System should be given the necessary power to impose additional reserve requirements and authority

should be provided to control margins for trading on commodity exchanges.

10. Development. - Urgently needed development projects, such as the St. Lawrence seaway and power project, should be started as soon as possible.

Comments

The difficulties faced by the Council of Economic Advisers during this period are obvious. Recovery from the 1949 recession was hardly complete when the Korean war broke out and it became necessary to switch an economy operating at almost full capacity on civilian production to a war production economy. Even greater uncertainty was caused by the fact that the war was a very limited war but could potentially become a major world conflict. The unstable truce in which it ended only increased the uncertainty.

These facts made the job of the Council very difficult because no matter what recommendations or predictions they made, the changing situation in Korea could nullify in a few weeks the best plans and recommendations.

Under the circumstances, the Council appears to have done the wise thing in giving pride of place in its recommendations to more thorough planning and a comprehensive programming of the whole economic effort. Far from making recommendations to be applied for the whole coming year it recommends flexible plans that should be changed constantly

as the current situation requires in order to balance the competing requirements against the available supplies.

Its recommendation for stronger controls on rent, prices, wages and labor-management relations finds many supporters and just as many opponents. However, in view of the grave situation that could have developed at any moment during the Korean crisis, and the necessity of planning and programming production to meet the crisis, the Council could hardly have done otherwise.

The recommendations with reference to education, health, morals, and benefits under the Old-Age and Survivors Insurance and Unemployment Insurance systems are timely in view of the fact that during the war crisis they might be overlooked.

The very definite stand taken on fiscal policy by recommending that the full cost of the Korean war be paid out of current taxes by increasing the tax rates and eliminating all loopholes and special privileges is supported by most economists. It would not only provide the badly needed revenue but would also be one of the strongest bulwarks against inflation.

Alvin H. Hansen, commenting on the January, 1953, Council Report, says:

On a more technical plane is the notable 1953 Council Report. Special credit is given in

THE KOREAN WAR 1950-1952

71

this Report to the highly competent staff members. In a sense this Report is a textbook on the methodology of economic programming (7).

(7) "The Employment Act Past and Future, A Tenth Anniversary Symposium", edited by Gerhard Colm, published as Special Report No. 41 by the National Planning Association, Washington, D.C., February, 1956.

CHAPTER VI

THE NEW ADMINISTRATION 1953-1955

Policy of New Administration

There has been no fundamental change in policy since the new administration took over. The core of economic policy was, and still is, "increases in productivity and useful employment opportunities" (1). The role of the Federal Government in achieving these basic goals is still "to create an atmosphere favorable to economic activity by encouraging private initiative, curbing monopolistic tendencies, avoiding encroachment on the private section of the economy, and carrying out as much of its own work as is practicable through private enterprise. It should take its full part at the side of state and local governments in providing appropriate public facilities. It should restrain tendencies toward recession or inflation. It should widen opportunities for less fortunate citizens, and help individuals to cope with the hazards of unemployment, illness, old age, and blighted neighborhoods" (2).

The Economic Situation 1953-1955

Historically this was the most prosperous three year period despite a quite sharp recession beginning in the

(1) The Economic Report of the President, January, 1955, p. IV.

(2) Idem.

THE NEW ADMINISTRATION 1953-1955

73

latter part of 1953 and ending about the end of the third quarter of 1954.

Production. - The booming state of the economy is most clearly shown by changes in the G.N.P. from its record level in 1951 as follows: (3)

<u>Year</u>	<u>At Current Prices</u>	<u>At 1947 Prices</u>
1950	\$285.1 billion	\$264.7 billion
1951	328.2 "	282.9 "
1952	345.2 "	293.3 "
1953	364.5 "	306.5 "
1954	360.5 "	300.5 "
1955	387.4 "	319.0 "

Employment. - The fluctuation in the economy is further brought out by the number of employed and unemployed persons 14 years of age and over: (4)

<u>Year</u>	<u>Employed</u>	<u>Unemployed</u>
1950	63.1 million	3.1 million
1951	62.9 "	1.9 "
1952	63.0 "	1.7 "
1953	63.8 "	1.6 "
1954	64.5 "	3.2 "
1955	65.8 "	2.7 "

Wages. - The average gross hourly earnings showed a steady increase, reaching a new high each year in every field covered by the Department of Commerce statistics

(3) The Department of Commerce as quoted in The Economic Report of the President, January, 1956, pp. 165 and 168.

(4) Department of Commerce, as quoted in the Economic Report of the President, January, 1956, p. 184.

THE NEW ADMINISTRATION 1953-1955

74

except agriculture, in which there was a definite decline in 1954. Since the average weekly hours of work remained about the same, showing a slight decline in 1954 but recovering again in 1955, the average weekly earnings reached a record high each year in nearly every field.

Prices. - The wholesale price index of all commodities (1947-9 = 100) was very steady throughout this period and stayed considerably lower than the peak reached in 1951. The retail price index also remained remarkably steady throughout this period but was slightly higher than the previous peak in 1952.

Profits. - Corporate profits both before and after taxes varied considerably, being much higher in 1955 than in the previous years. Corporate profits before taxes reached an all time high in 1955 at \$43.2 billion.

