Stalmy Report

Mr. Matteson

I have looked over the data in this 8th report of the reconversion office. The data are more generally from accepted sources. They seem generally all right. The main criticism I would make is that the reader is not always informed accurately. For example the number of houses <u>finished</u> is quite a different matter that houses <u>started</u>. In Minneapolis these differences are shocking. Then the total number of houses under way is low. Under 400,000 houses and ten years ago it was more than twice this figure. The report mentions that labor in housing is "over-age". But we notice very lately that between 10 and 20 thousand prefabricated houses are to be built with a firm underwritten market. That I think is very significant becaue it shows the traditional objection of labor is something the government is entirely willing to face. Thus if the "prefabs" are any good we can have them. I am sorry there is not much I can add.

Arthur Upgren.

ARTHUR UPGREN

Can We Avert Bust After Current Boom?

RECONVERSION Director Steelman has warned the nation to stiffen its fight against pressure for wage-price boosts, in order to ward off depression caused by a sudden collapse of buying. Such a collapse certainly would follow failure in our efforts to halt inflation now.

Steelman

On the bright side the Steelman report notes new all-time highs in production and jobs. In addition, President Truman has forecast that instead of a $2 billion deficit in the federal government's budget for the present fiscal year, ending June 30, 1947, there will be a surplus of $2 billion.

That surplus, if it materializes, would be the first in 16 years. It suggests that we ought to find out why the only place at which we can balance our government's budget is at $40 billion, when before the war we got nowhere at all in budget balancing when it was down below $10 billion.

Significantly, the administration's new statement of its determination to resist price hikes and pay increases comes a month **before** the congressional elections. It was first stated back in February after the administration's admitted "great mistake" of last year—promoting wage increases in expectation of economic collapse. There have been "bulges" in the policy since, but now that it has been reaffirmed it should have bipartisan support.

NEW PEAKS REACHED

How the boom is developing on the side of "investment" (society's **permanent** additions), Steelman reveals by showing:

1. The output of producers' machinery and equipment, more than doubled from a $5 billion yearly rate in 1945 to an $11 billion rate in the third quarter this year.

2. Consumers' purchases have risen by $20 billion.

3. Private industry's total "capital formation," consisting of equipment, improvements, buildings, inventory and exports, have increased to $30 billion a year—a new peacetime peak.

Aside from exports, this enlargement has taken place in the flow of goods to American consumers. Industry's purchases are doing enough to enlarge incomes without forcing up prices and wages still further.

INFLATION DANGER

Government spending, in sharp contrast, has dropped from $100 billion a year to $37 billion. That subtracts 63 per cent of a tremendous inflationary force. With the total annual wage and salary bill of about $120 billion a year, however another round of wage increases would be wholly inflationary until the supply of goods is very much larger. That would be inexcusable.

Other significant statistics in the Steelman report show that the present 58 million job level is seven million above a year ago. With two million men in the armed services, the magical 60 million jobs is achieved. There is the small percentage of 3.3 per cent unemployed. It makes the labor market, which must meet the needs of all sections of the United States and all different industries, about as tight as the housing situation at the University of Minnesota.

The report also notes that prices in the three months since last June have gone up more than they did in the previous 38 months. A further rise might choke off demand, upset business stability and cause an employment and price collapse.

The dangers Steelman warns against in the general inflation picture already are manifest in the field of construction.

URGES HIGHER TAXES

In addition to asking business, labor, agriculture and the public not to rock the boat, Steelman urges and President Truman supports the maintenance of high taxes. They both flatly oppose the tax reduction program offered by Representative Harold Knutson of Minnesota.

What is happening today is that purchases by industry and consumers are running extremely high. Purchases by these two groups plus those of the government are the source of all our purchasing power. The restraints we want to use are (1) taxation; and (2) resistance to wage and price increases.

When the current boom plays out—and in the price field that seems most likely to come first for agriculture—it is new building that must maintain incomes. Never again should the United States, for example, tolerate a decline in the number of houses built from 900,000 in 1923 to less than 90,000 in 1932.

If Steelman's advice is taken now, we may have five or 10 years to plan for the positive support of a free economy. The task is to hold ourselves on an even keel right now.

Draft

October 8, 1946

Memo to Harold E. Stassen

Subject: The Second Year of Peace.
Eighth quarterly report of the Director of War Mobilization and Reconversion, John D. Steelman, covering the third quarter of 1946.

I

The outstanding criticism that can be made of this very fine report is that it is "too very fine a report", containing many things, policies and recommendations so very good that it is sad how few of them the Administration ~~does do.~~ pays attention to. Thus, it is not a lack of wisdom but backbone that is causing our present plight. For example, the actual settlement which the Administration couraged in the recent maritime strike noisily controverts one of the leading policy recommendations clearly formulated in this report.

The report itself is a very fine statement of high principles that should be adhered to with great firmness. But the Administration doesn't adhere to them. Thus, the report is a fine policy, but not that of the Administration in the "deed" as opposed to the "word."

The report is a document which, if its policies were adhered to, would erase from the record the "light character" of the administration and its advisors. It is they who <u>do</u> things so differently than they preach about them.

II

There is attached an article on the report which, on second reading and second reflection, I would modify along the lines of the blunt criticisms made in the preceding paragraphs. I would modify it in that I could make it more clear that the Administration does continue to make, this year, repetitions in the form of "little mistakes" reaped from the "great mistake" which it admitted it made last year. That great mistake was the guess that after the war we were headed for deflation. Anticipations by Administration experts were that unemployment would run upwards of five to eight millions. Instead, it barely reached half or a third of such figures.

Expecting such deflation, the Administration smiled upon the idea of wage increases and fumbled into a national pattern of 18½¢ an hour increase drawn out of its "guess basket." As a result, its actions led toward inflation. It is still doing so despite good reports as this to the contrary.

III

But this did not deter the Administration in developing its housing program under Wyatt in effect from still insisting: "Jobs must come first, because if there aren't jobs, the veteran can't buy a house, anyway," and blindly forgetting that building houses creates jobs, too, and gives the veteran a house as the richest dividend of all. Under administration policy since last spring, the veterans have had jobs and no houses, which is only half as good as jobs and houses. Now the first half -- jobs -- may be frittered away as the potential houses already have been lost for this year.

But in an experimental way, even this could be understood at the time when total employment had only inched moderately above the 51-52 million of the post-VJ-Day level. This employment continued to rise, passing the 58,000,000 mark early in June, with which the more than 2,000,000 in the armed services realized the 60,000,000 jobs America wants.

What happened next?

What happened next was a painful rise in housing prices about which nothing at all has been done and the effects of which are to make certain that this year, and it could be for most of next year as well, veterans will not get houses and may not have all the jobs which the present policies threaten.

When full employment was reached, there could be no further response of output. That is when prices started going through the ceiling -- even though those ceilings were ceilings in mythical, not livable, houses.

Take the University of Minnesota in our state. It proposed and worked hard on plans last spring and summer to build very moderate structures containing simple three-room apartments for veterans and low-paid temporary members of its staff who work at those salaries of pay while they are winning advanced degrees or being trained in research.

I think the University had thought these might be built at a cost of about $4500 for the typical three-room apartment. In the buildings there were to be no foyers or lobbies or any waste public spaces, as the entrance to each of the apartments could be directly from the outside.

But when bids were asked, the doleful news was out. Making everything as simple as possible was done, but the three-room apartments came out at $8,553! That is a price for which the medium salaried more permanent employee of the University has always expected to be able to build a small seven-room house and cover the cost of the lot and a new $1,000 car as well. The University, to be sure, could give low rents at a reasonable cost because taxes would not have to be covered. But on a tax basis, this cost would be equivalent to a commercial rent of at least $100 a month. Think how few families in America can afford to pay such a rent! Think how much in jeopardy are the jobs of veterans as well as new houses when the cost of housing has been allowed to go so high that so very few will build.

The solution of this dangerous inflation which has not produced houses at even a third of the rate we should be capable of producing and which now has got to that state of affairs which threatens jobs is that we much choke back demand. We must, in good democratic fashion, decide what is most important now, and what can wait a little. Construction must be limited to things that are needful but it must not be so excessive for non-residential purposes as to leave not a brick left over for a veteran's house.

We can't kid ourselves any longer. The damage is mostly done for this year now ending. Try to buy a sack of cement! That demand was allowed grossly to outrun supply is indicated by the much larger number of houses we have started than we can finish. That's just like the Administration, starting and biting off so much more than it can chew, at least most everything -- except meat!

Economy In Danger: Steelman

Chi. J. of Comm. Oct 4

President Supports Warning, Calls for End to Labor Strife

By MARVIN L. ARROWSMITH

WASHINGTON, Oct. 3 (AP).—Presient Truman today called for all-out production and an end to industrial strife, and backed up a warning by Reconversion Director Steelman that further price inflation may spell economic "collapse."

An "important battle" must yet be won "before we can honestly say we have completed successfully the transition from war to peace," the President told his news conference.

He pointed to Mr. Steelman's quarterly report, released today, which said among other things that a "further rapid price rise" might diminish demand for goods and severe price collapse, with serious economic and social consequences."

Struggle Ahead

Mr. Truman said in a statement in connection with Mr. Steelman's report that while the reconversion record thus far "adds up to a splendid achievement, we must not pause to congratulate ourselves."

Declaring that a "difficult struggle lies before us," the President said "we must do our utmost to keep industrial peace, to maintain production at present levels where it is high, and to spur it to higher levels where it is lagging."

