TOMORROW WITHOUT FEAR

BY

Chester Bowles

SIMON AND SCHUSTER, NEW YORK

1946

Contents

Chester Bowles was a highly successful business man before entering government service. As the head of a large advertising agency, he worked constantly with industrial and business leaders—and made it his business to keep in close touch with America's consumers—*the people*—who in the last analysis, determine the success or failure of any enterprise. Bowles is optimistic about the American future: He knows that we have the necessary ingredients for a fuller, more prosperous life than we have ever known. All that is needed is the understanding and determination of the people, the cooperation of business, labor, and farmers, and coordination by democratic intelligent government. *Tomorrow Without Fear* was written to help bring this about.

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THIS BOOK is dedicated to the men and women of our armed forces, who have earned for themselves, for all Americans, and for all mankind, the right to a better tomorrow.

The author's proceeds from this edition will be given to the Society of Friends for relief and rehabilitation overseas among needy people of all races and nationalities.

How I Came to Write This Book

I am not a professional writer. I am not a practicing economist or a forecaster of future events. I am an American citizen deeply concerned, like many another, with my country and its welfare, and anxious to contribute what I can to the solution of its problems.

During more than four years of wartime government service I have had a unique opportunity to learn at first hand what millions of us Americans are thinking and worrying about. At times OPA has received as many as 2½ million telephone calls a week—from businessmen, from farmers, from industrial workers, from doctors and teachers and lawyers, from the housewives who buy the goods that make our factories go. Every week nearly half a million people have visited OPA boards all over the country—in Back Bay, Butte, the Bronx, and 5500 other places. Every day tens of thousands of letters have tumbled in upon us.

In addition we have shared the knowledge of 640 OPA Industrial Advisory Committees, nearly 100 OPA Labor Advisory Committees, 68 OPA Farm Advisory Committees, and Consumer and Trade Committees in the thousands.

All the people who have come to see us, who have called us, written us letters or sent us wires, have had some very specific problems relating to rent control, price control, or rationing.

But almost always these people, in addition to their specific problems, have raised general questions that open the door on tomorrow.

The nearer we came to the end of the war, the more persistent became these questions which had no direct connection with problems OPA was supposed to solve. Since V-J Day the public concern about the future has risen even more sharply.

Thousands of businessmen have asked us again and again: What conditions will face my business after the war? What about prices, profits, taxes? Is depression avoidable? Or is it as inevitable as it was after World War I?

Thousands of wage earners have asked us again and again: What are my chances for a job? What about the cost of living? What are my chances for a decent wage? Will booming postwar production take up the slack that made for prewar unemployment? Will millions of jobs again be scrapped when the boom is over?

Thousands of farmers have asked us again and again: What lies ahead for us? After the boom period is over, will prices for farm products slump disastrously as they did after the last war?

Thousands upon thousands of returning servicemen have asked and are still asking, this most persistent question of all: How will we veterans find our places in the civilian economy? Will there be jobs enough, and good jobs enough, to go around both for us and for everybody else? Will there be apple-sellers this time on American street corners?

Each of these groups has its own special problems to face in the future. But clearly the solution of those problems can only come from an objective study of the needs of our economy as a whole, and the development of a positive course of action to satisfy the broad interests of us all.

In the course of time and after many long talks with all kinds of people from all walks of life, I began to put together many parts of the problem and its solution like so many pieces of a jigsaw puzzle. Gradually an understandable pattern seemed to evolve.

The facts and ideas I have gathered are not startlingly new. Over a period of eighteen months I have put them down solely in the hope that they will provoke interest and thought in solving the economic difficulties which confront us.

C.B.

1

The Challenge

THE SHOOTING came to an end months ago and today the guns are quiet on all the fronts of the Second World War. But we are not yet back to the ways of peace and we all know that there is a difficult road ahead.

The ending of this war, it seems to me, has been profoundly different from the ending of the First World War. This time we have our earlier experience to look back upon. We are made uneasy and thoughtful as we recall how last time the peace miscarried.

Some of us remember the warning that James Harvey Robinson gave us twenty years ago in his *The Mind in the Making:* "There can be no secure peace except of the whole world; no prosperity but a general prosperity, and this for the simple reason that we are all now brought so near together and are so pathetically and intricately interdependent, that the old notions of noble isolation and national sovereignty are magnificently criminal."

Robinson's was not the only voice. Many another cried a similar warning after the last war. But those warnings went unheeded, and so we and all the other great nations drifted into the Great Depression, and out of that depression came the forces which made the Second World War. Had we and the other great nations solved our postwar problems wisely then, World War II could have, and would have, been averted.

On V-J Day we knew we were at the crossroads again. Largely for this reason, I thought, our reactions on V-J Day differed from those on November 11, 1918. We rejoiced and celebrated, but it was only the celebration that comes when a long strain is ended and a great danger is finally past. Our rejoicing in 1945 was not as full as it had been in 1918. For not one of us but wondered what lay ahead and whether this time we would succeed in building a prosperous and lasting peace.

Added to the feeling that "we have been here before" was the realization that, while we faced the same problems again, there was one tremendous difference. No one could fully weigh the meaning of atomic energy, but we all knew that in wresting this secret from nature we had assumed the most awful responsibility ever carried by the race of man. And everyone wondered whether the advances in the Bretton Woods Agreements and the United Nations Conference, great though they were, had not suddenly been dwarfed by this new development, so rich in creative promise, yet so dreadful in destruction.

This soberness, although increased by the use of the atomic bomb, was evident long before even V-E or V-J Day. It was evident throughout the war. It was evident, I think, in the way the general storekeeper in Maine, the miner in West Virginia, the dentist in Dubuque, accepted wartime controls such as had never been attempted in the earlier war—controls that went against every American grain.

In our whole handling of the war, in both its military and its civilian aspects, we proved that we could learn from our own experience and avoid repeating the mistakes we once had made. This same attitude led to the proposals finally agreed on at Bretton Woods, Dumbarton Oaks, and San Francisco—all of them completed before the end of the war.

Nor were government proposals the only ones advanced and discussed. Both industry and labor, not to mention countless letters-to-the-editor, put forth plans to guide us in the postwar period. For many months the Committee for Economic Development, a group of forward-looking business leaders, made surveys and published results of careful studies in preparation for war's end. Both the American Federation of Labor and the Congress of Industrial Organizations likewise drew up co-ordinated programs for a prosperous postwar America.

For months we were flooded with designs for tomorrow's world and road maps of the routes America should travel. In books and pamphlets, in newspapers and magazines, and over all the major radio forums we read and heard the numerous plans for postwar America. We had "reconversion" plans by the dozen. Able and concerned economists told us over and over again how necessary it was that we think in terms of abundant production and consumption and that we plan for that abundance.

"Jobs for all" have been discussed under crystal chandeliers at august conventions, and just as earnestly by men with their feet on brass rails in Milwaukee, Los Angeles, and Detroit. Plans were advanced by industrial leaders. Plans were advanced by farmers. Plans were advanced by labor. We had enough proposals, plans, programs, and blueprints for postwar America to fill a good-sized library.