Credit and Money Supply. - There was a large expansion in both consumer credit and money supply as follows: (5)

<u>Year</u>	<u>Consumer Credit</u>	<u>Deposits & Currency</u>
1950	\$20.8 million	\$180.6 million
1951	21.5 "	189.9 "
1952	25.8 "	200.4 "
1953	29.5 "	205.7 "
1954	30.1 "	214.8 "
1955	36.2 "	220.6 "

(5) Board of Governors of the Federal Reserve System, as quoted in The Economic Report of the President, January, 1956, pp. 211, 215.

THE NEW ADMINISTRATION 1953-1955

75

The authority of the Board of Governors of the Federal Reserve System to establish maximum terms on consumer credit had ceased in 1952 and credit policies became more liberal especially during 1955.

Recommendations

1. Social Security. - Modernize and extend the coverage of the unemployment insurance law and provide at least 26 weeks benefits at not less than one-half the regular earnings; broaden the base and benefits of Old Age and Survivors Insurance.

2. Fiscal Policy. - Postpone reduction of tax rates; provide for longer carry-back of losses for tax purposes; and revise the tax laws to remove certain impediments to business.

3. Housing. - Grant authority to the Executive to alter the terms of governmentally insured loans and mortgages; increase the insurance authorization of the Federal Housing Administration; allow national banks to make conventional real estate mortgage loans; establish a secondary home mortgage market; authorize the Federal Public Housing Administration to build 35,000 units of low rent housing in each of the next two years; and improve credit facilities for home building, modernization, and urban rehabilitation.

4. Public Works. - Improve the planning of works programs by setting up an Office of Co-ordination of Public

THE NEW ADMINISTRATION 1953-1955

76

Works Planning; modernize the National System of Interstate Highways over a 10 year period.

5. Small Business. - Help small business obtain adequate financing, a fair share of government contracts, and competent technical assistance, and foster competitive enterprise by extending and enforcing anti-trust legislation.

6. Agriculture. - Facilitate adjustments in agriculture to current conditions of demand and technology, expand agricultural research, broaden outlets for farm products and speed surplus disposal.

7. Education. - Assist education by expanding the Federal programs for fellowships, research, teacher training and related activities, and help the states relieve the classroom shortage by Federal grants and loans.

8. Unemployment. - Help reduce pockets of unemployment and increase the earnings of low income families by establishing an Area Assistance Program to provide technical assistance to depressed communities in developing balanced, progressive economies; provide support for the Rural Developments Program; and expand the programs of vocational rehabilitation.

9. International. - Improve international economic relations by extending the Trade Agreements Act for three more years, establishing simple, clear standards for the valuation of imported goods, strengthening the program for

technical assistance to underdeveloped countries, and modifying the taxation of income from foreign sources.

Comments and Criticisms

The most important criticism to be made about the Economic Report of the President under the new administration and new Council of Economic Advisers is that they have failed to make quantitative estimates of the required level of employment, production and purchasing power. This, as previously pointed out, they are required to do under Section 3 of the Employment Act of 1946, and this they should do in order to provide the necessary benchmarks by which to measure the sufficiency of the actual economic level attained and determine the efficiency of the national economic policies recommended and followed.

On this subject Leon H. Keyserling, Chairman, 1950-1953, Vice Chairman, 1946-1950, Council of Economic Advisers, Consulting Economist and Attorney, has this to say:

The Council should reinstate its earlier practice of projecting, in quantitative terms, needed levels of employment, production and purchasing power. It must do this, to obey the law. It should do this, because to say we need more jobs or teachers--but not how much more--is no sufficient guide to resource allocation or national economic policy. Second, the Council should set forth and evaluate the Federal Budget as an integral part of the Nation's Economic Budget (6).

(6)"The Employment Act Past and Future, A Tenth Anniversary Symposium", edited by Gerhard Colm, published as Special Report No. 41 by the National Planning Association, Washington, D.C., February, 1956, p. 71.

THE NEW ADMINISTRATION 1953-1955

78

The same criticism is voiced by James G. Patton, President, National Farmers Union (7), Walter P. Reuther, President, United Automobile Workers (8), and others.

Another criticism is that the present administration has given all its attention to the overall economy and has failed to give sufficient attention to those areas which, through lack of resources or development are not sharing in the current prosperity. As James G. Patton pointed out, a glaring defect in the current administration of the Employment Act

...is smug and conventional satisfaction with a superficial look at how the economy is functioning in the overall, without precise attention to the important sectors of the economy and of the population that are not sharing in the general well being, and without precise attention to the specific policies which would redress this imbalance (9).

The new Council has not continued the regular meetings and discussions with representatives of farm, labor, business and consumer groups and has thus practically given up its leadership in the broad field of economic discussion and leadership. Among the many critics of this lack on the part of the Council is Walter P. Reuther when he says:

(7) Ibid., p. 33.

(8) Ibid., p. 60.

(9) Ibid., p. 34.

President Eisenhower's Council of Economic Advisers has also failed to fulfill the obligation of the spirit, if not the letter, of the Act, by not consulting with organized labor on a regular basis, with an exchange of observations and views on economic trends and policies (10).

