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RECONVERSION OBJECTIVES IN THEORY AND PRACTICE

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RECONVERSION OBJECTIVES IN THEORY AND PRACTICE

23 January 1948

CAPTAIN STOVER: Gentlemen, reconversion, we believe, is proceeding at a very slow, agonizing pace. From all we read and hear we do not know whether we have, or do not have, inflation. We do not know whether inflation is desirable or not. In fact, all of these questions have remained unanswered to most of us. Our newspapers are in conflict; our political groups disagree, and our thinking is confused and uncertain.

There is one thing we are sure of, in our own professional field here in this school: Our Mobilization Plan, which converts industry to wartime uses, must contain within it methods of reconversion or decontrol. That is almost axiomatic. We are not sure whether that was well done in the past or not. It is too early for our evaluation of that point.

Putting it another way, we dare not win the war and lose the peace.

Our speaker this afternoon has a wealth of experience and, what I shall call, a high-professional perspective. Dr. Nourse is Chairman of the Council of Economic Advisers, Executive Office of the President. His subject is "Reconversion Objectives in Theory and Practice." I take great pleasure in welcoming him to this platform.

DR. NOURSE: Mr. Chairman and gentlemen. This title which has been set up strikes me as a very happily phrased one. It fits into my thinking and experience very well.

I come out of a workshop which has been much interested in this question. You might almost say it has been in the center of the work which we have been doing on behalf of the President since we took the oath of office on 9 August 1946. We have assisted in the preparation of three Economic Reports of the President, which attempt to size up the progress of reconversion and this emerging price situation; attempt to arrive at some sensible answers on what we, as a Nation, can do toward expediting that process of reconversion. From the great achievements of the war period, when the price situation was on a very artificial basis, we are now trying to get back to a peacetime or, what we like to call, a normal basis, making those price adjustments which will enable us to achieve something which has not been achieved by any great industrial nation before—freeing of ourselves from the extreme swings or economic cycles of boom-and-bust.

Last September I was out in California, where I made a little talk before the Commonwealth Club. I chose a title which, when I was invited to appear here, I immediately thought of, "The Progress of Economic Reconversion." I began by saying that the business community is prone to point to the achievements of the war as an achievement of American industrialism, but that the war, in which American industry contributed such a tremendous part, was not an economic achievement in any permanent or regular sense. It was a great technological, scientific, engineering achievement on the supply side. This of course is quite aside from the military. But what industry did was not a great triumph for the private-enterprise system or for American industrialism. We cannot rest on those oars or on the laurels of that period.

The question which is put slap-up to us is, "Can we make in peacetime a comparable economic achievement?"

I think I can skip over some things, with seven-league boots, and say that the progress of technical, engineering, and scientific achievement has moved along excellently. The men who were performing those quite surprising stunts during the war period had their know-how and they used it. I remember going through a big plant of Westinghouse before the war was ended and being taken into a room larger than this. It was a long, narrow room. The walls were simply covered with the charts of that factory. I had gone through the factory and seen how the assembly lines had been cut, spliced, and changed. They were making airplane parts there where they used to make electrical appliances.

They had three sets of charts on those walls, the first showing the whole of that factory as it was operating; charts showing where they had cut their old lines and what they were doing. Well, they yanked off that first chart and here, under it, was the first reconversion chart--what you can do in a hurry before you can get certain new equipment that will be needed for the reconversion you see ahead. That was a short-term or provisional reconversion. Then they ripped that second chart off; there was the real layout. This was what they planned for when they really got back into mass production on a basis comparable to what we had in the prewar period. That was what they felt they should do, their real goal.

And they did it--they and a host of other companies! The way industry absorbed the men back from the Armed Services; the way it shifted the plants over; and the way it got out of war production and back into the physical side of peacetime production was marvelous.

But--and this gets down to my bailiwick--while I am glad to pay my respects to the other fellow, I must at the same time say that that physical reconversion was not an economic achievement. We had not done the thing because there was a whole set of money relationships which had not yet been readjusted. The economic structure, which parallels that physical, technical structure, had also to be readjusted.

In the war we got by through some very abnormal kinds of arrangements. "Money makes the mare go," they said; we had a fiscal and monetary machine that could dish out the money which enabled us to pay rising rates of wages, incentive wages, and incentive prices for commodities. Then too we had OPA, rationing and price control. We introduced a lot of artificial controls which got us by the war period. It got us by with a national debt of 278 billion dollars. You will perhaps remember we almost had pups when there was some danger, back a few years earlier, that we might go to 60 billions.

Those things were done on an abnormal wartime basis. They left an aftermath of strains and stresses. They gave us, as I said, a gigantic national debt. They also gave a lot of people War Savings Bonds, and an addition to their take-home pay, which became the basis for keeping war production going. It ended up with a lot of corporation and individual savings; also with a lot of public debt on the other side.

Now we have this problem of economic reconversion; of deciding how we are going to get a new set of voluntary price relationships going which will give us a new working basis. Saying that will give you a clue to the general sort of exposition of this problem of reconversion, in theory and practice, from the price angle, which is the way I took down the subject I am supposed to discuss. That is just another way of talking about the progress of economic reconversion today. We have to work out a new set of price relationships.