Meanwhile, he asserted, the nation s "driving steadily ahead toward peacetime prosperity." He cited these "milestones of progress" of which he said "every American can be proud":

ON THE PRODUCTION FRONT—Total output of goods and services by private industry has moved rapidly ahead "and has now reached the annual rate of $172,000,000,000." Production levels of 1940 or 1941 have been surpassed in the case of such items as electric stoves, washing machines, tires and vacuum cleaners. During the next few months "we should have an increasing flow" of such goods as automobiles, refrigerators, gas stoves and sewing machines.

2,000,000 Jobless

EMPLOYMENT—Of our total labor front, 58,000,000 persons have jobs. Only 2,000,000 are looking for jobs and for these "the periods of unemployment are short."

VETERANS—About 900,000, or nearly half of those unemployed, are veterans. "It is the nation's responsibility," Mr. Truman declared, "to see to it that veterans looking for jobs get satisfactory employment at the highest level of their skills and at good wages."

As for income and spending, the President reported that business profits after taxes are at an all-time high, although "in some important industries they are still lagging."

He said the public is spending at the rate of $126,000,000,000 a year for consumer goods and services, or "more than 20 per cent over the war peak, and more than 60 per cent over the prewar peak."

Noting that Mr. Steelman's report placed much emphasis on the possibilitiy of an economic collapse if price rises are not checked, a reported asked Mr. Truman what the government is doing to prevent this.

No New Laws Needed

The President replied that everything possible is being done to avoid it. He said, however, that he sees no necessity for new anti-inflation legislation—anyway, he added, for the kind of legislation we probably would get.

Mr. Steelman, on the other hand, said that because of the "weakening of price and other stabilization controls "we find ourselves at the present time gravely handicapped in our fight against inflation through lack of adequate governmental machinery to cope with it."

He also reported a decline of about 8.5 per cent in take-home pay since the European war ended. Mr. Truman, in response to a question, acknowldged that he is concerned about this and said that is what we are fighting to avoid.

[To page 14, col. 8]

U. S. Economy Faces Danger, Steelman Says

[From page 1]

Mr. Steelman also spoke out bluntly against a general round of "large" wage increases at this time.

He said these could benefit "only special groups," and in general would do so "at the expense of fellow workers throughout the nation."

Two Great Problems

Declaring that the national economy is simultaneously "in a position of great promise and of great danger," Mr. Steelman set forth "two great problems" which he said America face:

For the long range, to "maintain our economy at full production and full employment."

In the meantime, to "prevent runaway inflation."

"If prices keep on rising and precipitate a wage-price spiral, business and agriculture will find themselves priced out of the market and into a depression," Mr. Steelman asserted in his quarterly report to President Truman and Congress.

Supply-Demand Balance

He added that, if on the other hand," "We can successfully retard the rise in prices, the backlog of demand for goods an dthe tremendous pools of savings and current income should reduce the rate at which demand slackens."

In stating that "our national target" is a "balance of supply with demand at a high level of production and employment," the reconversion head rejected the suggestion of some "that the best way" to achieve this goal is to "let prices go."

"An uncontrolled advance in the general level of prices," Mr. Steelman said, "is the worst possible way to bring demand into balance with supply."

'Free Prices Mean Collapse'

Such a course, he added, "can only lead to price collapse."

His report said also:

1. Production of consumer durable goods, such as automobiles, refrigerators and washing machines, is just beginning to hit its stride, but "there is some indication that the bloom is off" the market for clothes and other soft goods. The "buy-at-any-price" psychology is "being tempered by some consumer resistance to high prices and poor quality."

2. If consumer or business spending, now at "extremely high" levels, should falter, the government "must be prepared to readjust its policies to promote an increase in consumption." Public works programs should be "blueprinted and ready to go," and tax and other fiscal policy "would require. . . readjustment."

Emergency Action

3. To arrest such a decline in spending, "the first and most salutary action could be taken by business itself in reducing prices, wherever possible, without reducing wages."

4. Because of the "weakening" of price and other stabilization controls "we find ourselves at the present time gravely handicapped in our fight against inflation through lack of adequate governmental machinery to cope with it."

5. Although wage rates and straight time hourly earnings have increased since the European war ended, "gross weekly earnings of all employes in manufacturing industries have decreased. . . by approximately 8.5 per cent." This means that the average manufacturing worker "earning $47.12 in April, 1945, was taking home in July, 1946, $4.05 per week less . . ."

Differs on Meat Outlook

6. Taking a different stand than President Truman, Mr. Steelman said the shortage of meat "will become worse this Winter." The President said last week that supply will improve soon, but that despite "the outlook for temporary relief in the next few months, it is hard to predict what may happen in the Spring."

7. Clothing supply is "rapidly increasing, but still not fast enough to satisfy the demand for such items as men's shirts and suits." Moreover, there is "danger that prices of cotton cloth and apparel may get out of reach of the average consumer."

By June, Mr. Steelman reported, clothing costs were 23 per cent above those of May, 1943. OPA, he added, expects a further increase of least 10 per cent in the last half this year.

8. The housing shortage is "so acute" that even if this year's program were to succeed (it's behind schedule), "there still will be as many people in need of housing at the beginning of 1947 as there were Jan. 1, 1946."

2 Million Look for Jobs

9. The number of persons with jobs at present, 58,000,000, is "the greatest in history." The number of people looking for jobs in August, 2,000,000, is probably the smallest percentage of our peacetime labor force out of jobs at any time since we became an industrial nation."

10. But the number of veterans unemployed "remains stubbornly at a level of about 900,000, or nearly half the total number of unemployed in the country today."

11. Production "can well rise above current levels before general manpower shortages begin to curb output." Civilian Production Administrator Small said last week the only way to achieve any further substantial increase in the flow of consumer goods would be through a longer work-week.

Declaring that "stabilization has now become everybody's business," Mr. Steelman added that "unless each group can subordinate its own short-time selfish interests to the long-time interests of us all, it is problematical how successful the government itself can be."

U.S. NEWS ★ ★ ★ Official Text

DANGER SIGNS FOR THE U. S.

Full Text of Mr. Steelman's Warning Of Crisis Ahead for Production

A warning that a turn from inflation to deflation may be approaching now is given by the Government itself.

There is a note of caution in the eighth report just made to the President and to Congress by the Director of War Mobilization and Reconversion. Sections I and II of that report are printed here in full, with accompanying tables.

Businessmen are advised that, in event of a decline, they can help matters by reducing prices. A resurvey of tax policy, dusting off of public-works projects, and stronger antitrust enforcement are suggested as steps Government should consider.

Mr. Truman is of the opinion that, to avoid trouble, it is going to be necessary to avoid strikes, to maintain production at high levels where it already is high and to push up production where it has been lagging. There are clear hints in the report of the Reconversion Director, however, that the planners feel that it now is too late to prevent trouble from developing in months ahead.

OCTOBER, 1946

As the second year of peace begins, the national economy is in a position of great promise, and of great danger.

Our position is one of promise because we have an opportunity to move forward to higher levels of real income than any nation has ever achieved. We have a chance to maintain high levels of employment for extended periods, and to progress toward higher levels of production and a steadily rising living standard.

But we do face an acute threat—the danger that we will be unable to shift from the present situation, where demand exceeds supply, to one where demand and supply are in approximate balance, without falling to a point of equilibrium on a far lower level of income production than we now have. The transition to an approximate balance of supply and demand at high levels will be difficult, and the difficulties will be enhanced if there is a further rapid increase in prices. Prices have already risen further in the three months since the original Price Control Act expired than they did in the previous 38 months. A further rapid price rise might choke off demand, upset business stability and precipitate an early and severe price collapse, with serious economic and social consequences.

To achieve stable prosperity will take not only wise action by the Congress and the executive branch; it will also take statesmanship of a very high order by management, labor, and farmers, and self-restraint on the part of the consuming public.

FORCES UNDERLYING HIGH PEACETIME PRODUCTION

In the first year of peace, the dominant economic force has been the pressure of a large volume of demand, backed by large purchasing power—in part the income of earlier periods—entering the market in an effort to obtain goods and services. This pressure has been the chief fuel of our advance since V-J Day.

As long as we were able to keep prices reasonably stable, this inflationary force drove our economy forward at tremendous speed. We have made an extraordinary rapid turnaround from all-out war, and have reached our present high level of peacetime activity with relatively little dislocation and suffering. This is true notwithstanding labor-management disputes and shortages of materials and component parts. It is true for the economy as a whole by any measure that we use—employment, unemployment, total income payments to individuals, profits or production.

Civilian employment, following V-J Day, remained at about 51,000,000 for several months, then advanced to 58,000,000, an all-time high for war or peace. Jobs have been found for 10,000,000 returning servicemen and women, and total civilian employment in August of this year was close to 9,000,000 above the same month in 1940.

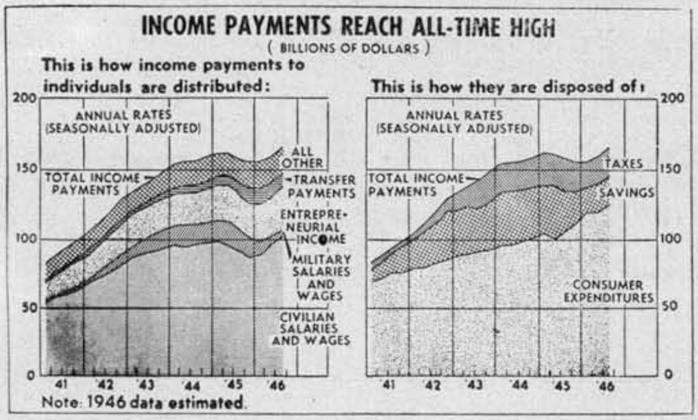
Unemployment in August was 2,000,000. It never exceeded 2,700,000 during the low point of our postwar transition; 8,000,000 workers were unemployed in August, 1940.