The Reports can be further criticized for characterizing the recession beginning in 1953 and carrying on into 1954 as an "Inventory recession". The Contraction was described as a shift from "operations at forced draft to normal levels of peacetime operations", while the economy as a whole was characterized as marvelously prosperous. While, in fact, the Council was perfectly correct in predicting an early halt to the contraction, it would have been much more meaningful if they had indicated whether this is likely to be a temporary halt in an expected continuing decline, or the beginning of a sidewise movement, or the turning point toward a new upswing. To call it an inventory recession and draw a parallel with the 1948-1949 recession may be vaguely comforting to all but this tendency must be severely criticized. Paul J. Strayer, commenting on this tendency, says:

This writer would like to protest vigorously about this tendency. If inventories are excessive the reason for this fact must be explained. If reduction of inventories means fewer orders and weak markets, this is reflected in employment, incomes and prices to varying degrees. Excessive

(10) Ibid., p. 60.

inventories in the hands of producers or distributors may reflect excessive inventories in the hands of consumers. All in all this label is one that has surprisingly little meaning in terms of real analysis, yet it beclouds the real issues that confront the government official and the public at large (11).

The reports could be criticized further because "some of the specific monetary and fiscal policies which it either tolerates or supports are not appropriate to combatting recession" (12), and additional recommendations, dealing with extension of unemployment insurance, housing legislation, and agricultural policy, while properly related to the stabilization program of the administration are not central to it.

While monetary measures and debt management are referred to in a general way in these reports it is felt that the Economic Reports should have made it clear beyond a doubt that the Federal Reserve would be expected to utilize, if occasion arose, the most powerful instrument in the arsenal of monetary controls, the long-term rates of interest.

On the subject of debt management, the 1954 Report states that the Treasury is "adhering to its policy of lengthening the maturities of the outstanding Federal debt"

(11) "Full Employment--1954 Model" by Paul J. Strayer, American Economic Review, Vol. XLIV, No. 5, December 1954, p. 885.

(12) "Monetary and Fiscal Policy in the President's Report" by Howard S. Ellis, The Review of Economics and Statistics, Vol. XXXVI, No. 3, Aug. 1954, p. 252.

despite the fact that this policy would be appropriate only to a setting of inflation.

However, on the whole, these three Economic Reports of the President compare favorably with previous reports. They contain a clear statement of the necessity of maintaining a flexible policy designed to be adaptable to new situations as they arise, and an administration position that for the first time places real emphasis upon the desirability of price stabilization.

Paul J. Strayer, commenting on the Economic Report of the President for January, 1954, says:

The Council should also be complimented on the improvements they have made in the coverage and detail in the statistical supplement of the Report. Were it not for the omission of the Nation's Economic Budget this would be the most useful statistical supplement yet prepared (13).

He further compliments the Council for presenting a single report of the President, not a brief presidential report combined with a longer report of the Council and for the "maintenance of primary focus upon the economic stabilization program of the government" (14).

(13) "Full Employment--1954 Model" by Paul J. Strayer, American Economic Review, Vol. XLIV, No. 5, December, 1954, p. 885.

(14) Ibid.

CONCLUSION

Ten years is not enough time for the Congress to learn to use this new device of a professionally-staffed pondering committee sincerely and effectively. It will take more time also for successive Presidents and other top executives to learn to make the most of professional economic advisership and for top-flight economists to master the lesson of serving free government with the blend of scholarly detachment and intimate realism that the task demands.

There is general agreement that the work of the Council has been effective. In view of the difficulties it has had to face, the new ground it had to break, it has done as much as could reasonably be expected.

Except for the 1954 and 1955 reports in which the Council failed to give quantitative estimates of the needed levels of employment, production and purchasing power, the reports of the President and the supporting reports of the Council have included almost all the information that any such summaries could, or should include. The reports are written in clear non-technical language, and all the basic statistics necessary to appraise the trends in the economy, and its status at any particular time, are well organized and lucidly presented. As a result, the business community and the public at large have obtained a better understanding of economic conditions than ever before.

CONCLUSION

83

Even if we cannot point to any definite policies or laws adopted as a direct result of the work of the Council, or find some specific, explicit situation where one can say that without the advice of the Council things would have gone wrong and we would have had a postwar depression, the work and reports of the Council are invaluable because:

- (1) As a result of its meetings with representatives of labor, business, farmers, economists, etc., all sides have gained in understanding of what is required by the economy as a whole, cleared up misunderstandings and laid the groundwork for greater economic co-operation.
- (2) Its overall look at the economy and its advice to the President have undoubtedly resulted in more coordinated efforts towards desirable objectives.
- (3) The reports focus the attention of Congress and the public on the present economic situation and the future requirements. The idea of maximum employment, production, and purchasing power is constantly kept to the forefront.
- (4) The knowledge that a group of eminent economists is striving to devise means to stabilize maximum employment, production and purchasing power, and that the Federal Government stands ready to put their recommendations into effect when necessary,

CONCLUSION

84

has developed much greater confidence in the business man and the public. This means greater stability because the businessman is not so likely to reduce inventories, nor is the public so likely to unload stocks, at the beginning of a downturn, and thus turn a slight recession into a depression. This more stable behaviour by business and the public makes Government stabilization policy more effective.

- (5) The Council provides the basis for the overall consideration of the economic policies of the Federal Government to implement the Employment Act of 1946.

The argument, that we have had no serious economic problems in the post-war period and, as a result, the economists of the Council have had essentially a "dry run" of the procedures for fighting unemployment, is based on a fallacy. We have gone through all the phases that could have resulted in a post-war depression, but, the application of the necessary procedures to curb inflation or boost production, as and when needed, has resulted in the remarkable stability, at a very high level of production, shown by the economy since 1946.