The economic process, based on a price structure, is a system of relativity just as much--and I think just as tough--as the subject of relativity in the physical world. It is just as tough to understand and make work as the Principle of Relativity in the physical world that our friend, Mr. Einstein, propounded.

A great many people think of things economic as being absolute, not relative, as simple mechanics, not human behavior. I have a friend who is an industrial economist. He cannot get over the fact that we are in the situation we are now through having taken certain wrong steps in war finance, with their effect on the money supply. The only way to avoid deflation, he would say, is not to get inflation. Well, yes, that would be all right if we could do the impossible. If we did not have to do these things in the war to make war production go, that would be swell. But when we came out of the war those 278 billions were written down in legal obligations that this Government expects to honor. We must work from that situation in our economic reconversion, not go back to some beautiful state we would like to be in.

Labor came in soon after VJ-day with a certain exposition of the way it thought that could and should be done. They thought there was a certain level of purchasing power established for them during the war which, they argued quite persuasively, was consistent with a full-time peaceful economy. They thought if they could nail down that point and make the other things come into adjustment, they would have a happy answer to the problem of reconversion. This view was most vigorously advanced by the automobile workers. But General Motors took an entirely different slant. Its people said, "You've got to start from this other point where we want to make capital formation rigid and then adjust your wages to that." You remember the situation. Each of them had a strong theoretical position; and a tough battle, costly to both sides, ensued.

You should read, if you have not done so, the economic briefs which UAW submitted to GM, and the reply that GM sent back. They represented two theories of economic reconversion: how to get a livable, workable world. UAW had some professional economists on its staff who were pretty able and intelligent people; in fact, they even quoted me. General Motors quoted me, in turn, and said UAW did not understand me. Finally UAW said, "Why not let him speak for himself?" But GM never invited me.

But the point is, we were starting from where the war had got us, in a new set of economic solutions--income, purchasing power, business savings, business financing. We had the renegotiation of contracts with prices set after actual costs and earnings could be measured; it had a lot of these adjustments. They had all been improvisations to try to get, by the quickest method, some practicable way of working these things out in wartime.

It ended up with the corporations having much less of a "take" than would have come in an uncontrolled economy, yet having made very large savings. Mr. Sloan came out at the end of the war, at an NAM meeting, and said, "General Motors has five hundred million dollars of reconversion reserves accumulated. We're going to put them into a new developmental program." All over the land we heard that sort of thing being talked about and actually put into practice. It was a very ragged system, with the tensions and the pulls which take place under controlled prices and flow of materials.

Price control held for a time, but then we faced the problem of getting back to a free market. There was a great deal of argument to the effect that as soon as price controls were taken off, we would get a proper, normal, automatic adjustment of that part of the system. What happened, of course, was not the quick conversion to a sound basis. There was a very rapid increase in prices. I Might say "here is where we came in." The Council of Economic Advisers began making analyses of the economic state of the Nation just as price controls were going off. We had to attempt to interpret what was happening in broad terms for the President's use. The first Economic Report of the President, with our contribution of thought and figures did present the broad pattern of what kind of an adjustment seemed to be working out and what would be the difficulties of the year 1947 if those trends continued.

I do not know how familiar you are with the Employment Act of 1946, under which the Council of Economic Advisers was set up. It is set up with the objective of having a full and continuously employed economy—"maximum employment, maximum production, and maximum purchasing power." It is incumbent upon us to report to the President, from the best use of statistical and economic material we can get, whether we are getting into balance or getting out of balance. We are to determine what the strong points in the situation are which should be built on, and what the weak points are which have to be attacked, changed, and adjusted.

In the first report we gave a broad answer, which the President accepted and put out essentially in line with our analysis. He said in effect, we are concerned in 1947 to see whether the adjustments which are under way—the price adjustments, now that OPA is off—and the whole set of relationships being established will give us an adjustment at the end of the year which will promise continuous, full employment and a market for the goods produced.

He suggested there that the raising of wages across the board, following a uniform "pattern" and in very large amounts, would tend to upset the wage structure. It tended to stand in the way of getting postwar relations and the relative positions of all the factors well worked out. It was pointed out that, if you took the businessman's own hypothesis, we would have a productive effort which was something like half again as large as it had been before the war. The basic problem was to have broad consumer purchasing power established which would make sure that that product was promptly taken off the market; was absorbed at the factory door promptly; and did not pile up in inventories. We were watching the inventory figure closely as the year progressed.

The general prescription of an adjustment which was made at that point was to hold down wage adjustments to those which would not entail an increase in prices; to take a moderate view. We argued for moderation in profits, and I am very glad to say that Philip Reed, of General Electric, was one of the men who expounded the same doctrine. He said this was a time when business should forego normal margins of profit in the interest of high volume. That was, essentially, our argument—not to try to make a killing out of the postwar scarcity period, but to make the adjustments that would provide for that continuous absorption of the market product which would keep the whole system moving in its normal circular flow.