Income payments to individuals now total about $167,000,000,000 a year, the highest they have ever been. (See chart, Income Payments Reach All-Time High, page 84.)

Business profits, after taxes, are at the highest point in history, in spite of the fact that, in some reconversion industries, profits are low because of low volume of finished output. (See chart, Peak in Corporate Profits, page 84.)

Farm income has risen to an all-time high, and farmers have never been in so liquid a position.

Total production of private industry has moved ahead to a new peacetime high and now stands at an annual rate of about $172,000,000,000. Durable goods are still lagging in some cases, but a steady and increasing flow of



finished goods is reaching the market and will continue if we have a period of industrial peace. (See chart, Reconversion Progress, page 85.)

Our satisfaction in achievement to date must be tempered by the knowledge that the present level of production and employment has been the product in part of delayed demand, backed by wartime savings, and is not necessarily permanent. This fact must be given much more weight in the light of the price rise which has taken place in the last three months and the danger of its continuation in the future.

Two great problems face the nation—first a longer-range problem: to maintain our economy at full production and full employment; and, second, in the meantime to prevent runaway prices. Unless we can stabilize prices, it will be immeasurably more difficult to stabilize production and employment at high levels.

If prices keep on rising and precipitate a wage-price spiral, business and agriculture will find they have priced themselves out of the market and into a depression. On the other hand, if we can successfully retard the rise in prices, the backlog of demand for goods and the tremendous pools of savings and current income should reduce the rate at which demand slackens.

A MOVING TARGET

Our national target is a balance of demand with supply at a high level of production and employment. Too great a demand means inflation. Too little means depression. This balance is not easy to achieve because it must be the product of three variables:

(a) Supply, which varies as production moves up and down;

(b) Demand, which shifts in response to many factors, among them the behavior of over 140,000,000 people;

(c) The price level, which determines the physical volume of goods that change hands at a given volume of purchasing power.

Some have suggested that the best way to balance supply with demand is to let prices go. *An uncontrolled advance in the general level of prices is the worst possible way to bring demand into balance with supply.* To permit this advance robs people of the value of their money and inflicts misery and hardship on millions of individuals with fixed incomes. It dissipates the market for businessmen and farmers, and can lead only to price collapse. It leads to speculative purchasing and withholding of goods and disrupts the flow of materials into production and the flow of finished goods into markets.

OUR PROSPECTS

Any analysis of our present position, any look into 1947, must necessarily be made with prices as a big question mark after every conclusion. Nevertheless, business, labor, and Government must examine all available facts as a guide to policies and actions in the coming months.

Expressed in simple terms, the questions to be asked are these:

How much can our production increase in the next six to nine months?

Can it increase enough to match the demand made effective by current income buttressed by past savings?

Will demand remain at its present level; will it increase, as production increases, to provide a steady market for full production?

Will business continue to maintain a high level of investment?

PRODUCTION FOR PEACE

The three main types of production should be looked at separately:

(1) Services, food, clothing, and other consumer nondurables;

(2) Housing and consumer durables;

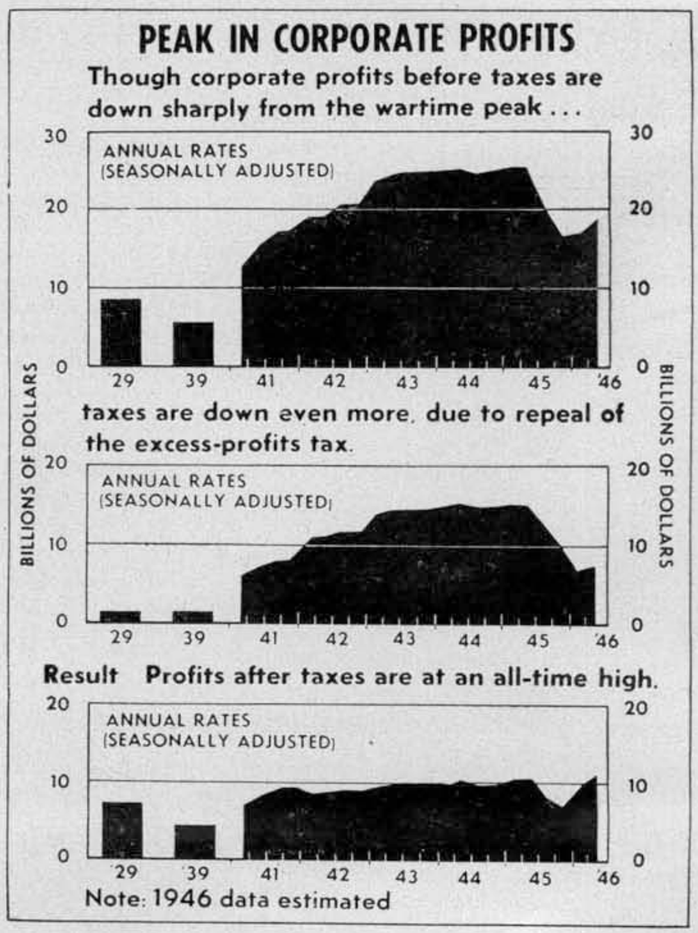
(3) Nonresidential construction and producer durables.

The first group—services, food, and other nondurable consumer goods combined—have been produced during 1945 and 1946 at a rate exceeding anything we have ever before known. While there will be some increases in categories such as clothing, it is doubtful if a large total increase in these goods and services will be possible within the next several months.

The output of producer durable goods rose from an annual rate of $5,200,000,000 in the first quarter of 1945 to $11,000,000,000 in this past quarter. Some increase is likely, but none of great magnitude.

Nonresidential construction is being curtailed by the housing program. It cannot be expanded significantly until after the critical housing needs have been more nearly met.

Production of consumer durable goods and of housing, however, which have more than doubled since V-J Day, can con-



tinue to climb. The process of organizing the production flow for high volume is almost completed. The result should be a steady and expanded flow of finished goods, although it is not likely that we shall produce at capacity levels until next year.

How far we can continue to expand total production of all goods and services in the immediate future depends largely on industrial peace and the limitations of our basic industries and raw materials.

A great deal has been made of the fact that production is the ultimate cure for inflation. This is true, but we do not know for certain whether production can rise to meet demand fully within the next six months. It is likely that shortages of materials, plant capacity, components, and, in certain instances such as housing, of skilled labor, will set, for practical purposes, a ceiling on our production in the immediate future. On the other hand, we cannot be certain that later, as production increases, consumer expenditures will expand, as they must, if they are to absorb the higher volume at prevailing high prices.

This is another way of saying that we do not know whether the ceiling on our production will be our physical capacity to produce, or our ability and desire to buy. At the moment, demand is clearly ahead of supply, but this situation can change.

SOURCES OF DEMAND

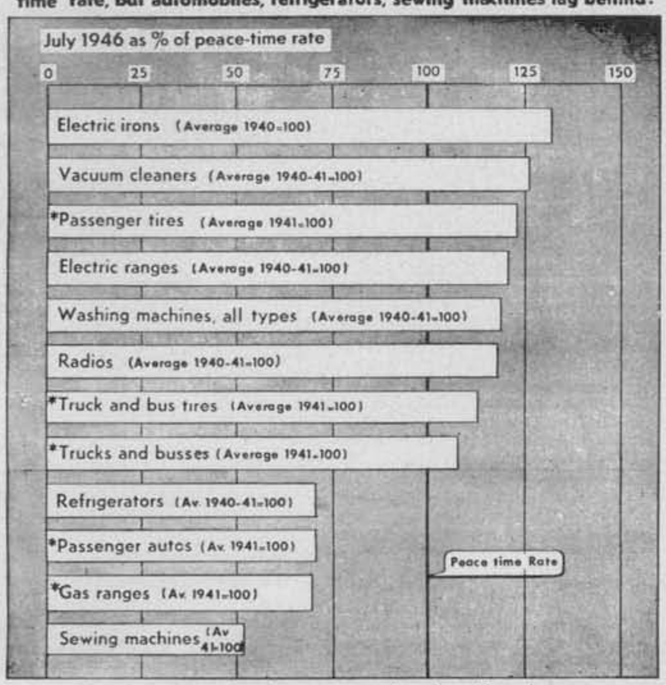
Total demand for goods and services originates from four sources: Government buying, business buying, foreign buying, and consumer buying.

GOVERNMENT BUYING

During the war, Government buying dominated the market. But combined local, State and Federal Government expenditures for goods and services have declined from a peak annual rate of $100,000,000,000 in the second quarter of 1945 to about $37,000,000,000 at the present time. More significant even than this tremendous decline is the fact that for the first time since 1930 the Federal Government is taking out more dollars from the stream of total purchasing power than it is putting back. The federal budget for the current fiscal year indicates a deficit

RECONVERSION PROGRESS

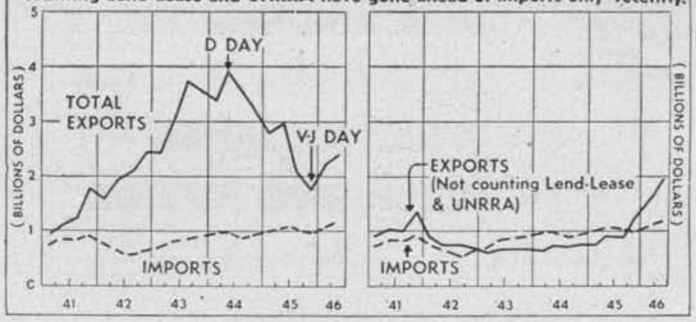
Output of electric irons, vacuum cleaners, tires are ahead of the peace time rate, but automobiles, refrigerators, sewing machines lag behind.



Note: Percentages are based on units produced or shipped.
*Production, all others are shipments.