The fact that the Council of Economic Advisers is held high in the estimate of economists as well as all agencies

CONCLUSION

85

of Government is a clear indication that those most informed about its work believe that it is doing an excellent job.

BIBLIOGRAPHY

Barber, L. C. S., Norway, Economic and Commercial Conditions in Norway, Overseas Economic Surveys, London, His Majesty's Stationery Office, 1949, iv-77 pp.

A detailed report on the economic conditions in Norway during the first half of 1949.

Carter, C. F. and A. D. Roy, British Economic Statistics, Cambridge, University Press, 1954, vii-188 pp.

A Statistical analysis of Britain's economy to 1953 and forecasts for the future.

Central Office of Information, Economic Planning, Bulletin No. R.1700, London, October 9, 1948.

A description of the economic planning machinery in Britain in 1948.

Colm, Gerhard, Editor, The Employment Act Past and Future, A Tenth Anniversary Symposium, Washington, National Planning Association, 1956, xii-203 pp.

A symposium of statements and essays on the Employment Act of 1946 by 35 prominent men.

Ellis, Howard S., et al., A Symposium on the Economic Report of the President and Related Documents, Review of Economics and Statistics, Vol. XXXVI, No. 3, August 1954, pp. 249-266.

A very good critical review and contrast of the 1953 and 1954 Reports of the President.

Hansen, Alvin H., Economic Policy and Full Employment, New York, McGraw-Hill, 1947, xii-340 pp.

An economist's critical look at what the more advanced democratic governments are doing about inflation, full employment and stability.

Klein, L. R., Planned Economy in Norway, American Economic Review, Vol. XXXVIII, No. 5, December, 1948.

A description of a planned economy in action.

Leland, Semeon E. and Edwin G. Nourse, Stabilizing the Economy: The Employment Act of 1946, Discussion, American Economic Review, Vol. XL, No. 2, May 1950, pp. 179-190.

A discussion of three articles, appearing in the same issue, criticising the Employment Act and the Council and dealing specifically with the problem of stabilization.

BIBLIOGRAPHY

87

Nourse, Edwin G., Defining Our Employment Goal Under the 1946 Act, The Review of Economics and Statics, Vol. XXXVIII, No. 2, May 1956, pp. 193-204.

A review of the background of the Employment Act of 1946 and an appraisal of the results achieved.

———, The Employment Act of 1946 and a System of National Bookkeeping, Economics in the Public Service, American Economic Review, Vol. XXXVII, No. 2, May 1947, pp. 21-30.

A discussion of the role played by economists in the public service and what is expected of the Council of Economic Advisers.

———, Economics in the Public Service, New York, Harcourt, 1953, xi-511 pp.

A detailed account of the events leading to the passing of the Employment Act of 1946, and an inside view of this measure in action for the first three years.

Strayer, Paul J., Stabilizing the Economy: The Employment Act of 1946 in Operation, The Council of Economic Advisers: Political Economy on Trial, American Economic Review, Vol. XL, No. 2, May 1950, pp. 144-154.

A critical review of the Employment Act of 1946 and the Council of Economic Advisers from 1946 to 1949.

———, Full Employment--1954 Model, American Economic Review, Vol. XLIV, No. 5, December 1954, pp. 884-893.

A critical review of the Economic Report of the President, the Hearings before the Joint Committee on the Economic Report and the Report of the Joint Committee on the Economic Report, all published in January and February 1954.

U.S. Government Printing Office, First Annual Report to the President by the Council of Economic Advisers, Washington, Superintendent of Documents, 1946, v-26 pp.

———, Second Annual Report to the President by the Council of Economic Advisers, Washington, Superintendent of Documents, 1947, v-31 pp.

———, Third Annual Report to the President by the Council of Economic Advisers, Washington, Superintendent of Documents, 1948, v-38 pp.

BIBLIOGRAPHY

88

——, Business and Government, Fourth Annual Report to the President by the Council of Economic Advisers, Washington, Superintendent of Documents, 1949, v-38 pp.

——, The Economic Report of the President, Transmitted to the Congress, January 8, 1947, Washington, Superintendent of Documents, 1947, viii-54 pp.

——, The Economic Report of the President, Transmitted to the Congress January 8, 1948, Washington, Superintendent of Documents, 1948, vi-136 pp.

——, The Economic Report of the President, Transmitted to the Congress January 7, 1949, Together with a report The Annual Economic Review, by the Council of Economic Advisers, Washington, Superintendent of Documents, 1949, v-140pp.

——, The Economic Report of the President, Transmitted to the Congress January 6, 1950, Together with a report to the President, The Annual Economic Review, by the Council of Economic Advisers, Washington, Superintendent of Documents, 1950, v-194 pp.

——, The Economic Report of the President, Transmitted to the Congress January 12, 1951, Together with a report to the President, The Annual Economic Review, by the Council of Economic Advisers, Washington, Superintendent of Documents, 1951, v-241 pp.

——, The Economic Report of the President, Transmitted to the Congress January 16, 1952, Together with a report to the President, The Annual Economic Review, by the Council of Economic Advisers, Washington, Superintendent of Documents, 1952, v-220 pp.