There are, it seems to me, two important observations to be made about virtually all of these plans and proposals.

First, the fact that they flourished and still thrive means that we are deeply interested in our economic future. If all of us were not interested in these plans we certainly wouldn't wade through pages of type to read them or drive down to the high-school auditorium on a stormy night to hear some economic expert expound his theories.

Second, that the one point of agreement among all these programs is the view they take of the grave risk of flying blind into tomorrow. What underlies every one of them is recognition of the need for a program, a plan, for administrative machinery. They recognize that having "no policy" is, whether we like it or not, itself a policy and indeed the worst of all policies—the policy of drifting into disaster with our eyes closed.

This search for an answer is, to me, a good omen. It means that as a nation we are aware that we have reached a forking of the roads and that choosing the road to follow in the next few years is the most momentous decision in our history. We know that we are confronted with very grave problems. We know quite clearly that on the way we solve these problems depends our future for generations to come. In this we are far ahead of where we stood at the end of the last war, when it was thought that our only problem was how quickly we could get back to a condition vaguely described as "normalcy."

The central problem we face today may be stated simply enough:

As a consequence of two world wars in a quarter of a century we find ourselves faced with the possibility of another world conflict from which civilized humanity is not likely to recover.

At the same time we see just as clearly that if we work with all the other nations of the earth and exert as much effort for peace as we expended for war—as much sacrifice of energy, of pride and personal privilege—we can wipe out the very causes of war and look toward the future with confidence.

The problem, then, is to find unifying forces in peace as powerful as those which in war made us a mighty and irresistible coalition.

In unifying for war, we and our Allies worked toward the common objective of defeating the forces of military aggression which threatened the national existence of all our countries. Out of this objective developed a joint program, each country contributing as it most effectively could. In unifying for peace all the nations of the world, including our former enemies, must pursue a similar course. And our objective must be the elimination of economic insecurity and of its Siamese twin, political insecurity.

The world must move forward toward greater and greater economic security because without it there can be no durable peace. When unemployment is widespread at home, even the most peace-loving countries feel themselves forced to cut down on purchases abroad. That is what we ourselves did in the Tariff Act of 1930, and we were not alone.

It is difficult at best to bring proud, sovereign nations into close and continuous political teamwork. If each suffers the burden and fears that unemployment and economic insecurity create, it is impossible. If all nations are forced to compete ever more bitterly for shrinking world markets, then war itself becomes finally unavoidable.

But if we in America set our domestic house in order, if at home we move confidently from one achievement to another, with our full productive power harnessed and used to the benefit of all, then we shall be both able and eager to provide the markets as well as the goods which other nations require. Then we shall not hesitate to provide by loan the machines which will speed up the productivity of all the world, and later to accept the goods which will repay these loans. World prosperity can be built only on the basis of give-and-take. The experience of centuries teaches us that this is possible only when each nation is itself prosperous and secure.

How to shake off economic insecurity is a question which each nation will approach differently, just as each had its own approach to the objective of defeating the military forces of Fascism.

There is much room for controversy—and I am sure it will be filled—among people who prefer the Russian way, the British way, the French way, or the American way of getting to where the people of the world want to arrive. But about the objective itself there can be no dispute. Economic security, based on abundant production, fairly shared, is our goal—whether we live on the Rue Saint-Jacques or on Main Street, U.S.A., whether we farm in a giant collective in the Ukraine or till the black soil of Iowa.

In building the economic foundations of world peace, America has the largest single contribution to make, for ours is the most powerful economy. The economic decisions which we make have a greater effect, for good or for ill, upon the economic lives of the people in other countries than the decisions of the British or the Russians or the Chinese can have on us. None of the world powers can escape a heavy responsibility in this postwar period, but ours is the heaviest share of all.

We may not have sought this responsibility. Indeed, we did not know how great was this strength of ours which makes the responsibility inescapable. But the war opened our eyes.

We discovered that, while our economy had indeed been stagnant for a decade, stagnation was not inevitable. We learned that there still lay within us the sources of strength, the drive and perseverance, the ingenuity, and, above all, the vision and the ability to work together, which had made our country great.

By the end of the war we had used those resources and that strength so boldly and so effectively that the economic goals which in 1940 had made us gasp were left far behind. The American people must never again jeer at the boldness of their leadership, nor must any of us ever again hold at a discount the tremendous potential of this mighty nation.

Today, at a time when the destiny of the world will be determined by the use to which men and nations put their productive power, we stand the strongest and most productive nation on earth. Nothing is more important than how we use our strength.

On the pages that follow I want to take a quick inventory of our economy, of the potential that is ours, and of what we have done with that potential. I want to trace how our economic system has worked and how it periodically has failed to work. I want to take apart our ups and downs—the ups which have brought prosperity to many of us, and the downs which have brought hardship to all.

I want to see, if possible, what economic lessons there are for us in the greatest of all depressions and the greatest of all wars. When we have looked honestly and critically back at our past, then, it seems to me, we shall be in better position to judge realistically what is called for in the period ahead.

2

An Inventory of America—1940

When, as usually happens after a war, some of us have war profits and war savings to jingle in our jeans, it's hard to remember how things were going a few short years ago. But hard or not, it is important that we remember what America was like in the year 1940, our last year of peace.

Throughout the war years we experienced widespread prosperity because of the unlimited demand for war materials, and the determination of all of us through our government to borrow the money to pay the bills however great the cost of victory might be. In 1946 we are entering a period of great peacetime prosperity based primarily on the huge backlog of demand for civilian goods which accumulated during four years of war. We must go all the way back to 1940 to see the workings of our economy in a period unaffected by all-out war.

There are, of course, two ways to look at America at any given time. We may look down and see with gratitude how much worse things might have been; and we may look up with regret and see how much better they might have been.

When we look down, we see a great deal in the America of 1940 to please us and to make us proud. On the bread-and-butter side, our people on the average enjoyed the highest standard of living in the world. We ate on the average more and better food. We lived on the average in greater comfort. We had better working conditions. We had more places of entertainment and greater opportunities to enjoy them.

Our natural and human resources were stupendous. As compared with all other nations, we were rich in land, forests, minerals, water and power resources, industrial and farm plant and equipment, and the skills to use them all. Our soil, our geography, and our climate were in our favor. Except for a few tropical products, there was nothing we could not produce for ourselves.

Although in numbers we Americans made up only 7 per cent of the world's population, we possessed 40 per cent of the world's petroleum reserves, 18 per cent of the world's iron, 50 per cent of the coal, 20 per cent of the copper, 17 per cent of the tillable land, and 27 per cent of the effective water power.

We had a working force of 54 million men and women—a far higher percentage of them trained in some skill than had any other country.

One can count the workers in a factory or on a farm, but it is hard to measure the inventive genius of Americans. To state that in 1939 the Patent Office issued 49,080 individual patents, from electronic mousetraps to steaks in capsules is impressive in itself. But only when we look at some of these recent inventions do we recognize the promise they hold for our future. Among them we find great strides in the use of the photoelectric cell, the mechanical cotton-picker, air conditioning, television, synthetic rubber, plastics, and so on without end.