SHIFT IN FOREIGN TRADE

Total exports have consistently exceeded imports. . but exports not counting Lend-Lease and UNRRA have gone ahead of imports only recently.



of $1,900,000,000. But this is an accounting deficit which reflects noncash expenditures such as terminal-leave bonds and excludes trust-account accumulations. On a cash basis, the Federal Government as a whole is receiving about $2,800,000,000 more in taxes and other revenues than it is paying out this year.

BUSINESS BUYING

The unprecedented decline in Government spending, which is the result of a deliberate policy of the Administration, has been offset by a rise of almost $30,000,000,000 in the rate of private capital formation, which consists of business and net foreign buying, and by an increase of over $20,000,000,000 in the rate of consumer expenditures since early in 1945.

Private capital formation—construction, producer durable equipment, net change in business inventories and net exports of goods and services—has risen from a rate of $3,600,000,000 in the first quarter of 1945 to $33,000,000,000 in the third quarter of this year.

Private construction has increased almost five-fold from the beginning of 1945 to the present time. Demand is still in excess of supply, even though some of it has already been stifled by rising prices.

Business expenditures for producer durable goods have more than doubled since the first quarter of 1945. Expenditures are not likely to increase substantially because of the limitation on construction of new plants.

Business inventories are currently increasing at the rate of $6,500,000,000 a year, whereas in the first quarter of 1945 they were decreasing at the rate of $2,500,000,000 a year. However, the level of inventories in most categories is still below normal, except where a shortage of some components has led to delays in the use of inventories or, in certain cases, where there is hoarding. Nevertheless, they are accumulating at a rate that cannot go on indefinitely.

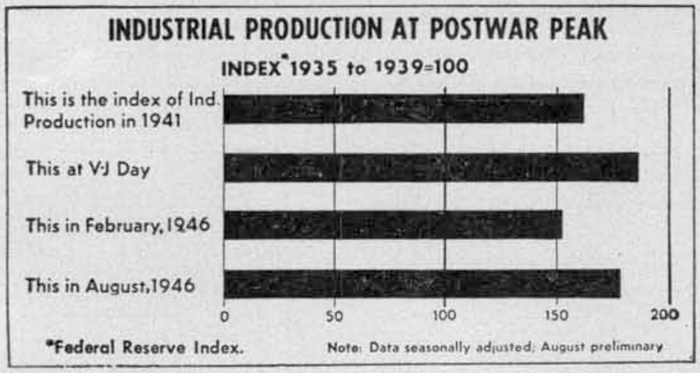
FOREIGN BUYING—NET EXPORTS

The year since V-J Day has seen the nation's business regaining an excess of commercial exports over imports as military and Lend-Lease shipments have been partially replaced by private exports. To some extent the expansion of private exports has been made possible by the British loan and by the lending activities of the Export-Import Bank. (See chart, Shift in Foreign Trade.)

In the second quarter of this year, the excess of exports over imports amounted to about $6,500,000,000 a year. This fell off to a rate of about $5,500,000,000 a year during the third quarter. It is likely that the third-quarter rate will continue at least until the end of this year, and probably longer.

CONSUMER BUYING

Consumer buying is already at an extremely high level. The 1945 high of $106,000,000,000—which was more than 25 per cent greater than the prewar peak—has now been left far behind. Currently, the public is spending at the rate of $126,000,000,000 a year for consumer goods and services.



Beginning in the second quarter of this year, however, a significant change took place in the pattern of consumer purchases. The public is now buying consumer durable goods, which are becoming increasingly available, at an annual rate of $15,000,000,000. This is 25 per cent above the level of the second quarter and 43 per cent above the first three months of 1946.

Purchases of nondurable goods, however, have been comparatively level since the first quarter of this year. In fact, taking account of the price rise, the physical volume of these goods absorbed by the public in the past three months may actually have declined slightly, compared with the earlier part of the year. There is some indication that the bloom is off the market. The "buy at any price" psychology is being tempered by some consumer resistance to high prices and poor quality. It is too early to tell whether the public will continue to buy nondurable goods at the same rate it has so far in 1946 when durable goods, such as houses, automobiles, refrigerators, and radios, are available.

KEYS TO FUTURE DEMAND

In matching the factors which will swell demand against those that will lessen it, the picture for the months ahead looks something like this:

Government spending. Government spending will decline while tax revenues will remain high. This means the possibility of a substantial surplus of revenues over cash expenditures which will reduce inflationary pressures.

Business and net foreign spending. Business spending for investment is one key to the immediate future. Business is now undertaking a volume of investment expenditure that, taken together with present consumer spending, is fully capable of maintaining, and enlarging, the level of employment, produc-

THE NATION'S OUTPUT—CALENDAR YEARS 1941, 1945, 1946

(Billions of current dollars)

		1941 Annual Total	Seasonally Adjusted Annual Rates 1945 1Q	1945 2Q	1945 3Q	1945 4Q	1946 1Q	1946 2Q	1946 3Q
(1)	Purchases by private buyers (2+7)	93.7	108.6	108.4	117.2	128.0	139.0	146.0	159.0
(2)	Private capital formation (3+4+5+6)	19.1	3.6	6.6	11.2	15.0	19.0	26.5	33.0
(3)	Construction	5.3	1.8	2.3	2.9	3.7	5.0	8.0	10.0
(4)	Producers' durable equipment	8.9	5.2	6.1	6.7	8.3	8.5	9.5	11.0
(5)	Net change in business inventories	3.5	—2.5	—.7	.3	.8	3.0	2.5	6.5
(6)	Net exports of goods and services	1.4	—.9	—.9	1.4	2.4	2.5	6.5	5.5
(7)	Consumer purchases (8+9+10)	74.6	105.0	101.8	106.0	113.0	120.0	119.5	126.0
(8)	Durable goods	9.1	7.4	7.1	7.4	9.0	10.5	12.0	15.0
(9)	Nondurable goods	40.1	65.0	61.5	65.1	70.6	75.5	73.5	76.5
(10)	Services	25.4	32.6	33.2	33.5	33.3	34.0	34.0	34.5
(11)	Purchases and civilian payrolls of Government (12+13) or (14+15)	24.1	76.3	78.7	59.4	38.7	28.0	26.0	26.5
	Classified by purpose								
(12)	For war (excl. pay rolls of armed forces)	12.0	66.4	68.6	49.2	28.5	17.0	14.0	12.5
(13)	Services to civilians	12.1	9.9	10.19	10.2	10.2	11.0	12.0	14.0
	Classifed by type								
(14)	Purchases from private bus. enterprises	15.1	61.6	63.7	44.8	25.6	15.5	13.5	13.0
(15)	Civilian government pay rolls*	9.0	14.7	15.0	14.6	13.1	12.5	12.5	13.5
(16)	Output of civilian economy (1+11)	117.8	184.9	187.1	176.6	166.7	167.0	172.0	185.5
(17)	Armed forces pay rolls	1.3	16.5	17.1	17.2	14.1	9.0	6.0	5.4
(18)	Interest payments by Federal Government	1.1	3.7	4.0	4.3	4.5	4.6	4.8	4.9
(19)	Gross national product (16+17+18)	120.2	205.1	208.2	198.2	185.2	180.6	182.8	195.8
	Subtotals								
(20)	Output of private business (1+14)	108.8	170.2	172.1	162.0	153.6	154.5	159.5	172.0
(21)	Total output for civilian use (16—12)	105.8	118.5	118.5	127.4	138.2	150.0	158.0	173.0

*Includes work-relief in 1941 and Government contributions to Civil Service Retirement Fund in all years. These two items totaled $1.6 billion in 1941. Retirement fund contributions were at an annual rate of $0.5 billion in each quarter of 1945 and 1946. Because of their small size, State and local interest payments amounting to about $0.5 billion each year are not shown separately, but are also included in this category.

SOURCE: 1941 and 1945 U. S. Dept. of Commerce; 1946, estimated on basis of Commerce data; production estimates have been rounded to the nearest $500 million. Detail in 1945 may not add to totals because of rounding.

tion, and national income. The severe decline in the stock market that has occurred during the quarter indicates uncertainties in the minds of businessmen about the future. *If the factors influencing business investment remain favorable, the volume of investment expenditure by business should continue to rise.*

Spending for construction will increase as fast as production, provided prices do not become completely unreasonable.

Spending for additional inventories will probably continue for a time although it is doubtful if the present rate can continue for very long.

The excess of exports over imports should remain at approximately present levels for a while, at least.

Consumer spending. The second key to the immediate future is consumer spending. This will depend both on the extent to which consumer incomes rise and on the rate at which consumers are willing to spend their incomes. The spendable income of all individuals in the nation, which reached a record level of about $148,000,000,000 a year in the third quarter of this year, is likely to increase slightly during the coming quarter. Although Government payments to individuals, such as mustering-out pay to discharged servicemen, will decline somewhat, the decline will be offset by increasing wage and salary payments arising from increased employment and a fuller working week. Net income of proprietors, dividends, and other income payments will also increase.

Spending for consumer durables will increase and for the most part absorb goods as fast as they are available.

Consumer spending for nondurable goods, which is apparently now on a plateau, is one of the big question marks. It is too early to tell whether, with the relatively small increase in spendable income that is in prospect, consumers will be willing to absorb all of the consumer durables that will flow into the market and still continue to buy nondurable goods and services at the present high rates. Much will depend on the rate at which consumer income increases as well as on the course of consumer prices.

THE LONGER-RANGE OUTLOOK

At the present time, the high levels of business investment and consumer expenditures are still strong inflationary pressures. Demand in general is greater than supply. But as the nation's industrial machine becomes fully organized for peacetime production, business spending for inventory accumulation will decline. The increased flow of consumer durable goods, especially at present high price levels, will require consumers to increase their total expenditures far above even their current high levels if the goods are to be sold.