You will remember that back in the spring of last year there were a number of industrialists who espoused the doctrine of holding the line on prices or starting downward adjustments. Mr. Ford and his very able Executive Vice President, Ernest Breech, came out and said, "We deprecate the tendency toward advancing prices which is going on. We think businessmen themselves have to take a conscious, thoughtful, and courageous stand in order to work out those prices on a basis which will not give us the easiest killing now but a stable basis for the future."

Then they went on to say, "We can sell all our cars; we don't have any problem of that nature. But we want not merely to manufacture and sell cars, and make all the profits we can in the short run, but we want to contribute to getting this great industrial system going; not merely to get the assembly line running, but to feed out Ford money for supplies, wages, and so on. In other words, to make money, not through the sale of Ford, Mercury, and Lincoln cars, but in a way which will adjust that set of relationships on a permanent basis. So we will forego making greater profits today in the attempt to make the best economic adjustment. We want to contribute the most we can to the Nation's economic adjustment."

I, personally, saw the letter General Browning of the Ford Company sent out to all of its suppliers. It was a very well-phrased letter, recognizing that some of them could not go along on a price-reduction program; that some of them were really up against the gun and would have to wait until prices of basic metals, or whatever it might have been, were lowered. Then the letter said, "What we are doing here is to provide for getting a stabilized industry which will enable Ford to have a continuous market for your product. You had better help on it, too. You're just as much interested as we are."

I talked with them there at Dearborn shortly afterward. They showed me some of the letters of response. A minority of their suppliers saw the point. A majority of them, however, evidently felt that, "We're not in business for our health. We'll get while the getting is good. We're not so much concerned about these final adjustments; that's textbook stuff."

Fowler McCormick came out later with a similar statement. He said, "We are going to mark down the prices of our products, not because we're forced to it, not because competition is forcing it upon us, but because this is our interpretation of what the competitive adjustment of a free-market system in the long run calls for." He said, "We're going to make reductions which will save our customers 20 million dollars. They will cover all of our commodities except three lines." And they were all well justified. I do not like to see a businessman take a doctrinaire economic position. But if he takes sound and thoughtful economics and translates it into the practical idiom of business, then I like it.

One of those lines was steel, in which International Harvester was a minor producer and made only small, incidental sales. It said, "We're not really in the steel business. We can't make the price of steel in the market. Even though we sell a little steel in certain quarters, we will not change the price. Another line where we are not reducing prices is a new line of business which we have added only recently and we do not have a cost and price basis on which we can adopt this kind of long-time policy. In other words, we are not ready for it. It would be too soon." I have forgotten what the third was.

It seems to me that would be convincing to every businessman--and educational, too! In the first place, it would be convincing because Fowler McCormick certainly isn't going to "go off the deep end" on this thing. He is still a good businessman. He gives the reasons for his action and in stating, first, the responsibility as a constructive, positive part of the job says, "That is a new note in business."

That is the thing I want to stress. I have a pet phrase. I think a new mores--do you use that word down here? A custom that grows up among people--has been established. You know businessmen do operate on tradition and practice. I think they are now getting a new conception of the kind of practice that business leaders and labor leaders--I will come back to that later on--have to take at this time if they are going to work out economic reconversion so that the parts of our economic system fit together with anything like the skill that the parts of an industrial plant or assembly line are made to fit together.

I do not think this business of getting our whole economy to have it banking, farming, wages, wholesale, and manufacturing parts fit together is a bit harder than the things our engineers are doing on the technological side. If you just look at an assembly line and see how the right colored hood comes up to reach the right colored body and the proper chassis, all in such a way that the men are kept working at a decent pace, with the material all there, you must agree that it is a marvelous technical achievement. I do not think the getting of these relative prices, wages, costs, interest rates, and so forth, adjusted is any more a challenge to the human intellect. There is this difference, however. The chief engineer of the plant tells them how each party is going to perform in a manufacturing operation. But each one of us wants to decide for himself in economic relations.

In this connection the most that can be done is an educational and persuasive job. That is what we are trying to do at the present time--to get some kind of broad, sound counsel embodied in the President's Economic Report, which is very widely read, and to get the practices which are consistent with that policy worked out.

In the midyear report we commented on the fact that this recommendation for price and wage adjustments, which had been made in the first report, was not working out. There were, I suppose, about twenty concerns of some prominence that joined the list of business leadership which Henry Ford and Fowler McCormick headed. But, by and large, the older, more traditional ideas of charging what the traffic will bear and taking advantage of a shortage situation, were followed.

Labor unions, controlling large blocs of labor, just as these corporations control large blocs of capital in adopting their policies and following their practices, were not limited by the moderation which the President had advocated in his report. They were pushing for big wage adjustments. As you know, they got big wage adjustments in the "second round" of increases in the spring of 1947.

The tendency was for business, which had been somewhat doubtful of this policy of moderation, finding it had an easy market, to pass those wage increases on in terms of higher prices, thus promoting more of a maladjustment than refining the adjustments in terms of long-term working arrangements.