The uses we have made of our skills, our plants and equipment, and of our natural wealth and our creative ingenuity were also great. Although in 1940, as we have seen, we had only 7 per cent of the world's population, we owned and used 70 per cent of the world's automobiles and trucks, 50 per cent of the world's telephones, we listened to 45 per cent of all the world's radios, we owned and used 35 per cent of the world's railroads. We consumed 59 per cent of the world's petroleum, 56 per cent of the world's silk, 53 per cent of all coffee, 50 per cent of all rubber, and 25 per cent of the world's sugar.

These startling figures and percentages may be multiplied almost indefinitely. But we may have a better idea of the American way of living if we look closely at just one item. The automobile has become a symbol of our standard of living. It is true that people have made great, and perhaps even undesirable, sacrifices to own an automobile. But it still remains the one thing which more than any other satisfies the pride, the restlessness of spirit, and the demand for personal freedom of motion that are so typically and universally American.

Here's the story in a nutshell. In 1940, there were 35 million passenger cars in the entire world. We Americans drove 27½ million of them. That meant that we had a car for every five persons.

It's almost the same story for railroad mileage and railroad traffic, for telephones and radios and washing machines, and all the way down to clothing and cosmetics. Nor do we have to apologize to anyone for the strident parade of these figures. They do not represent just bigness. They represent the measure of our economic well-being.

Our great natural resources, abundant and resourceful skills, the cars and the telephones and the railroads and the canned food, the vast array of clothing and radios and movie houses and public libraries and public schools, the thousands of miles of good highways—all of these added up in 1940 to what we liked to call the American standard of living and the American way of life.

Our great natural wealth, the resourcefulness of our people, our great strides in science, improved nutrition and health, all contributed to the improvement of our standard of living. And it was that rising standard which enabled us to expand our democratic way of living—the way which gives us each the choice of where to live and at what to work, what to read and where to pray, how to dress and eat and play—all these opportunities for the individual which make up the American way of life.

Allowing for the differences in the cost of living in various countries during 1940 and measuring the standard of living in terms of the real goods that people get for their incomes, our workers enjoyed a standard of living averaging twice as high as that of western European workers, more than three times as high as that of Latin American workers, more than six times as high as that of the better-paid workers in Africa or Asia.

To sum up, in 1940 we found in America—on the credit side—an average standard of living and a way of life as good as and perhaps better than those enjoyed by any other major nation anywhere in the world.

But the averages can be misleading, as a certain economics professor discovered. Traveling in the New England back country, he asked a native the depth of a stream. "I would say a scant two feet, on the average," was the reassuring reply. The professor swallowed a lot of water before he got across. A stream may *average* only two feet in depth and still be eight feet deep in the middle.

If figures like those which I have presented were the final answer, we could afford to stick out our chests and to tell the world that America was the best of all possible places. Many Americans did just that, which is perhaps one big reason why so *much* was left undone. If you are relatively well off yourself, there *is* always the temptation to point with pride toward the general averages and to forget the millions of insecure and frightened people who in peacetime have walked our streets in a fruitless search for jobs, or wandered from farm to farm in search of a meager living.

As a matter of fact, we had no right to feel very proud of our economic accomplishments in the year before the war. If we compare our achievements to those, let us say, of the Balkans or China, we looked like economic champions. But if we judge them against the background of our resources and opportunities, our batting average was nothing to brag about.

The truth of the matter is that we failed, and by a wide margin, to produce the abundance of goods and services—the high standard of living for all—of which we were so clearly capable. And this was true not of 1940 alone. While it's true that we doubled our national output every 20 years since the Civil War, it's equally true that in four out of every five years we suffered from sizable unemployment. We kept seesawing up and down, with roughly a year of real depression for every year of real boom. At the peak of the booms we made nearly full use of our resources of men and materials and plant. At the bottom of the depression we let nearly half of those resources lie idle.

Taking one year with another, we produced only about three quarters of the goods and services we were capable of producing. This meant men without jobs and business without customers. It also showed up in great lacks for millions of our people—lack of food, of health, of education, of housing, of recreation. This spelled poverty, insecurity, and denial of opportunities for at least a third of the nation.

Let's look at the conditions of 1940 more closely. Every available study shows that three out of four Americans in 1940 needed better balance of diets, and one out of every three Americans just didn't have enough to eat. And, strangely enough, the farmers who grow our food were not much better off than our industrial workers in this respect.

Food deficiencies show up in the people's health.

The real state of the nation's health was brought home to us sharply when the Army rejected 40 per cent of the selectees examined, a shocking percentage of the rejections traceable to undernourishment or poor diet.

It wasn't just a question of inadequate or improper food. We were also disturbingly backward in providing ourselves with the facilities needed for our national health. Though we had the men and the skills and the materials to build and to staff hospitals and clinics, we had hundreds of counties without a single hospital or clinic. Fully 40 per cent of all our counties—1200 of them—had no general hospital. And throughout the country there was a great lack of dentists, doctors, and nurses.

The people with low incomes naturally suffered most from these lacks. Cold statistics tell us that if you worked in an American factory in 1940 you could expect to die eight years younger than your cousin with an executive job in a department store. The death rate was more than twice as high for unskilled as for professional workers. The reason for these shocking contrasts is primarily economic. The lower the income, the poorer the diet and the less the medical service. And that means it is easier to get sick and harder to get well.

This was no way for a sensible nation to treat its most precious resource—its people. But that neglect is a matter of record. And that neglect was as unwise in dollar terms as in human terms. We lost annually, before the war, some 400 million man-days of labor, due to illnesses, entailing an economic loss of 10 billion dollars. The wise expenditure of a fraction of that sum might have prevented the greater part of the loss. There is nothing in all this to be proud of.

The picture is even more dismal in housing than in health.

People concerned about the housing situation have so often repeated the statement that our dwellings are one third good, one third fair, and one third bad that we are apt to remember the saying and neglect the facts. But in 1940 there were literally millions of people living in houses that were overcrowded, without indoor toilets, without baths, without electricity, without decent heating facilities. Many of these dwellings were beyond repair and totally unfit for use.

The situation was bad in crowded city slum areas; it was not much better on the farms. A survey of farm housing made by the Department of Agriculture showed that 70 per cent had no water supply in the house, 89 per cent had no bathtub, 82 per cent had no electricity, 92 per cent had no indoor toilet. In addition to these lacks, many of the farmhouses were so old and run down that they were a menace to health.

We need no economist to tell us that it was just the people with poor diets and poor health who lived in the bad houses. We all know that poor housing, deficient nutrition, and poor health go together. We know, too, that with them goes poor education or none at all.

The education picture in 1940 was not a pretty one. One out of every four boys and girls of school age was not attending school in that prewar year. The average grade completed for all Americans was only a little beyond grammar school. And the average, as has been pointed out so often, can be very deceptive. We know that during the war, the Army rejected nearly 2 million men because of illiteracy.