For the present, Government policies are co-ordinated and directed toward increasing production on the one hand and reducing total demand on the other hand. But if consumer spending or business spending should falter, due to continued price increases, declines in the stock market, or psychological factors, the Government must be prepared to readjust its policies to promote an increase in consumption.

The first and most salutary action to arrest a decline could be taken by business itself in reducing prices—wherever possible—without reducing wages. There can be no doubt that in some industries the profit position is such that prices could be reduced and profits still be maintained at a satisfactory level. This will be even more true in the coming year as volume increases and unit costs come down.

Government would also have to be prepared to take appropriate action. Resumption of needed construction activities by federal agencies would be an important measure to increase total wage and salary payments and stimulate business investment. For this reason, public works should be blueprinted and ready to go, even during the present period of sharp construction cutbacks. Tax and other fiscal policies would also require re-examination and readjustment. In any areas of the economy where monopolistic practices block the downward readjustment of prices by stifling competition, the Government should take vigorous action.

THE IMMEDIATE PROSPECT

Whatever the outlook for the coming year may be, during the rest of this year at least we must continue to fight inflation with every weapon at our command. Unless and until there is a clear indication of a downturn, we must certainly not reduce taxes. An all-out emphasis on production of finished goods and on preventing a further increase in prices is the task immediately before us.

STABILIZATION: EVERYBODY'S BUSINESS

In signing the Price Control Act, the President said:

"I have signed this measure with reluctance. I had hoped for a bill under which the Government could with full confidence assure the people that prices would remain generally stable in these last few critical months of the transition to a free economy. This bill falls far short of that hope."

The American people have been impatient to get rid of wartime controls. Our whole tradition is one of the utmost freedom of initiative for the individual. This is undoubtedly one of the reasons that impelled the Congress to pass a critically weakened price-control bill.

It has been the policy of this Administration ever since V-J Day to divest the American people—businessmen, labor, farmers, and consumers—of all controls as rapidly as possible. Where there has been any doubt we have taken a calculated risk on the side of lifting controls too soon rather than too late. We did this because we believed in the buoyancy and drive of a free economy in which free labor and free management are given maximum opportunity each to play its part. But we find ourselves at the present time gravely handicapped in our fight against inflation through lack of adequate governmental machinery to cope with it.

The weakening of controls presents three acute dangers: *first*, that prices will rise so high that we will price ourselves out of recovery; *second*, that attempts by business to anticipate future price movements will disrupt the flow of production; and *third*, that an abnormal increase in the cost of living will precipitate new demands for wage increases, thus adding to inflation and in many instances interrupting production at the very moment when demand still dominates the economy.

As the President has said: "While the present measure by no means guarantees that inflation can be avoided, it offers a sufficient prospect of success to warrant the making of a wholehearted effort to keep our economy on an even keel until a flood of goods makes further controls unnecessary."

The Government will use every resource, every measure in its power to attack and defeat inflation. All Government policies are co-ordinated to conform to a four-fold anti-inflationary program consisting of:

1. Direct price controls and subsidies;
2. Wage stabilization;
3. Anti-inflationary fiscal and monetary policies;
4. Production controls.

If the Government is to be successful, it must have the organized and wholehearted support of business, labor, farmer, and consumer. Stabilization has now become everybody's business and, unless each group can subordinate its own short-time selfish interests to the long-time interests of all of us, it is problematical how successful the Government itself can be.

Business as a whole must follow the lead of some of the businessmen who are acting to hold prices down wherever possible.

	Monthly Average Prewar*	Monthly Average First Quarter 1946	1946 Apr.	1946 May	1946 June	1946 July	1946 Aug
Industrial production indicators							
Federal Reserve index of industrial production (1935-39=100, seas. adj.)	162	160	165	160	170	172	17[illegible]
Electric power (billions of kw. hrs.). Total production	14.0	17.5	17.5	17.7	17.6	18.6	....
Sales to large industrial and commercial users	6.3	7.4	7.9	7.9	8.0	....	....
Motor Gas, excluding aviation	56.7	57.7	57.3	60.6	....	....	....
Gas, natural, mfg'd and mixed (bill's, cu. ft.). Total sales	167.7	269.9	225.5	210.4	....	....	....
Bituminous coal, industrial consumption (mill's tons)	32.7	34.4	28.1	25.0	29.5	32.7	....
Freight car loadings, avg. weekly (thousands)	814	749	651	654	813	852	896
Ton miles of freight railway traffic (mills.)	42,853	52,440	39,841	42,406	53,524	....	....
Commodity transportation index (1935-39=100, seas. adj.):							
All types combined	147	186	154	160	188	....	....
Air	205	658	631	676	561	....	....
"For hire" truck	172	220	242	245	228	....	....
Water-borne	124	122	95	98	122	....	....
Pipe line (oil and gas)	130	196	199	202	208	....	....
Railroad	146	185	137	144	186	....	....
Production and shipments of selected commodities							
Consumer durable goods, excluding automotive shipments (thousands):							
Washing machines (1940-41)	158	123	177	185	194	187	212
Vacuum cleaners (1940-41)	156	137	174	166	180	197	218
Refrigerators (1940-41)	309	98	143	196	210	220	218
Electric ranges (1940-41)	47	23	23	31	46	57	66
Gas ranges	125	123	153	139	141	127	....
Radios (1940-41)	1,100	707	1,000	1,185	1,378	1,330	1,700
Electric irons (1940)	380	324	473	430	559	521	608
Sewing machines	67	18	28	31	27	35	29
Automotive and related products production (thousands):							
Passenger automobiles	†312	66	150	153	142	220	241
Civilian trucks	69	41	81	75	59	93	106
Passenger-car tires	4,156	4,906	5,500	5,800	4,900	4,900	5,800
Truck and bus tires	973	1,307	1,400	1,400	1,100	1,100	1,300
Replacement batteries (shipments)	1,327	1,720	1,672	1,645	1,377	1,161	....
Motor gasoline, excl. aviation (mill. barrels)	56.7	57.7	59.3	63.0	62.0	64.5	66.0
Consumer nondurable goods production (millions):							
Cotton fabric (yards)	860	757	....	770 ‡	....	....	737‡est.
Woolens and worsted (yards) (1942)	44	48.5	....	51.1‡	....	....	40.3‡est.

Labor as a whole must support the labor leaders who are working toward industrial peace and not pushing for uneconomic wage increases which might precipitate a wage-price spiral.

The farmers must maintain their high level of production, for an abundant supply of food at reasonable prices is the very basis of our standard of living.

Each consumer has the responsibility to see that his money is spent wisely. Public resistance to higher prices, increased saving and self-denial in the case of goods which are not yet plentiful, can be a tremendously effective weapon to keep prices in line. It is, however, a very difficult weapon to use; but, as a free people who prefer a minimum of controls, we have a responsibility to exercise our freedom in such a way that it will contribute to the common good.

WHEN PRICE CONTROL LAPSED

Between the middle of June and the middle of July the Bureau of Labor Statistics' consumers' price index rose 5.8 per cent. This increase was almost entirely due to a 14 per cent increase in the food component of the index. Much of the increase occurred, of course, after suspension of price control on June 30. (See chart, What's Happened to Prices? page 90.)

The more sensitive Bureau of Labor Statistics' comprehensive wholesale price index of some 900 commodities rose 10 per cent between June and July. Farm products rose 12 per cent while other than farm products and foods rose only 3 per cent. The highly sensitive Bureau of Labor Statistics' index of 28 raw-materials prices, heavily weighted by agricultural raw materials, rose 25 per cent between June 29, the last business day under the old Price Control Act, and July 24, the day before the new price-control law was signed.

The restoration of price controls on most commodities late in July had little effect on the general level of prices. Such price reductions as were put into effect were more than offset by continued freedom from control of livestock and dairy products, and the large number of price increases allowed by OPA

PREWAR AND TODAY

	Monthly Average		1946				
	Prewar*	First Quarter 1946	Apr.	May	June	July	Aug.
Men's and youth's suits (cuttings, all fabrics and all weights)	2.1	1.9	2.1	2.0	2.0	....	....
Women's hosiery (pairs): Total	57.5	49.4	50.4	53.4	49.6	44.7	....
Silk	33.8	0	0.1	0.6	0.8	1.1	....
Nylon	9.1	28.1	9.7	31.4	29.0	26.4	....
Rayon	14.6	21.3	20.6	21.4	19.8	17.2	....
Civilian boots and shoes, exc. rubber (pairs)	40.2	44.6	49.1	48.6	45.0	39.0	....
Cigarettes§	18.1	27.3	28.8	33.0	28.8	27.9	....
Food and farm products production (millions of lbs):							
Butter (factory)	156	71	91	114	119	128	....
Cheese (factory)	80	68	98	125	130	116	....
Condensed milk (bulk and case)	31	48	81	116	117	101	....
Evaporated milk (case)	271	200	297	381	386	337	....
Fluid milk	9,625	8,901	10,540	12,301	12,644	11,956	....
Dried skim milk	40	45	71	94	93	73	....
Meats, inc. lard (inspected slaughter)	1,294	1,491	1,226	1,224	797	1,581	....
Building materials production (thousands):							
Lumber (millions of bd. ft.)	3,045	2,184	2,890	3,074	3,154	3,167	....
Brick (pieces)	412,000	296,000	369,000	352,000	361,000	453,000	476,000
Portland cement (bbls)	13,667	10,063	12,650	12,200	14,489	15,420	15,900
Cast iron soil pipe (tons)	47.1	27.0	28.7	31.4	26.4	29.9	36
Clay sewer pipe (tons) (1942)	115	65	64	90	91	106	110
Clay tile, structural (tons)	93.8	73.9	88.6	95	95.1	107	114
Gypsum board (sq. ft.)	231,000	221,000	254,000	240,000	248,000	279,000	304,000
Cast-iron radiation (sq. ft.)	7,000	2,139	2,559	3,326	3,121	3,210	3,850
Warm-air furnaces	47.3	41.9	42.9	49.6	48.7	55.3	60
Raw materials production (thousands of tons):							
Pig iron	4,672	2,739	3,614	2,275	3,682	4,705	....
Steel ingots and steel for casting	6,903	3,924	5,860	4,072	56,625	6,610	6,895
Refined copper	88.8	46.3	19.0	20.6	23.9	43.6	59.6
Refined lead	52.9	39.3	23.8	19.5	18.6	34.0	....
Zinc	72.0	66.3	60.9	62.4	58.8	59.0	....
Wood pulp	834	767	850	849	842	788	....
Paper and paper board (1942)	1,424	1,525	1,629	1,621	1,597	1,472	....
Anthracite coal	2,697	5,087	5,094	5,469	3,636	5,263	5,444
Bituminous coal	42,846	53,530	3,356	19,790	50,350	50,800	54,830

*1941 unless otherwise stated. †Factory sales. ‡Monthly averages computed from quarterly totals. §Large and small cigarettes; tax-paid and tax-free withdrawals.