I think there was a time in the spring of 1947 when there was some caution and concern expressed by business in general as to whether the absorptive power of the market or the purchasing power of consumers was being sufficiently taken care of. Then several things happened to upset that trend. First of all was the coal settlement. I have never quite been able to decide whether John Lewis made the last "blowoff" settlement of the second round, or whether it was the first explosive settlement of the third round of wage increases. You know it was more than the "pattern." It immediately started a competitive situation: "If John can get that for his boys, why can't our union officers get as much for us?"

That is not talking in terms of what is a scientific adjustment of the wage structure to the price structure. It is using brute force. It is taking a sledge hammer to adjust a delicate piece of machinery. So, in the midyear report of the President, he cited that as a matter which would cause very great concern as to the getting of a working adjustment.

Then something else happened. We had a winter wheat crop coming to harvest--it was a bumper crop. But we were also looking to the corn prospect. May was cold and wet; June was wetter. We got off to a very bad start on the corn crop. About that time the Council expressed concern that a poor crop outlook would have a strong effect on livestock prices and would color the situation as to new wage demands. So we were deeply concerned as to how these developments were going to cause a new type of working arrangement to work out a higher price level.

Then about the same time, somewhere in June I guess it was, General Marshall made his famous speech at Harvard. The European nations picked it up at once, got their Paris Conference together, and presented a very persuasive picture as to a large foreign-aid program. So here, in the face of shorter supplies, we were faced by a strengthening demand situation.

I recall a sentence in the midyear report that sums this whole matter up. It described the situation at that time by saying, "We are feeling our way toward a workable set of price adjustments"--when I say "price," I mean wages, interest rates, and everything which has a direct relation to it--"and it will, in view of these developments, inevitably be on a higher price level than would have eventuated if these new factors had not come into the situation; or if the picture, as it looked in January, when the President put in his first report, had continued."

If certain things are put into the picture and they are relatively rigid, you have to take them into consideration among the economic facts of life from that time forward. That is particularly true of a wage adjustment. Wages are very, as we economists say, "sticky" on the down side. They do not move when conditions change. They are pegged. There are all sorts of resistance to revising rates even when there are secret concessions and and kickbacks and all that sort of thing. As a practical matter, with labor organized in the size it is today, with the legal situation under which it operates, when we get wages up you know you are not going to get a flexible adjustment downward when other factors change. So that was the situation which had to be taken realistically into the picture.

The coal-wage settlement brought on an advance in the price of coal. We had some top executives in that area who were invited to sit down around our council table. We asked them what they thought was the necessary adjustment they would have to make in coal prices in order to meet this situation. Could they hold coal prices down? We had a very interesting discussion on this subject.

Later, we had in some of the top, steel executives. We told them, "We know what is going to happen in coal, but what do you propose to do, and how do you justify what you propose to do, in the steel area?" Well, you all know what happened there. With a rise in coal prices, followed by steel, we got a pyramiding sort of movement, in the industrial price area, made possible under the elasticity of our banking system.

Let me go back for a minute or two to the debt situation in relation to price adjustments. What price level should you try to get? What is the price level on which the country can carry its industrial needs and its financial needs and get the most returns? I think most people feel that since, in the war period, we had to get our Government borrowing up to so high a level, and got the national debt up to the level it reached, that probably a workable set of price adjustments would include higher wages and prices as high as were necessitated by that wage level--but not by inordinate profits--a considerably higher general price level.

It is easier for a workman, let us say, to make his withholding tax and final settlement out of a high wage. It is harder for the person who is on a fixed income, who is on a salary basis. It is hardest for the old ladies who are living on annuities and the people who retire and expect to live on a pension. There is no fixed answer as to the question what public or private policy should be with reference to the question what price level is the best on the whole. I submit there is no final, fixed, or known answer to that question, which hits different people and different business groups in different ways.

I think there is a general feeling in the United States that finding some sort of level for stabilization somewhere, somewhat like what we have at the present time, is desirable. Better this than talking of (as Harding did after the other war) "getting back to normalcy"; or to think that there is some demonstrably correct price level that we should go back to.

On the other hand, we are faced today with this great danger that we have an inflationary movement feeding on itself. It is argued that you have to get wages up in order to protect purchasing power and keep up the take-home pay of the wage earner. Then, when you put wages up, you have to raise the price of commodities. If you are still in the seller's market, you raise it not by the amount your costs have gone up but by the amount you can sell your goods for. Thus you get what we call an inflationary "spiral." When prices of goods go up, you have to have a second and a third and a fourth round of wage increases. That is the situation we are in at the present time.

There are two general attacks on it. As I said, I do not think anyone can possibly tell where the pulling and hauling of all these forces is going to end. You have certain outside limiting factors. One of them is in the Federal Reserve System. You do have power on the part of the Federal Reserve System, through its open-market operation, through its setting of discount rates, and through its setting of reserves, to put an outside limit to money and credit expansion. These are powerful measures. They make the man who is responsible for applying them pause and consider. For if he puts a rigid sort of cap on the financial market it causes, as the phrase goes, "the rain to fall alike on the just and the unjust." It pinches every bank in the System and it makes every bank pinch its customers, without full regard to their particular needs and possibilities of using capital and paying the bank.