In some states the standard of education and the level of teacher training were so low that the children barely learned to read and write. There was nothing wrong with these youngsters. Their minds were just as ready to receive knowledge as any in the land, but from the start they were handicapped.

Even where they were not actually hungry, they weren't getting enough milk, butter, eggs, meat, and green vegetables to be strong and alert. Many were sick a good part of the time. Many more were sluggish and dull even when they attended school. Add to all that low standards of education and poor teaching in many areas and you begin to understand the fog of ignorance that closed down about so many millions of our children.

Surely those of us who had the poor housing, the poor nutrition, the poor health facilities, and the poor schooling did not enjoy the American standard of living to which we pointed with so much pride. And they could hardly participate fully in the benefits of the American way of life about which we boasted so freely.

If the American way of life means freedom, it means freedom for all and not just for some. If our way of life is to survive, if it is to thrive and increase, we must make sure that it is the way of life for all of our people and not just for some of us.

Let us now take a closer look at the various economic groups among us—the farmers, the workers, the businessmen large and small—and see how they stood in 1940.

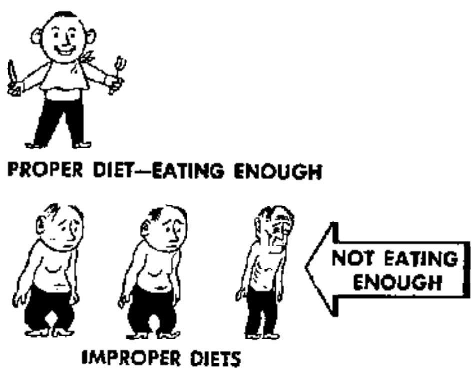
The Farmers—Our Good Providers

Without our farmers we can have neither meat nor bread, neither milk for our children nor wine for our festivals. Considering how much we depend on the farmer, one would expect him to be our most favored son and our most prosperous citizen. But he isn't, not by a long shot.

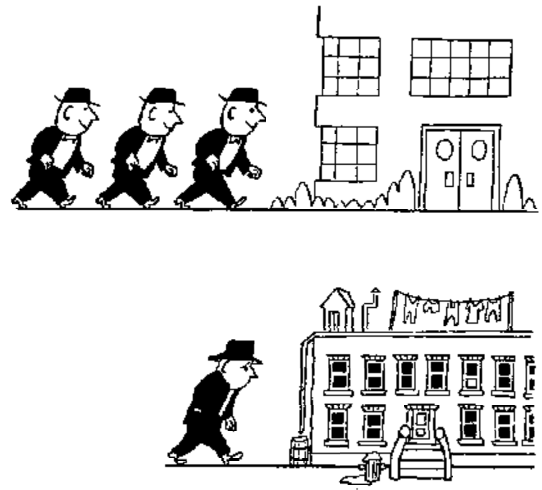
Although there has been a great deal of sentimental talk about farming as the ideal way of life, many

The Seamy Side of 1940

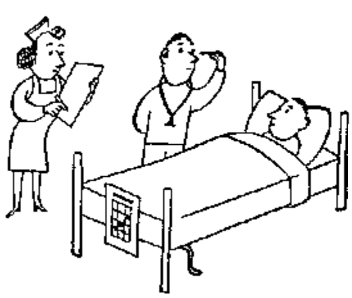
3 out of 4 Americans had improper diets. 1 out of 3 Americans wasn't eating enough.



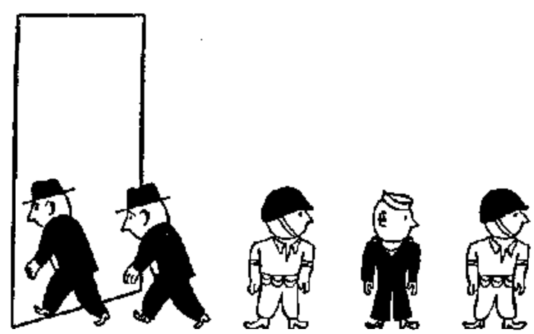
1 out of 4 Americans lived in slums.



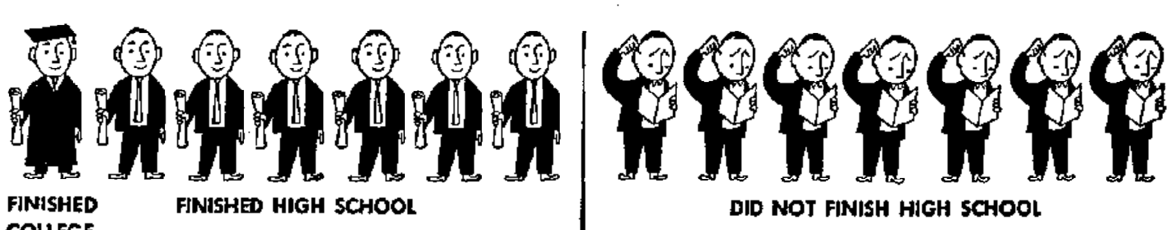
Americans in 1200 out of 3100 counties had no hospitals.



2 out of 5 men failed to meet Army and Navy physicals.



Fewer than half our children finished high school. Only 1 in 14 finished college.



farmers do not themselves see in it a fair chance for making the kind of good living to which they rightly feel entitled. For generations their children have steadily moved from the farm to the city in search of higher wages and shorter hours and better conditions.

So, though we all still rely on the farmers for our daily bread, we rely on fewer and fewer of them. When our nation was founded more than a century and a half ago, 95 out of every hundred Americans lived on farms. Since then this proportion has dwindled until by 1940 only 23 out of every hundred—30 millions out of our 130 millions—lived on farms.

These 30 million people lived and worked on 6 million farms. Taking account of the buildings, the machinery, the livestock, and the crops in the farms, these had a total value of 42 billion dollars. With this investment the farmers produced crops and livestock which in 1940 brought them a cash income of $8,340,000,000.

This sounds like a lot of money, but let's see what it really amounted to. Let's match these farm figures up against the national wealth and production. In 1940 the wealth of the entire United States was estimated at something over 300 billion dollars, and with that wealth we produced goods and services which sold for 97 billion dollars. So, when we compare farm wealth and farm production with that of the entire nation, we find that the farmers, with one quarter of the population, owned less than one seventh of our national wealth and received only about 10 per cent of the dollar value of our national output. Judged by either standard, the farmers of America in 1940 were less than half as well off as the rest of the population.

It is misleading, of course, to talk of farmers as if they were peas in a pod. First of all, there are the different kinds of farmers—dairy farmers, cotton growers, sheep and cattle ranchers, grain farmers, fruit and vegetable growers, poultry raisers, sugar growers, and many others. Their interests are not always the same. Their work problems are not always the same. Their standards of living vary widely. And farmers differ regionally as well, even if they raise the same crops.

But there are even more important differences than these. The differences between the sugar beet grower and the cotton farmer are not so great as those between the farm owner and the farm tenant or the difference between both of these and the sharecropper and the hired hand.