——, The Economic Report of the President, Transmitted to the Congress January 14, 1953, Together with a report to the President, The Annual Economic Review, by the Council of Economic Advisers, Washington, Superintendent of Documents, 1953, v-218 pp.

——, Economic Report of the President, Transmitted to the Congress January 28, 1954, Washington, Superintendent of Documents, 1954, ix-225 pp.

——, Economic Report of the President, Transmitted to the Congress January 20, 1955, Washington, Superintendent of Documents, 1955, x-203 pp.

BIBLIOGRAPHY

89

——, Economic Report of the President, Transmitted to the Congress January 24, 1956, Washington, Superintendent of Documents, 1956, x-238 pp.

The Industrial Institute for Economic and Social Research, A Survey of its Activities, Stockholm, A.-B Egnellska Boktryckeriet, 1951, 24 pp.

APPENDIX

STATISTICAL TABLES RELATING TO INCOME,
EMPLOYMENT, AND PRODUCTION

TABLE	Page
1. Gross national product or expenditure, 1939-1955.....	91
2. Gross national product or expenditure in 1955 prices, 1939-1955.....	92
3. National income by distributive shares, 1939-1955.....	93
4. Total population 14 years of age and over and the labor force, 1939-1955.....	94
5. Average weekly hours of work in selected industries, 1939-1955.....	95
6. Average gross hourly earnings in selected industries, 1939-1955.....	96
7. Average gross weekly earnings in selected industries, 1939-1955.....	97
8. Wholesale price indexes, 1939-1955.....	98
9. Consumer price indexes, 1939-1955.....	99
10. Short- and intermediate-term consumer credit outstanding, 1939-1955.....	100
11. Deposits and currency, 1939-1955.....	101
12. Profits before and after taxes, all private corporations, 1939-1955.....	102

TABLE A-1 - GROSS NATIONAL PRODUCT OR EXPENDITURE, 1939-1955
(Billions of dollars)

Period	Total Gross National Product	Personal Consumption Expenditures	Gross Private Domestic Investment	Net Foreign Investment	Government Purchases of goods and services
1939	91.1	67.6	9.3	.9	13.3
1940	100.6	71.9	13.2	1.5	14.1
1941	125.8	81.9	18.1	1.1	24.8
1942	159.1	89.7	9.9	-.2	59.7
1943	192.5	100.5	5.6	-2.2	88.6
1944	211.4	109.8	7.1	-2.1	96.5
1945	213.6	121.7	10.4	-1.4	82.9
1946	209.2	146.6	27.1	4.6	30.9
1947	232.2	165.0	29.7	8.9	28.6
1948	257.3	177.6	41.2	2.0	36.6
1949	257.3	180.6	32.5	.5	43.6
1950	285.1	194.0	51.2	-2.2	42.0
1951	328.2	208.3	56.9	.2	62.8
1952	345.2	218.3	49.6	-.2	77.5
1953	364.5	230.6	51.4	-2.0	84.5
1954	360.5	236.5	47.2	-.3	77.0
1955	387.4	252.4	59.4	-.3	75.9

Source: Department of Commerce as quoted in the Economic Report of the President, January 1956.

TABLE A-2 - GROSS NATIONAL PRODUCT OR EXPENDITURE IN 1955 PRICES, 1939-1955
(Billions of dollars, 1955 prices)

Period	Total Gross National Product	Personal Consumption Expenditures	Gross Private Domestic Investment	Net Foreign Investment	Government Purchases of goods and services
1939	190.4	135.9	22.1	1.0	31.5
1940	207.7	143.2	29.8	1.7	33.0
1941	240.3	153.0	37.7	.2	49.4
1942	271.1	149.9	19.3	-2.2	104.1
1943	301.2	154.5	11.1	-5.7	141.3
1944	324.1	160.6	12.8	-5.7	156.3
1945	317.5	171.8	17.6	-4.5	132.7
1946	283.1	191.0	42.8	4.5	44.8
1947	282.7	194.1	41.0	8.9	38.6
1948	295.8	198.0	49.9	1.3	46.6
1949	294.9	203.3	38.3	.2	53.4
1950	321.8	215.6	58.5	-2.4	50.1
1951	345.4	216.9	59.9	1.2	67.4
1952	357.5	223.4	52.3	.3	81.4
1953	374.3	233.4	53.3	-1.9	89.6
1954	365.4	237.3	48.4	.1	79.7
1955	387.4	252.4	59.4	.3	75.9

Source: Council of Economic Advisers as quoted in the Economic Report of the President, January 1956.

TABLE A-3 - NATIONAL INCOME BY DISTRIBUTIVE SHARES, 1939-1955
(Billions of dollars)