Sources: Civilian Production Administration, Department of Commerce, other Government agencies, and various private associations. Only when 1941 data were not available was some other base-period selected.

in accordance with requirements of the new Price-Control Law. The comprehensive weekly index of wholesale prices moved on to slightly higher levels in August. Price declines with the reimposition of price controls on livestock (August 29) and meats (September 3), however, reduced the weekly index to mid-July levels, thus offsetting the rise of the previous six weeks.

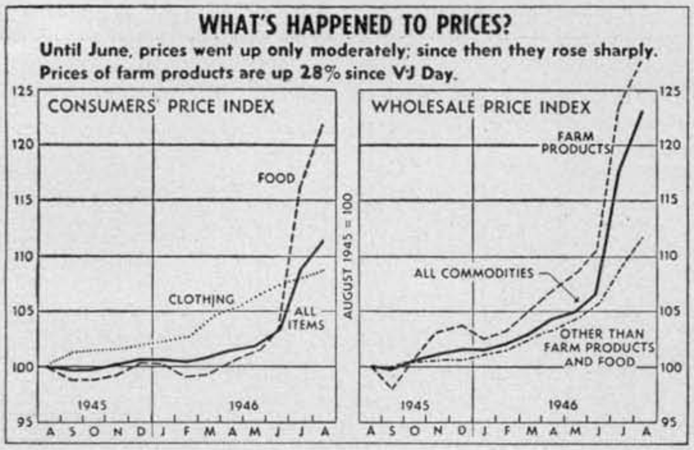
Between mid-June and mid-August, the consumers' price index rose 8 per cent, almost entirely due to price rises in food and clothing. Since the restoring of price controls, however, the rate of consumer price increases has been retarded, and the Government will continue to use all of its powers to hold prices in check.

WAGES

Although many employes have received increases of 18½ cents per hour, set by the pattern in steel, the average wage-rate increase for all industry is well below this figure. The popular belief that 18½ cents per hour is the "national pattern" of general wage increases has served to obscure essential facts concerning the level of increases which were approved by the National Wage Stabilization Board for pricing purposes or where increased costs to the Government might result. Between February 15 and June 30, 1946, the NWSB approved by formal ruling to more than 4 million employes an average increase in basic wage rates of 14.7 cents per hour. Thirty-seven per cent of these employes received less than a 15-cent increase.

The average increase in wage rates has been offset to a considerable extent by reductions in overtime and by shifts in employment from higher-paid wartime to lower-paid peacetime industries and occupations, by the decline of piecework earnings in some cases and other factors. On a straight-time basis, average hourly earnings between V-E Day and July of this year have increased by 9.5 per cent in durable-goods manufacturing and 15.1 per cent in nondurable goods manufacturing, or an average of 9.6 per cent in all manufacturing.

Despite the increase in wage rates and in straight-time hourly earnings, gross weekly earnings of all employes in manufacturing industries have decreased between April, 1945, and July, 1946, by approximately 8.5 per cent. This was the result of the reconversion cutbacks in the work week, the elimination



of overtime payments, and shifts in employment from wartime to peacetime industries. This 8.5 per cent decrease, expressed in dollars and cents, means that the average employe in manufacturing industry earning $47.12 in April, 1945, was taking home in July, 1946, $4.05 per week less, or approximately $43.07.

REAL WAGES DECREASED

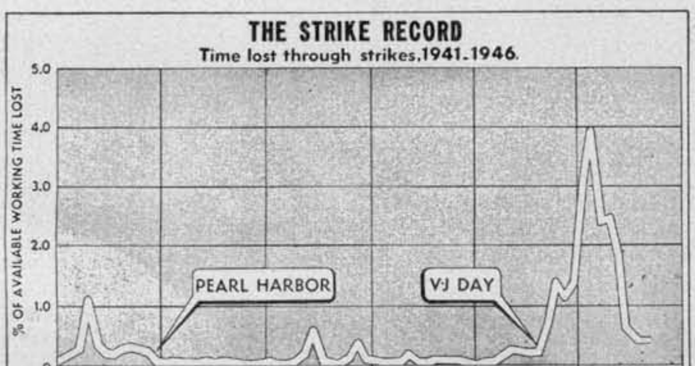
It is thus evident that, while average wage rates have increased by a substantial amount, the money which the average working family has to spend per week has decreased since V-E Day. With the rise of 11 per cent in the prices of consumers goods between April, 1945, and July, 1946, real weekly earnings have decreased that much further. In comparison with 1941, greatly increased personal income taxes paid by workers constitute another significant factor. (See chart, Prices, Taxes and Wages.)

This downward trend in real wages should and will be reversed. Basically the only cure lies in the output of more finished goods and services. Any significant decline in production, however caused, must necessarily reduce real wages of the workers of this country, and a general round of large wage increases now can benefit only special groups, and in general will do so at the expense of fellow workers throughout the nation.

Despite a few important strikes in September, there has been a great reduction in time and production lost from strikes during the past quarter. (See chart, The Strike Record.) Except in a few instances, labor and management have shown restraint and wisdom in settling differences without interruption of work. While there have been many small or individual upward wage adjustments, there has been relative stability in the general wage structure.

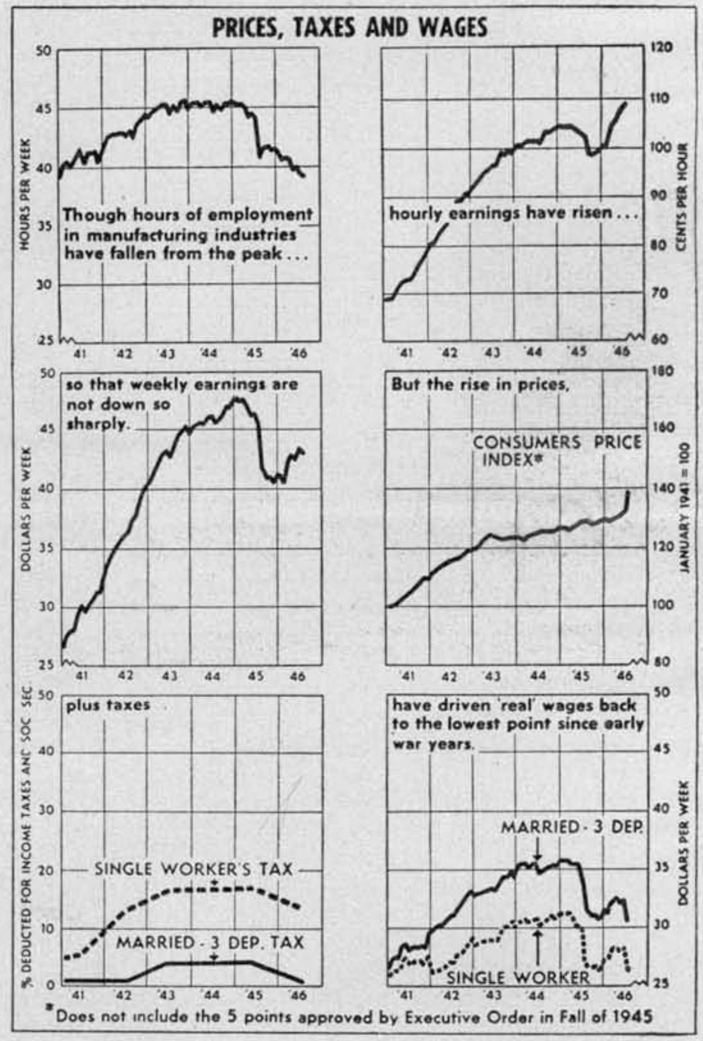
WAGE POLICY

Throughout the period, wage controls, except for the building trades where no proposed wage increases can be put into



effect without approval, have continued to be "indirect controls." In other words, employers have been free to put wage increases into effect, unless the wage increases are used as a basis for an application for price relief. Such cases are passed on by the National Wage Stabilization Board, which approves increases for price purposes only when they conform to established standards.

The Board also handles cases where the application requires approval because the wage increase would cause an increase in cost to the Government. One change was made during the quarter, directly affecting the maritime strike. A regulation was issued by the Director of Economic Stabilization permitting Government agencies responsible for operations conducted for or by the United States to pay wages and salaries in such operations comparable to those paid by private owners in the same industry. This order applies only where the Government opera-



tions in an industry constitute less than half of total operations, and where in the non-Government portion a substantial part of the industry is paying wages comparable to those proposed for the Government operations. This is in line with the Government's historic policy of paying prevailing wages in any industry.