Even among farmers who worked farms they owned themselves, incomes ranged all the way from a couple hundred dollars a year to sums that would look respectable for a corporation executive. In 1940 two thirds of our farmers produced less than one fifth of the total farm output, while the other third produced more than four fifths. Even more striking is the fact that the top 5 per cent of all farmers produced well over 25 per cent of the total output.

But in 1940 fully 40 per cent of all our farms were operated not by owners but by tenants. These, as one might expect, were worse off on the average than the owner group, although there were, of course, some prosperous tenants. At the bottom of the deck were the sharecroppers, many of whom barely eked out an existence. The sharecroppers as a group worked about 10 per cent of the farms. They produced less than 4 per cent of the output.

Finally there were the hired hands. There were some who made a decent living, but not many. In many regions of the country hired farm workers received as little as $15 a month for work lasting from "sunup to sundown," and at that they got the $15 only through the eight or nine growing and harvesting months of the year.

This is not intended as a textbook on rural sociology. But from the bare and basic facts I have presented it is clear that our farmers enjoyed too small a share of the nation's wealth and income before the war; that the great majority of the families who sustained themselves by farming or farm work were sustained on very thin fare, indeed.

Anyone who traveled through this land of ours before the war and bothered to look at what was going on off the main highways could see at first hand the problems of these hard-working, underprivileged people. Whether they grew cotton or casabas, wheat or lettuce, whether they raised broilers or beef cattle, snap beans or strawberries, they all had one thing in common: the great abundance of things they had learned to do without.

The majority of our farmers lived in dilapidated houses. They lived far from good schools, good libraries, or any cultural centers. They had limited medical facilities, and they could ill afford them when they had them. The standard of school education was low because so many of the farm children had to study in the distracting atmosphere of one-room schools and under the tutelage of underpaid and undertrained teachers.

You may find it hard to believe, but the health of those country children was not even as good as the health of urban children. All health and dental records show this. A shocking number of them were listless because they weren't eating enough or weren't eating the right foods.

But the worst part of the average farmer's lot was his gnawing fear of tomorrow. Three out of four tenants stayed less than five years on any one farm, and one out of four had remained rooted for less than three months. The impoverishment of land and equipment that comes from constant wandering from rented farm to rented farm is exceeded only by the impoverishment of the tenant farmers themselves and more particularly of their families. Always there was the ever-present poverty and the ever-present sense of futility that comes over people whose hopes become dimmed and to whom the gates of opportunity seem closed.

Nor were the farmer-owners much more secure. They had learned what their fathers and grandfathers had learned before them: that when crops are good, prices are low; and that when prices are high, crops are poor, and the net result in income is discouragingly small from year to year. Only the tragedy of war, or of crop failure abroad when weather here was good, seemed capable of breaking this pattern.

In 1940 farm owners also remembered that the total valuation of their farms was about half what it had been 20 years before. The decline in the value of their farms meant more than a paper loss of dollars and cents. It was a grim reminder of the collapse of prices that engulfed agriculture after the last war's inflation, a collapse which cost nearly half a million farmers their farms through foreclosure.

The farmers were slowly struggling up from that blow when the depression overtook them in 1929. It is not surprising that in 1940, after two decades of economic buffeting, farmers were uneasy and fearful of what lay ahead.

Yet, despite all this, somehow the farmers carried on. They beefed, but beefing is as American as apple pie. Often they beefed against the wrong persons and the wrong institutions. They weren't alone in that.

But they went about their business, mindful and often resentful of their lacks and needs and wants; but still proud to be Americans, which means that somehow they had faith in the great future of our country.

Factory Workers—Manning the Assembly Lines

The factory worker is the farmer's city cousin. His labor goes into the tractor and the chemical fertilizer which the farmer uses. He turns out the clothes the farmer wears and the bed he sleeps in.

Over a third of all workers employed off the farm in 1940 had jobs in factories. Unlike most farmers, the factory workers, like all other workers in our cities, have no property of their own to use in making their living. Some of them, like the tenant farmers, who also have lost the security of land ownership, have a hard time of it even when business is good. Others have found through union organization a partial substitute for the relative security that land ownership gives many of our farmers.

Taking factory workers as a whole, the United States Bureau of Labor Statistics tells us that in 1940 they earned on an average $25.20 for a week averaging 38 hours, or about 66 cents an hour. But this is the general average and it conceals differences at least as great as those we found among farmers.

Men earned more on the average than did women. At the very top of the scale were skilled workers in the automobile industry, who earned an average of nearly $36 per week. At the other end of the scale were unskilled women in the textile mills, who averaged only $12 per week.

On an annual basis, and assuming that these men and women worked 50 weeks out of the year, which is a pretty tall assumption, the annual incomes of factory workers ranged from $1800 at the top to $600 at the bottom. How did the factory workers live on incomes like these?

Naturally, single men got along better than the married men with families. Married men whose wives also worked got along better than those whose wives were tied down by young children. Only workers near the top of the factory pay scale were able to enjoy what we like to think of as a typical American standard of living. That couldn't be said of the average factory worker, still less of those below the average. The poor and inadequate diets, the cramped and unsanitary dwellings, the shoddy clothing, and the poor and curtailed schooling of the millions of less fortunate factory workers surely failed to meet the promise of the "American Way."

With the realities of their sordid living crowding in upon them, many of our factory workers were natural escapists. They bought jalopies ready for the scrap heap and with characteristic American ingenuity made them run. On Sundays the whole family piled into these jalopies and got away to the public beaches and public parks, where for a time they could forget their poverty.

Hot dogs washed down with pop cost only a dime, and a nickel buys jukebox music for everyone within earshot. To escape from the bitter reality of their everyday living, these workers went to the movies and eagerly followed the romantic exploits of comic-strip heroes who did all the things they wished they could do. But soon, too soon, they had to return home, where their cares were waiting for them, cares from which there seemed no real way out.

But in the year 1940 even this was not the whole story. There was the ugly fact of mass unemployment. Eight millions had no jobs at all. Millions more felt the threat of unemployment. There were few indeed who could look to the future without fear. This fear of what might happen tomorrow, this haunting insecurity, was for many workers harder to bear than the poverty from which they suffered.

In this respect the industrial worker was perhaps worse off than the farmer. Poor as he was, the average farmer belonged. He had a home. He could always work the garden and raise some chickens. By one means or another he could keep the family going. They could eat and they wouldn't be thrown out into the street.

But the industrial worker in 1940 lacked even this flimsy security. He was at the mercy of his job. When that was gone, what faced him was the immediate prospect of no food on the table and no roof over his head. Some had savings to fall back upon. Others could turn to relatives for help. But it was still true that the average factory worker lived in constant dread of losing his job. It was on this insecure foundation that his entire life was built.

Thirty or forty years ago millions of our industrial workers still had some roots remaining in the soil. When the factory shut down they could return to their family farm to find a warm welcome and relative security until "things in the city picked up."