Period	Total National Income	Compensation of Employees	Business and Professional Income	Income of Farm Proprietors	Rental Income of Persons	Corporate Profits	Net Interest
1939	72.8	48.1	7.3	4.3	2.7	5.7	4.6
1940	81.6	52.1	8.4	4.6	2.9	9.1	4.5
1941	104.7	64.8	10.9	6.5	3.5	14.5	4.5
1942	137.7	85.3	13.9	10.0	4.5	19.7	4.3
1943	170.3	109.6	16.8	11.4	5.1	23.8	3.7
1944	182.6	121.3	18.0	11.5	5.4	23.0	3.3
1945	181.2	123.2	19.0	11.8	5.6	18.4	3.2
1946	179.6	117.7	21.3	13.9	6.2	17.3	3.1
1947	197.2	128.8	19.9	14.5	6.5	23.6	3.8
1948	221.6	140.9	21.6	16.7	7.2	30.6	4.5
1949	216.2	140.9	21.4	12.7	7.9	28.1	5.2
1950	240.0	154.3	22.9	13.3	8.5	35.1	5.9
1951	277.0	180.4	24.8	16.0	9.1	39.9	6.8
1952	289.5	195.3	25.7	14.3	9.9	36.9	7.4
1953	303.6	209.2	25.9	12.3	10.3	37.2	8.8
1954	299.7	207.9	25.9	12.0	10.5	33.8	9.5
1955	322.2	221.2	27.3	11.1	10.7	41.4	10.5

Source: Department of Commerce as quoted in the Economic Report of the President,
January 1956.

TABLE A-4 - TOTAL POPULATION 14 YEARS OF AGE AND OVER AND THE LABOR FORCE, 1939-1955

Period	Total population	Total labor force including armed forces	Civilian labor force			Total labor force as per cent of total population	Unemployment as per cent of civilian labor force
			Total	Employment	Unemployment		
Thousands of persons 14 years of age and over						Percent	
1939	100,210	55,600	55,230	45,750	9,480	55.5	17.2
1940	101,490	56,180	55,640	47,520	8,120	55.4	14.6
1941	102,640	57,530	55,910	50,350	5,560	56.1	9.9
1942	103,690	60,380	56,410	53,750	2,660	58.2	4.7
1943	104,750	64,560	55,540	54,470	1,070	61.6	1.9
1944	105,750	66,040	54,630	53,960	670	62.4	1.2
1945	106,620	65,290	53,860	52,820	1,040	61.2	1.9
1946	107,590	60,970	57,520	55,250	2,270	56.7	3.9
1947	108,831	61,758	60,168	58,027	2,142	56.7	3.6
1948	109,924	62,898	61,442	59,378	2,064	57.2	3.4
1949	111,095	63,721	62,105	58,710	3,395	57.4	5.5
1950	112,237	64,749	63,099	59,957	3,142	57.7	5.0
1951	113,382	65,983	62,884	61,005	1,879	58.2	3.0
1952	114,589	66,560	62,966	61,293	1,673	58.1	2.7
1953	116,576	67,362	63,815	62,213	1,602	57.8	2.5
1954	117,664	67,818	64,468	61,238	3,230	57.6	5.0
1955	118,846	68,896	65,847	63,193	2,654	58.0	4.0

Sources: Department of Commerce, Department of Labor and Council of Economic Advisers as quoted in the Economic Report of the President, January 1956.

TABLE A-5 - AVERAGE WEEKLY HOURS OF WORK IN SELECTED INDUSTRIES, 1939-1955

Period	Manufacturing	Bituminous coal mining	Building Construction	Class I Railroads	Telephone	Wholesale trade	Retail trade (except eating and drinking places)
1939	37.7	27.1	32.6	43.7	39.1	41.7	42.7
1940	38.1	28.1	33.1	44.3	39.5	41.2	42.5
1941	40.6	31.1	34.8	45.8	40.1	41.0	42.1
1942	42.9	32.9	36.4	47.0	40.5	41.3	41.1
1943	44.9	36.6	38.4	48.7	41.9	42.2	40.3
1944	45.2	43.4	39.6	48.9	42.3	42.9	40.4
1945	43.4	42.3	39.0	48.5	41.7	42.7	40.3
1946	40.4	41.6	38.1	46.0	39.4	41.5	40.7
1947	40.4	40.7	37.6	46.4	37.4	41.0	40.3
1948	40.1	38.0	37.3	46.2	39.2	40.9	40.3
1949	39.2	32.6	36.7	43.7	38.5	40.7	40.4
1950	40.5	35.0	36.3	40.8	38.9	40.7	40.5
1951	40.7	35.2	37.2	41.0	39.1	40.7	40.2
1952	40.7	34.1	38.1	40.6	38.5	40.6	39.9
1953	40.5	34.4	37.0	40.6	38.7	40.5	39.2
1954	39.7	32.6	36.2	40.8	38.9	40.4	39.2
1955	40.7	37.4	36.1	41.8	39.6	40.6	39.0

source: Department of Labour as quoted in the Economic Report of the President, January 1956.

TABLE A-6 - AVERAGE GROSS HOURLY EARNINGS IN SELECTED INDUSTRIES, 1939-1955

Period	Manufacturing	Bituminous coal mining	Building Construction	Class I Railroads	Telephone	Wholesale trade	Retail trade (except eating and drinking places)	Agriculture
1939	\$0.63	\$0.89	\$0.93	\$0.73	\$0.82	\$0.72	\$0.54	\$0.17
1940	.66	.88	.96	.73	.83	.74	.55	.17
1941	.73	.99	1.01	.74	.82	.79	.58	.21
1942	.85	1.06	1.15	.84	.84	.86	.63	.27
1943	.96	1.14	1.25	.85	.87	.93	.68	.35
1944	1.02	1.19	1.32	.95	.91	.99	.73	.42
1945	1.02	1.24	1.38	.96	.96	1.03	.78	.47
1946	1.09	1.40	1.48	1.09	1.12	1.15	.89	.52
1947	1.24	1.64	1.68	1.19	1.20	1.27	1.01	.55
1948	1.35	1.90	1.85	1.30	1.25	1.36	1.09	.58
1949	1.40	1.94	1.94	1.43	1.35	1.41	1.14	.56
1950	1.47	2.01	2.03	1.57	1.40	1.48	1.18	.56
1951	1.59	2.21	2.19	1.73	1.49	1.58	1.26	.63
1952	1.67	2.29	2.31	1.83	1.59	1.67	1.32	.66
1953	1.77	2.48	2.48	1.88	1.68	1.77	1.40	.67
1954	1.81	2.48	2.60	1.93	1.76	1.83	1.45	.66
1955	1.88	2.55	2.66	1.95	1.82	1.91	1.50	.68