Wage stabilization is a counterpart of price stabilization. Present policies represent a considerable relaxation from wartime controls. The situation is under constant study, and the Advisory Board of OWMR has been asked to consider the subject of wage stabilization, along with other stabilization problems. However, it cannot yet be determined whether there will be any major changes in present policies prior to the ultimate abandonment of Government controls.

BUSINESS & FINANCE

THE ECONOMY

Payment Deferred

The nation began paying its pound of flesh last week for the steel and coal strikes. All over the country, the vise-tight pinch on steel and other metals began to shut down plants or curtail industrial production. Though U.S. industry was still far from capacity, production was already bumping the materials ceiling.

Detroit's automakers were the hardest hit. Last week, Chevrolet production dropped from 12,347 to 7,792. Briggs Manufacturing Co., which makes bodies for Chrysler and Packard, laid off 7,000 workers, cut schedules in half. Result: Chrysler cut its daily production from 3,600 to 2,775 cars, is expected to lay off 18,000 workers. Ford production too began to slip.

No one knew for sure when the workers would be rehired. Said Briggs: perhaps January, perhaps not till April. The industry had hoped to turn out 500,000 cars in October. Instead, Ward's automotive reports estimated that production would now be only 356,000, down to where it was in August. Packard Sales Manager Lyman W. Slack gloomily predicted: "The average person simply will not be able to buy a car until well into 1947."

Out Expansion. The steel shortage had hit autos most spectacularly because automakers are the biggest users of finished steel (17% of U.S. production). Steel had been tight ever since war's end. But the coal & steel strikes which cost the U.S. 16,000,000 tons of steel had run down manufacturers' inventories just when they should have been building up to meet increasing production. Though overall steel production had been stepped up to 90% of capacity, there was no quick way to step up production of steel sheets (25% of all steel).

Steel plant expansions have been stymied by strikes & shortages of building materials. And as the production curve rose in one industry after another in the last few months, the steel supply was spread thinner all around. In many spots it was bound to run out entirely.

In Retrenchment. No one expected the pinch to loosen for at least six months. Even the normally optimistic CPA said: "The shortage in steel will last for 18 months or two years."

Faced with these cold facts, money-losing corporations, which had kept payrolls fat in hopes that peak production would pull them out of the red, now began to think about trimming. After the stockmarket crash, Wall Streeters had predicted that many a businessman would start using the ugly word "retrenchment" instead of expansion. Last week, in one of the country's key industries, at least, it looked as if the retrenchment had started.

Acme

RAILROADMAN YOUNG
The Secretary went home mad.

GOVERNMENT

An SEC for Politicians

Secretary of the Treasury John W. Snyder should have known better. At the *Financial World*'s Annual Report Awards Banquet in Manhattan last week, he blithely asked the assembled businessmen for "constructive criticisms."

In his audience was outspoken Robert R. Young, there to receive an "Oscar of industry" for the 1945 report of his Chesapeake & Ohio Railway Co. As Young rose to accept the award, he also accepted Snyder's invitation. When his speech (and the banquet) ended some four minutes later, a red-faced Mr. Snyder got up at once and angrily walked out.

Said Young: "Wall Street, under the Truth in Securities Act, is quite different from the old Wall Street. Business, having found that it pays to be honest, might well insist that Pennsylvania Avenue follow its example.

"What we need today is a Truth in Politics Act to match the Truth in Securities Act, clause for clause."

Some Young points for such an Act:

"If my annual reports and proxies were filled with broken promises and half truths, the Truth in Securities Act would have got me if the Common Law had not.

"The sources of income of every public servant would make as interesting reading as do those of officers and directors.

"Is it any less a crime for a Public Bureau or Commission to divert the substance of Peter to buy the vote of Paul than it is for some Kreuger to convert the assets of a publicly held corporation to personal use?

"To pretend to seek price stability while quietly encouraging wage increases is, to say the least, not being frank. . . .

"A Truth in Politics Act to [penalize] such abuses would give us better government just as certainly as the Securities Act has given us better business."

BANKING

Doodling & Disequilibrium

One solid week of conferences and reports was too much for the 63 governors of the World Bank and Monetary Fund. By the time their first annual meeting droned to an end in Washington's Wardman Park Hotel, they were doodling, yawning and fanning themselves with the agenda.

But their boredom was a good sign. It meant that nobody was mad at anybody

Harris & Ewing

BANK & FUNDSTERS GUTT, DALTON, SNYDER, MEYER
The neighbors went home happy.

else—something rare in international finance. The British, who were shoved around by the U.S. at the Savannah conference (TIME, April 1) until they could barely see straight, actually went home happy.

Hugh Dalton, Great Britain's scholarly, well-groomed Chancellor of the Exchequer, had been chosen chairman of the joint boards of governors, to succeed U.S. Treasury Secretary John W. Snyder. London had been chosen for next year's meeting place.

Big Words. What gave the British their solidest satisfaction was a ruling of the Fund governors on the meaning of "fundamental disequilibrium," a gobbledygook economic cruncher imbedded deep in the Bretton Woods charter.

To forestall such competitive revaluations of currency as had brought chaos to international trade in the '30s, Fund members have pledged themselves not to make revaluations except to rectify fundamental disequilibriums in their economies. But what is a fundamental disequilibrium? Does it, asked the British, cover "unemployment of a chronic or persistent character" caused by an unfavorable export-import balance?

Yes, said the directors. In effect, this was a U.S. concession made to allay British fears over their vital export trade, which might easily be ruined, as it was in the late '20s, by pegging the pound too high. Even though revaluations of more than 10% would still require Fund approval, some economists groused that the Fund's chief club against the practice of "exporting unemployment" had now been whittled down to twig-size. But it was an easy concession for the U.S. to make. With wages and other costs skyrocketing, the U.S. might wake up any day and find its own dollar priced too high, might want to devalue it to boost exports.

Small Prospects. The soundness of the broad interpretation of "fundamental disequilibrium" would be a long time in the proving. Fund Managing Director Camille Gutt told the conference that stabilization of the world's currencies is "not immediately feasible." Values may be set on the more stable currencies "within the next few months." But for many of the war-sick economies of Europe and Asia a valuation was at least a year away.

World Bank President Eugene Meyer was cheerier. The bank was now open for business. A line was already forming at the loan window; for reconstruction and development projects, France wanted $500 million, Czechoslovakia $350 million, Poland $600 million, Chile $40 million. But the first loan would probably not be made for months.

REAL ESTATE

Mr. Knickerbocker's Face Lifting

Since the Indians sold Manhattan Island to Peter Minuit for $24 worth of trinkets in 1626, its face has been changed out of all knowledge. Most of the man-made excrescences have made that face more blotchy, pock-marked, chafed,

The March of the News

Reg. U.S. Pat. Off.

Housing. First guaranteed market contract under the Veterans' Emergency Housing Act was announced by National Housing Agency. The Reconstruction Finance Corp., acting for NHA, is entering the contract with the Homeola Corp., of Chicago, Ill. The RFC assumes the marketing risk involved in the company's plan to step up production of factory-built houses from the present 10 a day to 100 a day by next June.

Clothing. Designers will be freed of all restrictions on measurements and designs of women's and children's clothing, except for certain limitations on length and sweep of some garments. CPA's new rules on the use of clothing fabrics, to be issued in time for designing of next spring's fashions, will eliminate present restrictions on sleeves, number of pockets, size of cuffs, pleating, trimming, etc. Dress lengths will be limited to 42 to 47 inches, depending on size; sweep will vary from 64 to 74 inches in heavy wool dresses and from 72 to 80 inches in cotton, rayon and light-weight wool.

Aviation. Operation of 13 ocean weather stations along North Atlantic air routes is provided for by an agreement signed by representatives of nine North Atlantic countries. State Department said the United States expects to operate 65 to 75 per cent of the total trans-Atlantic air traffic in the next two years and will maintain seven of the stations. State Department also announced suspension of discussions with Argentina over a proposed air agreement because Argentina refused to meet U. S. views on free air competition.

Price control. A 27 per cent increase was authorized in price ceilings applying to future output of cocoa and chocolate products, including candy. Increases ranging from 4 to 17 cents a gallon were authorized for eight types of house paints. Exempted from price control were: canned corn, canned fruits and juices, chewing gum, fresh and frozen salmon, oat cereals, prepared flour mixes, several alcoholic beverages including rum, cordials and liqueurs.

Air National Guard. Size of the new Air National Guard was revealed. Training of 3,000 pilots and their accompanying nonflying personnel will be carried out at air bases scattered throughout the country. Plans call for 102 such bases, and 37 already are in use. The Air National Guard will back up the Army Air Forces, which expects to train about 22,500 pilots a year.

Draft deferments. A report on draft deferments requested for industrial workers was issued by CPA. The agency was authorized in August to certify key workers in certain industries for such deferment. So far, 3,000 men have been deferred under this plan, including 500 workers manufacturing electrical equipment, 300 each in chemicals, automotive and aircraft industries, 250 in essential iron and steel foundries and rubber factories. About 40 per cent of the deferment requests have been rejected.

Rubber prices. A return to a free market in crude rubber was seen in the offing as a result of a new purchase agreement between the RFC and the British. The U. S. will buy 200,000 tons of Malayan rubber at $20\frac{1}{4}$ cents a pound, in line with an earlier agreement with the Dutch for purchase of crude rubber at the same price. RFC agreements for 145,000 tons of rubber at $23\frac{1}{2}$ cents during the last half of 1946 already have been fulfilled, through improved Far East supply.

Danger Signs for U. S.