This was no longer true in 1940. Many factory workers had come to the city directly from the "old country" or were first-generation Americans born in the city and having no other ties. Others had long since lost all connection with the farm communities from which their fathers had come a generation or so ago. They were tied to Detroit, to Cleveland, to Bridgeport, to Birmingham, to Seattle. Their bread and butter, the very roofs over their heads, depended on their jobs in the factory.

But in spite of all this, in spite of the insecurity and fear and poverty, the industrial worker of 1940 had surprising faith in our American destiny. His was no bed of roses, but his hopes rarely flagged.

Teachers, Stenographers, and Clerks

Most of what we call white-collar work is a distinctly modern development. With mass production and with mass markets, tremendous staffs are needed to handle the paper work of a complex economy. And so, to the traditional white-collar professions of medicine and law, of the school and the church, have been added the specialized skills of administration and communication and salesmanship, of accounting and advertising and insurance.

The result was that in 1940 there were 12 million persons—representing over a quarter of everyone employed in our cities—who could be called white-collar workers. A few of these were independent professional people—lawyers and doctors and writers and artists. But most of them were employed at salaries or wages by merchants and businessmen large and small.

It is difficult to enumerate all the types of employees who today come under the heading of "white-collar" workers. Teachers and preachers, stenographers and secretaries, accountants and cashiers, salespeople and telephone operators, receptionists and tabulators, typists and filing clerks, researchers and checkers—the list can be extended to fill pages.

It is even harder, however, to generalize concerning white-collar incomes than about factory earnings. Even if we exclude those in the very top group, who are properly considered managers rather than employees, we find an extremely wide range between the lowest and the highest incomes.

Some white-collar work is so important and requires such great competence that exceedingly generous salaries are paid. On the other hand, in 1940 the prestige of white-collar work had attracted so many people that competition had kept *average* salaries low.

A vast number of white-collar workers were forced to pay the price of a very slim living for the "distinction" of belonging to the professional, semiprofessional, secretarial, clerical, and financial employees, working in classrooms, stores, reception rooms, and offices.

According to the Women's Bureau of the U. S. Department of Labor, the great majority of white-collar office workers in 1940 received wages far too low to maintain them at a decent standard of living. Most women office-clerical workers received less than $90 per month, and men received only from 10 to 40 per cent more. The income of salespeople in the same categories was considerably less.

Teachers and librarians, whose jobs require college degrees and years of experience, were notably underpaid. In some large centers, such as New York, teachers were fairly well off and enjoyed a degree of security after a period of trial. But in many sections they were paid as little as $35 monthly.

Despite these and other handicaps, white-collar workers were, in general, better off than farmers or industrial workers. Most of them worked in cities. They had access to the cultural advantages of our civilization. They were better dressed, though often at the cost of proper food and medical care. Their children attended better schools. They kept in closer touch with domestic and foreign affairs. They had a greater feeling of personal freedom and the enjoyment of life.

Their worst enemy was the same sense of insecurity which plagued our farmers and our factory workers. In 1940 many of the unemployed had been and hoped again to be white-collar workers. They were trained as lawyers, typists, and accountants. Millions of those who retained their jobs knew that at any moment they too might be looking for work.

When out of a job they frequently had little or nothing to fall back on, for their savings were even smaller than those of industrial workers. The good managers among them lived within their incomes; but the opportunities which their work brought them were expensive, and a great many were almost constantly troubled by debts.

And yet those white-collar workers were among the stanchest supporters of our economic system and our way of life. They yielded to none in their faith in their own future and the future of our nation.

Businessmen on Their Own

In 1940 there were about 3 million business establishments in the United States divided among manufacturers, wholesalers, retailers, hotelkeepers, amusement-place owners, construction and service establishments. Their personnel, excluding manual workers but including owners and white-collar employees, totaled over 8 million people.

Some of these businesses were very large indeed, and many more were far from small. But the vast majority were tiny businesses. This was especially true in retailing and the service trades, where over 65 per cent of all business units were found.

In 1940 about 60 per cent of retail and service shops had gross annual sales of less than $10,000. Out of this figure had to be paid the cost of the goods sold and the overhead expenses of running the store—rent or taxes and repairs, light, advertising, etc., plus the wages of any employees—before the proprietor could figure what remained for himself. It is not surprising, I think, with so many establishments operating on such low volume that before the war about 45 per cent of all new business ventures ended in failure within two years.

Between 1900 and 1940 about 16 million enterprises were started and only 2 million survived. W. R. Jenkins tells us (in *Forbes Magazine,* April 15, 1945) that if you enter a business which does $25,000 a year in gross sales (and in 1940 that would have put you way ahead of the 60 per cent doing less than $10,000), "you will have hard work, long hours, sleepless nights, few vacations and none without worry, and maybe not even much home life." And at that "it will be a pretty small living for yourself."

That description was certainly true of small businessmen in 1940. If they did not go bankrupt, most of them survived by virtue of the fact that they worked long hours, employed their own families without pay, and deprived themselves of the luxuries and most of the necessities of decent living. In general, they kept going by doing without.

And yet, those who did survive found in their meager incomes rich promises. They were their own masters. And they still had hopes for themselves and their children. There were no fences to their hopes and their dreams. To them, in spite of their privations, freedom of enterprise was still the essence of freedom.

The Corporation—Stockholders and Managers

Small business is the traditional form of American enterprise, but since the Civil War its share of the total volume of American business has shrunk steadily. For more than a generation it has been the large corporations which have dominated the business scene.

The modern corporation itself is a fascinating subject for study, but this is not the occasion to do more than characterize it briefly. Owned by thousands of stockholders, each with a relatively small, diluted voice in deciding things, the corporation is necessarily managed by a small group of men. This group, though typically holding only a tiny fraction of the total stock, is able to determine not only operating policies but, in large degree, the actual division of earnings between themselves and the great body of stockholders.

Despite the serious conflicts of interest that arise under these circumstances, for our purposes we may consider the stockholders and managers of corporations as a single economic group. For our present purpose the heart of the matter lies in the fact that both managers and stockholders look to profits of the corporation as the source of their income. Even in the case of our more prosperous farmers the net income from their farms may be their sole source of income. Most of our stockholders, on the other hand, commonly draw their principal income from sources other than their dividends.

In 1940, corporations as a whole earned 7.3 billion dollars, which was not only less than in 1929 but less than in 1919 as well. After income taxes were paid, profits were 4.8 billion dollars, also far less than the corresponding earnings in the two prewar record years mentioned.

Here, too, there were fortunate and unfortunate members of the group. The Bureau of Internal Revenue reports that of the 473,000 corporations earning money in 1940, 221,000 had a net income of 9.5 billion dollars before taxes, while 252,000 corporations suffered losses of 2.2 billion dollars. This indicates that more than half of all corporations suffered net losses and that their losses were nearly a quarter as great as the earnings, before taxes, of the other corporations.

In addition, a large number barely stayed out of the red during 1940, and many a corporation paid no dividends on its stock that year. Some of these, moreover, had paid none for several years.

At the other end of the scale were corporations which not only had high earnings in 1940 but which for many years had stayed very satisfactorily in the black. Stockholders in some of these had learned to count on the same generous dividend, year in and year out, good times and bad.