Sources: Department of Labor and Department of Agriculture as quoted in the Economic Report of the President, January 1956.

TABLE A-7 - AVERAGE GROSS WEEKLY EARNINGS IN SELECTED INDUSTRIES, 1939-1955

Period	Manufac- turing	Bituminous coal mining	Building Construction	Class I Railroads	Telephone	Wholesale trade	Retail trade (except eating and drinking places)
1939	23.86	23.88	30.39	31.90	32.14	29.82	23.14
1940	25.20	24.71	31.70	32.47	32.67	30.45	23.50
1941	29.58	30.86	35.14	34.03	32.88	32.51	24.42
1942	36.65	35.02	41.80	39.34	34.14	35.52	25.73
1943	43.14	41.62	48.13	41.49	36.45	39.37	27.36
1944	46.08	51.27	52.18	46.36	38.54	42.26	29.53
1945	44.39	52.25	53.73	46.32	40.12	43.94	31.55
1946	43.82	58.03	56.24	50.00	44.29	47.73	36.35
1947	49.97	66.59	63.30	55.03	44.77	51.99	40.66
1948	54.14	72.12	68.85	60.11	48.92	55.58	43.85
1949	54.92	63.28	70.95	62.36	51.78	57.55	45.93
1950	59.33	70.35	73.73	64.14	54.38	60.36	47.63
1951	64.71	77.79	81.47	70.93	58.26	64.31	50.65
1952	67.97	78.09	88.01	74.30	61.22	67.80	52.67
1953	71.69	85.31	91.76	76.33	65.02	71.69	54.88
1954	71.86	80.85	94.12	78.74	68.46	73.93	56.84
1955	76.52	95.19	95.89	81.51	72.07	77.32	58.65

Source: Department of Labor as quoted in the Economic Report of the President, January 1956.

TABLE A-8 - WHOLESALE PRICE INDEXES, 1939-1955
(1947-1949 = 100)

Period	All commodities	Farm products	Processed foods	Textile products and apparel	Chemicals and allied products	Lumber and wood products	Metals and metal products
1939	50.1	36.5	43.3	(1)	55.8	31.6	62.6
1940	51.1	37.8	43.6	(1)	56.6	35.2	62.8
1941	56.8	46.0	50.5	(1)	61.6	41.8	64.0
1942	64.2	59.2	59.1	(1)	69.3	45.4	64.9
1943	67.0	68.5	61.6	(1)	69.5	48.0	64.8
1944	67.6	60.4	60.4	(1)	70.2	51.9	64.8
1945	68.8	71.6	60.8	(1)	70.6	52.5	65.9
1946	78.7	83.2	77.6	(1)	76.3	60.3	73.9
1947	96.4	100.0	98.2	100.1	101.4	93.7	91.3
1948	104.4	107.3	106.1	104.4	103.8	107.2	103.9
1949	99.2	92.8	95.7	95.5	94.8	99.2	104.8
1950	103.1	97.5	99.8	99.2	96.3	113.9	110.3
1951	114.8	113.4	111.4	110.6	110.0	123.9	122.8
1952	111.6	107.0	108.8	99.8	104.5	120.3	123.0
1953	110.1	97.0	104.6	97.3	105.7	120.2	126.9
1954	110.3	95.6	105.3	95.2	107.0	118.0	128.0
1955	110.7	89.7	101.7	95.3	106.6	123.6	136.6

Source: Department of Labor as quoted in the Economic Report of the President, January 1956.

(1) Not available

TABLE A-9 - CONSUMER PRICE INDEXES, 1939-1955
 For City Wage Earner and Clerical Worker Families
 (1947-1949= 100)

Period	All items	Food	Rent and Housing (1)	Apparel	Transportation	Medical care	Miscellaneous goods and services (3)
1939	59.4	47.1	86.6	52.5	(2)	(2)	(2)
1940	59.9	47.8	86.9	53.2	(2)	(2)	(2)
1941	62.9	52.2	88.4	55.6	(2)	(2)	(2)
1942	69.7	61.3	90.4	64.9	(2)	(2)	(2)
1943	74.0	68.3	90.3	67.8	(2)	(2)	(2)
1944	75.2	67.4	90.6	72.6	(2)	(2)	(2)
1945	76.9	68.9	90.9	76.3	(2)	(2)	(2)
1946	83.4	79.0	91.4	83.7	(2)	(2)	(2)
1947	95.5	95.9	95.0	97.1	90.6	94.9	96.1
1948	102.8	104.1	101.7	103.5	100.9	100.9	100.5
1949	101.8	100.0	103.3	99.4	108.5	104.1	103.4
1950	102.8	101.2	106.1	98.1	111.3	106.0	105.2
1951	111.0	112.6	112.4	106.9	118.4	111.1	109.7
1952	113.5	114.6	114.6	105.8	126.2	117.2	115.4
1953	114.4	112.8	117.7	104.8	129.7	121.3	118.2
1954	114.8	112.6	119.1	104.3	128.0	125.2	120.1
1955	114.5	110.9	120.0	103.7	126.4	128.0	120.2

(1) Indexes rent only to 1946. From 1947 total housing costs are included

(2) Not available

(3) Does not include personal care or reading and recreation

SOURCE: Department of Agriculture as quoted in the Economic Report of the President, January 1956.