Full Text of Mr. Steelman's Warning of Production Crisis . . . Page 83

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INDEX

Tomorrow: A Look Ahead 7
News-Lines for Businessmen 10
National Week:
Price Trouble for Business 13
Flood of Goods From Plants 16
Signs of Building Slowdown 19
Where Is Our Beef and Why? 20
Voting Trend in the West 22
Settling the Issue of War Guilt 24
David Lawrence Editorial 26
The President's Week 28
Question of the Week:
What Does Stock-Market Drop Signify? 30
Pro and Con of National Issues 34
Union's Power to Cripple City 37
Pictogram:
Growth of GI Bloc 47
Exports' Role in Shortages 49
We've Been Asked:
What U. S. Savings Bonds Offer Buyers 56
Finance Week 59
People of the Week 66
"The Yeas and Nays" 77
Trend of Business 79
Washington Whispers 92

Cover: Decontroller Thompson; see National Week, page 13. (Photograph from Harris & Ewing)

FROM THE NATION'S CAPITAL

Tomorrow

Reg. U.S. Pat. Off

A LOOK AHEAD

Newsgram

Reg. U.S. Pat. Off.

24th and N Streets, N.W.
Washington, D.C.

Odds are growing that Republicans will win the November 5 election, that the first shift since 1932 is to occur in the center of U.S. political power.

A House under Republican control is better than a 50-50 prospect.

A Republican Senate is becoming a possibility as trends show up.

A Republican President, after 1948 elections, will become a strong prospect if either the House or Senate, or both, shift from Democratic control in November.

It will take no more than a 4 per cent swing in the vote from Democratic to Republican columns to produce an overturn in House control. A normal off-year shift of 3 per cent usually runs against the party in power. This means that a slight tilt above the normal would produce a change. It takes more than that to produce a change in Senate control, but possibilities of a broad swing in some parts of the country cannot now be overlooked.

Things that are influencing a vote shift obviously are these:

Meat famine is of No. 1 significance as a symbol of irritation over the continued war controls; is something that touches every family.

High prices are generating other irritations, with a tendency to blame OPA for failing to hold down prices rather than to support it for trying.

Communism is an issue that is cutting deeply in some big cities. The PAC with its Communist minority is not working too well with some big-city machines upon which Democrats count for many House seats.

Strikes in public-service industries in big cities are costing votes.

Net of it all is that Democrats are on the defensive all along the line. Republicans are finding chances to pick up seats in districts that had seemed to be safe for the Democrats. The Democrats are finding difficulty shifting from the defensive to the attack, are bucking what seems to be a tide.

If an overturn does occur in control of the House.....

OPA repeal then would be pushed early in 1947. It would be unlikely to succeed owing to a White House veto. Vetoes are overridden with difficulty.

Wagner Act change would be promoted,but would meet Senate opposition. If Senate should go along, there still would be a White House veto to override.

Tax reduction, effective on 1947 incomes, would be more probable.

Official end of war, end of war controls, might be speeded a bit.

Investigations would bob up all over, would be the principal product of a change in control of Congress. Everything then would point to 1948 and the big battle for control of the White House.

Mr. Truman's troubles will multiply with a Republican House, if there is one. There then will be a tendency to generate fights, to take little positive action, to look forward to the real showdown that comes two years later.

Meat will be scarce for a few weeks, with, or without controls.

Beef, at best, can't come back to counters in volume for 2 or 3 weeks.

Pork can't be expected on an important scale much before November.

Lamb is flowing to market now in near-normal volume.

End of price control can produce some more meat by election time, but not a

(over)

supply that would satisfy all customers. There is more prospect of beef than of pork, because this is the in-between season for marketing hogs.

There is plenty of meat in the country, plenty of beef in particular, if the price is right to attract animals to market. Herds of beef cattle now total 40,000,000, compared with 30,000,000 before the war.

The story of beef is told for you on page 20.

Meat troubles, like many other troubles, are inflation troubles.

Price inflation just now is in process of burning itself out, is tending to flare up and sputter in first one field and then another.

Cotton has just skyrocketed to record high levels.

Lumber of some types is way out of sight.

Butter and eggs are shooting higher.

Meat will probably be very expensive, once controls are removed.

What is happening now is typical of the tag end of an inflation. Prices are moving up fast. Production is rising in many fields to take advantage of the higher prices. Rising prices, however, are tending gradually to push more and more people out of more and more markets. At some point, this game ends.

Official forecasts now are made that the farm-price rise will crack next year, that what now is occurring is the boom before the bust.

OPA really is little more than a minor drag on inflation forces at work.

What needs to be understood, in looking ahead, is this:

Millions of U.S. families, nonfarm families, families of the unorganized workers have received income increases smaller than cost-of-living increases.

Food and clothing prices, now rising fast, eat up a bigger part of income.

Rents haven't risen much, but they may be on the verge of sharp rises.

Essentials of everyday life take more of income, leaving less for saving or for buying of things that may be less essential.

A new house that had been planned has to be forgotten.

A new car that had seemed possible now may seem too expensive, with the result that the old car is given a paint job and a new lease on life. Household equipment that had seemed in easy reach fades out of reach as food and clothing take more dollars and as the equipment desired is raised sharply in price.

More and more families are running into situations of that kind. Number of these families still is not as large as the number of those who still have the dollars, or can borrow the dollars, to buy everything industry turns out. But, as prices go on rising, the number of those who can, or will, buy is narrowed and the volume of goods turned out at the higher prices is increased.

Breaking point in this situation now is being predicted for midyear, 1947, or earlier. That's to be the shake-out that even the White House now foresees. It's what we have been calling attention to for a long time.

New-car outlook won't improve much until early 1947, if then. Steel is a limiting factor; so are other material shortages.

Refrigerators are to be rather scarce for a few more months.

Most other consumer durables are becoming available, are coming back into trade channels, although models and types most wanted often can't be had.

Price control, if continued, probably will dry up sale of many things at some time in first half, 1947, as the June 30 end of control comes into sight. A tendency will develop to wait for controls to end.

Strikes are a diminishing factor in limiting total output, but strikes are expected to come back into the picture in a bigger way late in 1946 or early in 1947. Next strike wave is likely to be less disastrous than the last one.

Things probably will not settle down much until inflation does crack, until some kind of equilibrium is reached in prices.

See also pages 13, 19, 49, 83.

News-Lines

Reg. U.S. Pat. Off.

What you as a businessman CAN and CANNOT do as a result of federal court and administrative decisions:

YOU CANNOT avoid paying an income tax on the entire income of a trust where you, as trustee, alone have power to distribute all of the trust income to yourself as a cobeneficiary. The U. S. Tax Court holds that amounts paid to other beneficiaries by such a trust must be treated as gifts from the beneficiary-trustee.

* * *

YOU CAN make another increase in the ceiling prices of *cotton textiles* that you manufacture. This increase, which amounts to about 2 per cent, over all, in the prices of cotton fabrics and yarns, is authorized by OPA to reflect the current cost of raw cotton.

* * *

YOU CAN obtain a premium payment from the Government for increasing your output of sand-lime *bricks*. The National Housing Agency is offering an incentive payment of $5 per thousand for production of these bricks over present quotas.

* * *

YOU CANNOT cut the pay of employe veterans on the ground that the difference in wages will be made up by subsistence allowances under the Government's on-the-job training program. A regional Wage Stabilization Board informs one employer that such a cut would be an unapprovable wage reduction.

* * *

YOU CANNOT refuse to reinstate a returning veteran merely because a change in your accounting system makes it impossible to give him the exact position that he formerly held. A federal district court decides that one veteran was entitled to re-employment, under the Selective Service Act, even though jobs and duties in his old department had been reclassified through changes in accounting.

* * *

YOU CAN ow get approval to use the declining-balance method of figuring depreciation, for federal income tax purposes, before your tax return is audited. The Bureau of Internal Revenue revises an old ruling to permit such approval in advance of the audit of returns.

* * *

YOU CAN apply to the Patent Office for nonexclusive licensing of certain patents involving manufacture and use of glass-fiber products. The Patent Office is authorized by the owner of the patents, the Owens-Corning Fiberglas Corp., to make 181 of its developments available to the public.

* * *

YOU CAN disregard previous ceiling prices on *aluminum and wrought-iron furniture,* and certain accessories for hospital beds, that you sell. Price controls on these items are dropped by OPA.

* * *

YOU CAN, as a manufacturer, discontinue the pre-ticketing of certain *kitchenware* items that you produce. Pre-ticketing requirements are removed by OPA for manufacturers of cast-iron ware and enamelware.

* * *

YOU CANNOT always be required to pay a gift tax on the transfer of an interest in your business to a member of your family. In one case, involving transfer by partners of an interest in their personal-service business to their sons, the U. S. Tax Court holds that the transaction did not result in a taxable gift. The Court finds that the sons contributed important services to the business, and that the partnership had no valuable assets to which a gift tax could be attached.

* * *

YOU CAN dispose of *wool fabrics* that you manufacture without setting aside part of your output for low-cost clothing. The Civilian Production Administration is discontinuing this set-aside for the fourth quarter. The agency, however, will continue to give priority assistance to producers of men's and boys' suits, trousers and coats.

* * *

YOU CANNOT expect any early change in CPA's program for distribution of cotton fabrics. The agency is continuing its present distribution policies, except for a 10 per cent reduction in amounts that mills must set aside for export.

* * *

YOU CAN soon pay less postage on air mail to foreign countries. The Post Office Department is reducing in November all rates on air mail going abroad.

Conclusions expressed in these paragraphs are based upon decisions and rulings of courts and Government bureaus. In making their decisions, courts and bureaus consider many facts which, for reasons of space, cannot be set forth in detail. THE UNITED STATES NEWS, *on written request, will refer interested readers to sources of this basic material.*