I think we shall have to place emphasis also on voluntary control devices. The American Bankers Association has been out seeking to persuade more banks to put in selective credit limitations so that people cannot go on raising wages, prices, and so on through the inflationary spiral.

There has been recently, as you probably know, a tremendous expansion in commercial bank credit. There has been a very large expansion in consumer credit. The Federal Reserve Bank during the war had power to limit consumer credit; however, that was taken off last November. A bill was passed in one of the Houses in the special session of Congress to put it back on. That is one way of checking an inflationary spiral. It works in a different way than general control by the Federal Reserve. Instead of being something which puts an iron cap down over the whole thing, it puts some restraints on a certain class of business.

That is not all. Your banker, individually, can tailor credit to the needs of the people who come to him. He singly talks to them across the desk: "Are you going to use this credit for something which the bank would get paid on all right but which would result in an overexpansion of capacity? Are you going to open another tearoom—or whatever it may be—when we are already well supplied with them? If you do, you are going to go bankrupt just as soon as prices go down. You will have your capital committed to the less-important use. The American Bankers Association, a week ago Monday, came out and said, "We are going to use our influence to try to have the banking profession, along with the Federal Reserve System, supplement the general kind of control and have it tailored to the business situation." They said, "We are going to set up a campaign. We are going to divide the country into districts. We are going to educate the bankers throughout the country to use restraining influence, not say, 'We were short on profits during the war and we're in the business of selling credit and now we'll sell at any price we can to make a profit'. A. B. A. leadership is saying to the individual banker, 'No! You're got to exercise some restraint. You have to be very cautious, restricting credit which will be used for consumer purposes, tending thereby to bid up the prices of goods still further."

I only wish they had said something more about being cautious of credit which is requested for universe productive purposes. After all, you can have a spiraling movement even though the credit is made for production purposes, as I said a moment ago in the case of over-capacity or over-inventory. You should restrain businessmen against accumulating inventories on the fear that prices will go up. If everybody does it, this trick will push prices up. When prices start down, you are going to have a considerable number of bankruptcies and a good deal of financial embarrassment. You are going to make your own trouble if credit is overextended.

At this juncture, Mr. Charles Wilson, of General Electric, came forward, as you remember, a week or so ago, near the time that the bankers did, and, from the industrial side, said, "I believe the inflationary danger is so great that businessmen themselves must start a protective movement from the managerial side. We must tailor our efforts to our present national economic situation." He said, "We're going to price our stuff at three to ten per cent less in certain categories. There are certain heavy stuffs which were contracted for previously; they are being delivered at the old, original contract price."

Now I could go into the public-works area of the Government. Its representatives have tried to contribute just as little as possible to inflationary pressures. The President took two steps that were very courageous. (1) insisting that tax revenues should not be cut; this was because of the deflationary effect of high taxes and debt reduction and (2) the other deflationary action of the President was to say; "Much as I would like to see everybody on the Federal payroll, civilian and military, eased through salary increases, I feel that the inflationary danger is so great that each of us had to sweat it out for a while longer rather than place the Government in the position of contributing to the inflationary fires just at this juncture."

Where does all this leave you?--quite at sea, no doubt. You should be, because the process of price adjustment, as I mentioned before, is one of relativity. If anyone gives you a simple, pat answer and says, "This will do it," you will know he is a fakir and a quack. It is a very complicated, loosely organized system where you can put in some new factor through Mr. Eccles in the action of the Board of Governors of the Federal Reserve; or through the A.B.A., affecting the local banks; or through Phil Murray, affecting wages.

It illustrates, at least, my point that there are places where somebody must do something. John Lewis, in his action last summer, did something that had a profound effect on the adjustment process. You see, economic reconversion is a combination of all those things. When certain of them are thrown in, we have to try to figure out how it is going to operate in one direction or another; and how they will all add up.

I was making a little talk for the Association of Builders a while back. They wanted me to size up the 1948 prospect. Now we of the Council of Economic Advisers do not do any predicting; but it is incumbent upon us to spot things which, if they move in their present direction, will have an inflationary or a deflationary effect. Well, at that time I used a phrase which the head of that association said he thought was very helpful to his people; it is not definite. But because it is not definite I think it is helpful. I said, "We are in a situation--with the hold-over of the war; with these remarkable developments of the last year; with ERP before the Congress; with the pending tax bill; with the weather reports coming out as they are; with Charles Wilson acting courageously as he is; with this raising the question, 'Will other businessmen act the same way?'; with the CIO meeting up on Jackson Place right now--with all these things pending where anything can happen."

That is a lot of help, isn't it? (Laughter) But it is true, gentlemen. If we do not realize that and say we are not going to go blindly in and let this dangerous thing happen; or we are going to dig our toes in and, although we know no man, no organization, no group can do the whole thing, we are going to do something to restrain a process which, if no one does anything to restrain it, will involve us in great ruin.