The overwhelming majority of stockholders and managing officials of our corporations were, in 1940, free from the personal economic insecurity that burdened most of their small-business colleagues. Yet even they could not forget how, ten years before, the stocks of these corporations had tumbled in value, and how salaries were slashed and then slashed some more.

If husbands could not remember, wives and children vividly recalled the ruin of those families which had placed too great faith in the continued prosperity of the corporations in whose stocks they had put their lifetime savings. Even these most favored people, who in good times had spare cash to invest, found that when things turned sour for the rest of us their own economic security was far from complete.

We have seen that in 1940, in the years before war and the aftermath of war sharply raised our levels of production and prosperity, Americans of every economic group shared in widely varying degrees the things we had as well as the things we did without. Neither in agriculture nor in factory work, in offices and schools or in stores and shops, was the picture all light or all dark. In every line some did well, others not so well, and all too many fared badly. At the very bottom were the 8 million unemployed who, until they found jobs again, lived outside the normal economic system.

The threat of unemployment that hung over the factory and office worker was matched by the threat of foreclosure that hung over the farmer. And both were matched by the threat of bankruptcy and vanished savings that haunted the small businessman and from which the stockholder in even the largest corporation was not wholly free.

In 1940, despite our difficulties, we remained a confident people. Particularly as we looked abroad at the hungry millions in other lands who were eking out a bare existence, did we count ourselves fortunate.

But with all our pride and confidence and consciousness of being better off than other nations, we could not shake off a disturbing uneasiness. We knew that persistent unemployment made no sense and we knew that somewhere, somehow, something was wrong. Each of us knew that the misfortune that engulfed so many threatened the economic security of all of us.

Though clearly we were all in the same boat, there was an unfortunate tendency to ignore this fundamental fact and for the "haves" in all groups smugly to blame the "have-nots" for their own misfortunes. That rationalization enabled too many of us to deny any responsibility for the solution of the problem. But it was a hopeful omen that millions of Americans felt in their bones that no one group in the country could be genuinely prosperous or genuinely secure while so many Americans were poverty-stricken and insecure, lacking even the basic essentials of decent living.

3

Why We Bogged Down

In 1940, behind our surface appearance of prosperity, there were flaws and weaknesses throughout our entire economy. They showed up in the staggering needs of most of our people—needs not only for proper food, warm clothing, and adequate housing, but also for a decent standard of health, education, and citizenship.

Did we feel insecure in 1940 because we thought we couldn't produce all the goods and services we needed? Or did our insecurity result from the lack of sufficient income with which to pay for all the goods we were capable of producing? Clearly it was the latter.

In order to prosper, each group among us which produces goods and services must have not only a product which people want, but also customers who can afford to buy it. Every breadwinner is not only a producer but a consumer as well. Whether he is a good customer or a poor one is determined by how much he can earn through selling his own product, whether that product be potatoes, beef cattle, electric turbines, washing machines, haircuts, or his skill as a carpenter or machinist.

In 1940 every group—our farmers, our workers, and our businessmen—suffered from lack of good paying customers for the goods or services it had to sell. Lacking enough good customers, each group found itself financially unable to go on producing to capacity. So incomes remained low and workers were unemployed.

The problem was a bit different with our farmers, but the result was just as bad. In farming, unlike industry, production cannot be stopped when demand falls off. A crop planted in May cannot be "shut down" in June. The cows go right on giving milk regardless of the prices which people can afford to pay, and the job of milking them morning and night is still there.

In 1940, as we have seen, our farmers had incomes two and one half times greater than the incredibly low levels of 1932, but they were still far below the income needed for a decent living. The brief depression of 1937 had provided a fresh reminder of the old lesson that when city incomes fall, farm incomes fall, too, and usually faster. Farm prices fall both because there is too little purchasing power in the cities and also because the farmer can't turn a switch to keep his crops from getting ripe. His produce has to move to market regardless of price, or rot in the field.

Before the war, in years when crops were poor, farm prices rose to fairly reasonable levels, because there were enough people with high enough incomes to bid up prices for the limited supply of farm production. The farmer's income remained low, nevertheless, in spite of good prices, because the total volume of produce that he had to sell that year was abnormally low.

When crops were good, he usually found himself in an equally tight predicament. The amount of produce which he took to market increased, but since prices went down for lack of enough customers with money in their pockets to buy his increased production his income usually remained at a miserable level.

Our ability to buy all the goods and services that our workers produced was clearly inadequate in the prewar years. Lack of customers with money to spend meant the holding back of factory production and the lack of jobs for all our workers. The 8 million unemployed in 1940 were tragic evidence that most consumers were too short of cash to pay for all the goods they really needed—goods which those workers might have produced had they been at work.

Business failures, running, as we have seen, over 1000 a month in 1940, added further testimony to the inability of a great many businessmen to find enough good customers to enable them to cover their costs. In addition to these failures, there were over 400,000 other closings of business firms that year, most of them due to discouragement over the never-ending fight to squeeze a living out of what remained in the till when the bills were paid.

All these groups—our farmers, businessmen, and workers—were each other's chief and almost only customers. None was significantly dependent on foreign buyers. Each could have had a better income and itself been more prosperous and more secure if the others had been more prosperous and secure.

This was the baffling paradox of the times, the inability of people on every hand to find markets for the goods that people on every hand so badly needed! And this underscored the fact that we were all in the same boat, no group able to advance unless the others advanced, too.

Today the level of factory wages, farm income, and business profits is substantially above that of 1940. But don't forget that the purchasing power which makes that level possible is due to war expenditures, and the demand accumulated by four years of war-created shortages.

If we are not to go back to 1940, after this backlog of demand has been satisfied, it will be because we do things differently—all of us, and perhaps far differently—than in 1940. To know what must be done differently, we must examine the workings of our economy. We must see what made it work so poorly in the years before the war, and what is needed to make it tick in the future.

To do this it seems to me necessary that we go back and trace, in a general way, the development of the economic sickness from which we still suffered in 1940. I shall not attempt to outline the economic history of America. I propose simply to review in a broad way how depressions like that of the early thirties grew until they could, for years on end, hold our people far below our potential ability to produce, and to live decently, and to achieve the economic security for everyone which must be a major goal of our American democracy.

It seems to me, from this point of view, that we have lived through three periods. In the first period, which ended roughly with the Civil War, our people as a whole were affected only in a minor way by the commercial crises and financial panics that we, in common with the other Western nations, experienced.

In the second period, lasting from the Civil War down to the First World War, we found these crises increasingly frequent and their effects on the average individual increasingly serious. And in the third period since the First World War, we have all been struggling with the difficulties—as well as enjoying the benefits—of a modern industrialized society. Let me try to explain this development as I see it.

The increasing severity of our constantly repeated cycle of business booms and depressions is clearly a result of the machine's steadily coming of age in America. During our earliest days nearly everyone was a farmer. He built his own house, grew his own corn, raised his own beef, forged his own horseshoes, and hewed his own lumber. His wife carded wool from their own sheep and churned butter from their own cows' milk. Only a few of our people got fat or thin according to their success in finding customers for the goods or services they themselves had to sell.