TABLE A-10 - SHORT- AND INTERMEDIATE-TERM CONSUMER CREDIT OUTSTANDING, 1939-1955
(Millions of dollars)

End of Period	Total	Instalment credit					Non- instalment credit
		Total	Automobile paper	Other consumer goods paper	Repair and modernization loans	Personal loans	
1939	7,222	4,503	1,497	1,620	298	1,088	2,719
1940	8,338	5,514	2,071	1,827	371	1,245	2,824
1941	9,172	6,085	2,458	1,929	376	1,322	3,087
1942	5,983	3,166	742	1,195	255	974	2,817
1943	4,901	2,136	355	819	130	832	2,765
1944	5,111	2,176	397	791	119	869	2,935
1945	5,665	2,462	455	816	182	1,009	3,203
1946	8,384	4,172	981	1,290	405	1,496	4,212
1947	11,570	6,695	1,924	2,143	718	1,910	4,875
1948	14,411	8,968	3,054	2,842	843	2,229	5,443
1949	17,104	11,516	4,699	3,486	887	2,444	5,588
1950	20,813	14,490	6,342	4,337	1,006	2,805	6,323
1951	21,468	14,837	6,242	4,270	1,090	3,235	6,631
1952	25,827	18,684	8,099	5,328	1,406	3,851	7,143
1953	29,537	22,187	10,341	5,831	1,649	4,366	7,350
1954	30,125	22,467	10,396	5,668	1,616	4,787	7,658
1955 ⁽¹⁾	36,200	27,800	14,300	6,400	1,600	5,500	8,400

(1) Preliminary estimates as used by the Council of Economic Advisers.

Source: Board of Governors of the Federal Reserve System as quoted in the Economic Report of the President, January 1956.

TABLE A-11 - DEPOSITS AND CURRENCY, 1939-1955
(Millions of dollars)

End of period	Total deposits and currency	Demand deposits adjusted and currency			Time deposits adjusted	U.S. Government deposits
		Total	Currency outside banks	Demand deposits adjusted		
1939	64,733	36,194	6,401	29,793	27,059	1,480
1940	71,129	42,270	7,325	34,945	27,738	1,121
1941	79,098	48,607	9,615	38,992	27,729	2,762
1942	100,500	62,868	13,946	48,922	28,431	9,201
1943	123,391	79,640	18,837	60,803	32,748	11,003
1944	151,428	90,435	23,505	66,930	39,790	21,203
1945	176,378	102,341	26,490	75,851	48,452	25,585
1946	167,500	110,044	26,730	83,314	53,960	3,496
1947	172,330	113,597	26,476	87,121	56,411	2,322
1948	172,693	111,599	26,079	85,520	57,520	3,574
1949	173,851	111,165	25,415	85,750	58,616	4,070
1950	180,574	117,670	25,398	92,272	59,247	3,657
1951	189,861	124,549	26,315	98,234	61,450	3,862
1952	200,449	129,002	27,494	101,508	65,799	5,648
1953	205,720	130,542	28,091	102,451	70,375	4,803
1954	214,757	134,402	27,852	106,550	75,282	5,073
1955	220,600	137,900	28,600	109,300	78,300	4,400

Source: Board of Governors of the Federal Reserve System as quoted in the Economic Report of the President, January 1956.

TABLE A-12 - PROFITS BEFORE AND AFTER TAXES, ALL PRIVATE CORPORATIONS, 1939-1955
(Billions of dollars)

Period	Corporate profits before taxes	Corporate tax liability	Corporate profits after taxes		
			Total	Dividend payments	Undistributed profits
1939	6.4	1.4	5.0	3.8	1.2
1940	9.3	2.8	6.5	4.0	2.4
1941	17.0	7.6	9.4	4.5	4.9
1942	20.9	11.4	9.5	4.3	5.2
1943	24.6	14.1	10.5	4.5	6.0
1944	23.3	12.9	10.4	4.7	5.7
1945	19.0	10.7	8.3	4.7	3.6
1946	22.6	9.1	13.4	5.8	7.7
1947	29.5	11.3	18.2	6.5	11.7
1948	32.8	12.5	20.4	7.2	13.0
1949	26.2	10.4	15.8	7.5	8.3
1950	40.0	17.8	22.1	9.2	12.9
1951	41.2	22.5	18.7	9.1	9.6
1952	35.9	19.8	16.1	9.0	7.1
1953	38.3	21.3	17.0	9.3	7.7
1954	34.0	17.1	17.0	10.0	7.0
1955	43.2	21.7	21.5	11.1	10.4

Source: Department of Commerce as quoted in the Economic Report of the President, January 1956.