I was talking to the Council on Foreign Relations, in New York, on the foreign-aid program and domestic inflation. I told them I thought, without prophesying, I could give them two models of what may happen this year. Suppose we should get, from this point on, good weather conditions. Then I think, if the AFL and Wilson and CIO would carry through, we could do a fine job of real economic reconversion. We could lick the inflation and show the authoritarian world that it can be done by intelligent business executives and a democratic system of government without going back to a police state or anything of the sort.

We have been catching up in certain industrial lines; we will catch up in certain others. You know it comes pretty fast when you get to the turning point. You will recall what Mr. Chrysler said: "There is only one day when supply and demand are equal. On Tuesday and Wednesday you have a shortage of cars; on Thursday you have just enough; and on Friday you have too many." And that is about the way it happens.

We all thought the winter-wheat crop was lost. We talked a good deal about the Dust Bowl. We thought there might be 600 million bushels, or 700 million bushels, something way down, against a billion one hundred million last year. When the December tenth Crop Report came out and said 839 million bushels, a lot of people got cheerful. But, the wheat crop is not made in December.

Then conditions looked a little brighter for the corn crop. Yet, when you get through with planting there is danger of drought in August. After that there is frost danger, in September and October. It did not hit us last year; that is what saved our bacon. When it looked as though we might have only two billion four million bushels of corn we got 200 million or 300 million bushels more than we expected just because the frost held off.

Those things are all ahead of us. Suppose they go against us? You can see, from what happened last year, that we are going to have high livestock prices this spring just as sure as you're a foot high. They may go a long way up by spring. That, we cannot change; it's there.

On the other hand, if we get a good corn crop, then we will have a heavier feeding of pigs and there will be more pork. There will be heavier fall breeding and we will gradually work out of that shortage. Suppose too we get another bumper crop of winter wheat; that then is great expansion of acreage; and that conditions in some of the less-tricky parts of the wheat belt are much better than they are in that very hazardous Dust Bowl area.

Now if we get a good wheat crop and a good corn crop, then things would look favorable. But suppose they are both bad, on top of high livestock prices. I don't believe we can humanly expect anything but one thing to happen--the inflationary spiral will be given another turn. After all, the cost of living is the biggest item in the wage-earner's list. The place of meat in his diet is a sort of criterion of whether he thinks he is well off or isn't well off.

So, given bad weather, I think we are going to face economic conditions more seriously than anything we have faced for a long time. I think we ought to realize that. I had hoped the President would put a little bit more of that note in the things he has been saying recently. One thing I would like to have heard said was that there are certain things which come into the economic picture that we just have to face. We are not going to have any kind of political magic or economic magic which is going to take us away from them.

If we face this last alternative, I think we need to get that note into our systems. We have not had any austerity; in fact, we do not know what that word means in this country. Think what our cousins in Britain and our cousins on the European Continent have gone through, and are going through; another round of it on top of the several years of punishment that they have had already.

Even on the bad model I have presented, I do not think the spiral of inflation would get out of hand, or would get us into the sort of thing we have seen in Germany and in Austria, after the other war, and Italy, where prices run completely wild and the currency becomes practically worthless. I do not think that is in the picture. On the worst model you do not see a situation in which we are going to throw ourselves into a tailspin.

So it seems to me the word that should be sounded at the present time, if we are going to show that we do know how to run the economics of an industrial system, is to say, "If those unfavorable things do come, we have got to sweat it out on the beaches." I think it is all right for the Government to say, as the High Command does in wartime: "Yes, we will do this, that, and the other which will ease the situation as much as possible. We will give you (metaphorically speaking) proper air cover; we will have the proper naval support, and all those things. We will have the proper medical service coming in." But, you see, if those things happen, we have still got to sweat it out on the beaches. If there are basic shortages, somebody has to forego the things he would like to have.

We have various labor groups coming in from time to time for consultation around our Council table. I said that very thing to them one day I said, "What does your statement that you must have a wage increase which will offset the cost of living mean, since that increase in the cost of living comes from partial crop failure; in other words, a food shortage?" I said, "Does it mean anything else than saying that, because of your organized strength, and because of the advantageous position of the manufacturer whom you are working for, you can get your people exempted from any share in that scarcity which underlies rising food costs? You may say the rest of the world can bear that. But remember 'the rest of the world' means a lot of working people. Do you represent a labor movement when you talk that way? Or are you a special-privileged group of workers who will make those whose wages are not so much as yours take the pinch while you are exempted?"

That is the one thing I think we have to face. I do not think the banker should say, "We didn't make as much as we would like to have made during the war; we were held down. Now we're going to make our killing while we can." He has to abandon that idea.

I am certainly glad that Charles Wilson has taken the lead among business executives at this time. When you get businessmen talking to other businessmen throughout the country like that, then I think, through proper use of very modest government controls, which are simply means of self-discipline, they will take us through even if we have a worse weather situation. If we do not have it, we won't have to resort to so much control.

That is about the picture as I see it.

COLONEL McCULLOCH: Are there any questions?

QUESTION: The Federal Reserve System recently changed the rediscount rate quite a small figure. Was that done for psychological reasons, mainly?

DR. NOURSE: Yes. When you tack on "mainly" I think I would say yes. I think it was a move in the right direction. When you change an eighth of one percent, and the rate is already low, it does not have a great positive effect. But it did sound a strong note of caution as to rates which had been held down to an abnormally low figure.

Of course, if you want the full answer to the question, you will see in the Economic Report of the President a statement to the effect that government securities will be supported at par, which is the most positive statement of that sort ever given. There are a lot of people who think it was unwise to make so firm a commitment as to absolute par. Some feel it could have been carried out by allowing the prices of bonds even to break a little below par; that making that a rigid point is probably not the wisest thing to do. But it supplies some flexibility and I think it is desirable, chiefly, as you say, for psychological reasons.

QUESTION: Dr. Nourse, I hesitate to ask this question because it will only confirm my ignorance of the whole subject.

The President, in his tax program, provided for a reduction of personal income and compensatory increase in the excess-profits tax for corporations. I assume Mr. Dodge and the American Bankers Association are concerned primarily with the short-term commercial loan. There is a good deal of discussion that there is a shortage of fixed capital. How do the two things gear together?

In other words, you talk of having the excess-profits tax increased at a time when we may be in a very critical position to increase our productive capacity because of shortage of venture capital to expand equipment.

DR. NOURSE: That is a pretty comprehensive question but I think I can answer it by giving my reaction to the major points in it.

Incidentally, where the burden of the corporation tax will fall was clarified by making it an excess-profits type of tax. That is to say, there will be tax only in case the corporation is already more than average profitable. Whether that rate would be too heavy, is a question. But, you see, in general it means you would be levying it on companies that already are in a very strong reserve position and are doing lots of internal saving.

Your other question, of course, comes to something which is quite fundamental, as to how much difficulty is encountered in getting enough venture capital into our system in view of the needs which lie ahead.

I am something of a heretic on that ground, and for this reason: A great many people say you have to get venture capital out of high incomes or high earnings of the companies. I think your rate, even under the excess-profits tax, would be high enough so you would get a good rate of internal savings. Where I am a heretic is that I think you could, under a well-paid and steadily employed population, get enough savings among the high-paid mechanics, office and salaried people in general. I think we have underestimated the amount of savings which could be drawn from that class if you take conditions of sustained employment and good wages, which is the premise we work on. That is what we are trying to get. You have to assume that.

The quirk in that issue is, I think, that our savings and investment institutions are not fully geared to get savings from those sources into the venture-capital area. There is a passage, I believe, in the Council Report where comment is made on that problem. If we are to get a satisfactory answer from that type which, it seems to me, is consistent with a free-enterprise system and a democratic system, we shall have to make some changes in our savings and investing institutions.

But that has been begun. Pilot-plant operations of that sort have been undertaken. Metropolitan Life, accumulating just that kind of savings from that sort of people, and being content with an earning rate of three and three-quarters or four percent, has gone out and built a lot of large-housing developments on an economical and low-rent basis. That is venture capitalism coming out of the medium-grade savings area.

So, I say I am a heretic, not in denying the need for wartime capital, but of saying we cannot do it under our old machinery. Yet, it seems to me, modification of that machinery into terms of conditions in the industrial field is quite possible if we make up our minds to it.

COLONEL McCULLOCH: In your opinion, would we have been better off now if we had been able to retain our wartime controls for a reasonable period of time following VJ-day?

DR. NOURSE: Well, I think it unfortunate that so much sentiment was developed against them. I cannot answer your question categorically. As to the mechanics of the matter, I would say yes. There is no question about that. As to the psychology of the matter, there was so much opposition built up that it was not feasible and we could not make them workable beyond that point.

I think most price-analysts would agree, in the light of what has happened since, that the controls were, in the mechanical sense, taken off too soon.

QUESTION: With the Government purchasing these tremendous quantities of agricultural commodities, how does that affect the inflationary spiral? For instance, like they did in connection with potatoes and eggs.

DR. NOURSE: You cannot buy 400 million bushels of wheat without being a bullish influence in the market. There has been a lot said about how stupid the Government was and how inconsistent it was. First it was as a matter of policy, trying to get the prices down; then it turned around and bid up the market for these commodities. Now they were not doing this buying of commodities because they thought it was anti-inflationary. They were doing it because, for military and diplomatic (State) reasons, they thought we had to make, indeed were making, commitments abroad. If those were to be made, they had to buy.

This is, after all, procurement stuff. What would you do as a procurement officer? Would you go into the market and buy rapidly when the market was flooded at harvest time and when farmers did not have sufficient storage space and were piling wheat on the ground? Of course you would; that is the time to buy.

But you cannot buy 400 million bushels even in that kind of a market without raising prices. That is true. Now, buying is practically completed. You see, we shipped 570 million bushels last year. We set that as the goal for this year. Under the Interim Aid Bill there had to be quotas that would be under 500 million bushels. They are operating at the present time on a procurement plan of 450 million bushels; they have about 400 million now. So they are not much of a factor in the market. But there was a good deal of talk just the other day because they bought a million bushels. If you go into the market for that amount you are bound to raise it.

There is one other factor that should come in there too. When we came to see what the feed situation was, we knew that if we were going to do our foreign aid on a practical basis, we had to conserve cereals for human food, which is the economical way of using them, and have a lesser amount in the production of meat, poultry, and dairy products, which is the extravagant way of using them. In other words, the quicker the Government let prices find that higher supply and demand level, the quicker they put a penalty on livestock feeding.

I don't see how you can say that that was dumb. They were accomplishing their purpose. Of course the fellow who wants cheap beefsteak doesn't like it. If you take that broad strategy of what they had to do, I think you will agree it makes sense.

QUESTION: Have parity prices and subsidies been removed entirely from agricultural products?

DR. NOURSE: No. By the way, that is one of the things the heads of these national agricultural organizations talk about around our council table.

I made a talk, first to NAM, then to a national union at Cincinnati, and finally to the American Council of Cooperative Associations on the agricultural side of this problem. This was the burden of all those talks--each one has a responsibility. I said to the farmers, "I don't think you have come up to your responsibility. You have liked to hang on to parity prices in the seller's market when they were not necessary. You are not facing the kind of adjustment that needs to be made."

I do think it is unfortunate they have kept to some of the parity formulas and tried to get a more expensive way of computing them.

QUESTION: Would you say it is political pressure which prevents the elimination of these?

DR. NOURSE: That is about what it comes to--interest groups.

QUESTION: Will you please discuss the national debt. We have had a Treasury surplus which, I assume, was due to inflation. It sounds like good business to pay off a debt which we contracted when a dollar was worth a dollar for fifty cents on the dollar. Yet the Government, in reducing its national debt, is throwing money on the market which seems, again, to continue the inflation spiral.

DR. NOURSE: It does not increase it. It simply takes it out of one place and, obviously, puts it back in another. The most anti-inflationary practice that could be held would be if it kept taxes up; if the Treasury took the surplus and kept it idle. But that is hardly practicable. I do not think in a real world the Treasury would be permitted to accumulate funds of that amount.

At the end of the war they did, out of the last Loan, have quite a large sum; in fact, fifteen billions or more of surplus. That was the first big reduction. But now it seems to me that the only course to be followed is to use the surplus for debt reduction. Your first proposition, of course, is true. It cannot be a one-sided account.

COLONEL McKENZIE: I think we were all quite interested in the announcement that there had been recommendations made for lengthening the work week. We realize that certain basic raw materials will prevent all industries from immediately increasing their work week because they would not be able to function over that period.

Would you care to comment on the possibility that this will be picked up; that labor will agree to it; that management will see in it an opportunity to get additional production and by giving the employee more take-home pay avoid the necessity for a further round of wages?

Would you further comment, if you can, sir, on whether the President meant that Mr. Wilson, in advocating a 45-hour work week was thinking of 1890, or whether it was straight pay, representative of the thinking of that period?

DR. NOURSE: I am a little bothered by your linking Mr. Wilson with this. Is this Wilson's proposition?

COLONEL McKENZIE: Mr. Wilson of General Motors.

DR. NOURSE: Was his name attached to this work-week proposition?

COLONEL McKENZIE: I understood he recommended the 45-hour work week as straight-time pay; and that Mr. Green has recommended it.

DR. NOURSE: I had Green's name connected with it.

I don't see that that is a very significant contribution. It is a sort of side-door approach to the wage-adjustment matter. It would not ease the situation much.

I do not see that the situation now is of the character in which the basic of the work week should be modified. I think we are near enough to the catching-up period, so we had better continue on whatever basis we are going to have, which is, as I take it, essentially the forty-hour week. That is in the process of becoming standardized for business as a whole. I, myself, would not be inclined to change it.

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Now it would give an offset to higher wage rates. It would make it easier to have longer operations at certain spots in the system. However, I have not seen any proof of that case that would relieve the spots where you have scarcity. Take, for instance, your steel industry. It is a continuous process industry. It is short on scrap and pig iron. It is up against the limit of its facilities. You are not going to help it.

I do not altogether see why this should be advocated at this stage of the catching-up phase. When G.E. made its price reduction a while back, a lot of people said, "Why sure! That's because they see supply catching up with orders. I think that is true. But G.E.'s action was very timely.

But to turn around and advocate a longer work week in order to increase supplies just as we are catching up, I don't see it.

COLONEL McKENZIE: You left unanswered the quotation the President was reputed to have made, which you may not be in a position to comment on. It was not clear as to whether or not Mr. Wilson was living in 1890 and advocating a longer work week, or whether it was the point that men would be willing to work longer than forty hours without receiving premium pay.

DR. NOURSE: No; I am not sure on that. But I do want to make one last comment on this point that it would not relieve the agricultural situation, which is most pressing; nor would it relieve the steel situation, which is also quite pressing.

COLONEL McCULLOCH: Dr. Nourse, the College is keenly aware of your many duties and responsibilities. We are indeed most appreciative of the time you have devoted to us this afternoon.

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