When things went wrong it was with our system of credit and banking. The amount of money in circulation wasn't great and our young banking system was none too sound. When too many bankers gambled on loans too big or too risky, our banking system became stretched beyond its safety limits, creditors became uneasy, loans were called in, mortgages were foreclosed, and our commercial credit collapsed.

When that happened—and this is the important thing to remember—the number of persons affected by the resulting financial "depression" was very small. Nearly everybody could go on quietly working his fields and harvesting his own food and fiber.

Despite the beginnings of industry in the early 1800's, the great majority of our forefathers were safe from the effects of these periodic financial crises and panics. Right through the first half of the nineteenth century, for the most part, we remained a nation dependent on self-sufficient and, hence, relatively depression-proof, farming. The occasional economic depressions were those in which bankers, speculators, and some of the new settlers on Western lands were badly hurt, but our people as a whole were spared any major economic damage.

With the beginning of railroad construction in the 1830's the country was opened up more and more rapidly to trade and to industrial development.

The earlier self-sufficiency of an agricultural economy began to give way to the making of goods for sale. Trading became a regular means of making a living for more and more of our people. No longer could each of us count on personally making all the things we needed. With fewer and fewer exceptions we had to buy at least some of our daily requirements. That took money. How much money we had depended on our ability to find customers able as well as willing to buy the goods which we had made to sell, or the services we were willing to perform for pay.

The self-sufficient homesteading farmer and his family could still consume what he produced. City markets and prices meant little or nothing to him.

But the shoe manufacturer could not eat his shoes. If he and his workers were to prosper, the shoes had to be sold. To him and to those who worked in his factory, markets and prices meant the difference between economic success and failure. And they also began to mean a great deal to the steadily growing group of farmers who had shifted from self-sufficient general farming to the production of crops, such as cotton and wheat, for sale in the city markets or for export overseas.

This dependence on finding a market for manufactured goods and farm produce spread to more and more of our people as the country grew steadily more industrialized. By the middle of the 1800's the growth of manufacturing in the North had created a cleavage of interest between Northern industry and Southern agriculture which was one of the principal causes of the Civil War.

It took a bloody war to settle the issue as to which interest should prevail in establishing our national policy. The decision was won by the interest—industrialism—which had the weight of the future on its side.

Before the Civil War, there had been only two serious general reversals of our steady expansion, the so-called financial "panics" of 1837 and 1857, and these, as we have seen, affected only a relatively minor proportion of our people.

Following the Civil War, our industrial development proceeded faster than ever, with a new form of business—the corporation—growing constantly more prominent. Accompanying this rapid spread of industry and trade, the swing from prosperity to depression became more frequent and more extreme. And because by now a large part of our people were directly dependent on our factories for jobs and wages and an even larger proportion of our farmers made their living by producing a single crop for the market—such as wheat, cotton, milk, or corn—these economic swings began seriously to affect all of us.

The unemployment that appeared in the economic depressions of the period following the Civil War was serious, and the suffering among the unemployed workers, the bankrupt businessmen, and the foreclosed farmers was bitter.

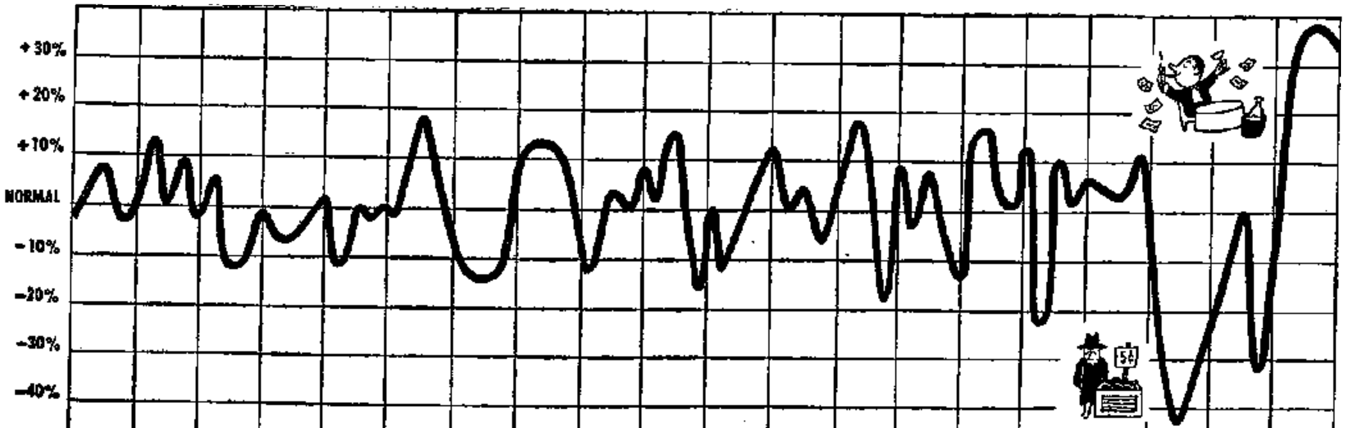
This was what led to the Granger and Populist movements of the seventies and eighties and to the militant labor movement of this period. This was the time of turmoil that led to the first anti-trust law and to the clamor for banking reform which culminated in the establishment, in 1913, of the Federal Reserve System.

These were the issues of the day, the curbing of rampant corporations, the prevention of monopoly, the reform of banking. And in dealing with these problems our people were seeking to make an economy that plainly ran badly and unfairly if left alone, run better and more nearly in the interest of all of us.

As early as 1873, a depression had hit the country which lasted six long years. It was our most serious depression up to that time, the first of the new industrial era. It was followed by a succession of lesser setbacks and by the more serious depressions begin-

A Century of Boom and Bust

American Business Activity 1845-1945



ning in 1893 and again in 1907. There could be no mistake about it—along with all the opportunities for better living that were developing with our growing industrialism, a staggering new problem had been created. More than ever before we made progress, not steadily, but through a series of economic ups and downs. And while the downs were usually less than the ups, they represented, nevertheless, a growing threat to the security and welfare of every one among us.

How the Boom-and-Bust Cycle Was Born

The reasons why the business cycle of a "boom" followed by a seemingly inevitable "bust" develops in an industrialized country such as ours are quite simple.

In our modern, industrialized economy a large part of our productive efforts must be focused on the expansion of our factories and the building of new machinery and other equipment which makes additional production possible. Still more must go for increased government services such as highways, libraries, and schools. As our economy grows from year to year, more and more of our total output consists of tools, machines, and public buildings.

That brings us to an extremely important point about our economy which we must understand above all else if we are to learn how to keep it running on all cylinders.

The production of a million dollars' worth—or one *hundred* million dollars' worth—of goods or services—whether it be overcoats, rompers, shoeshines, machine tools, or mining equipment—must always provide an exactly equal amount of income to the people who produce them. This income may be in profits, wages, salaries, or most likely in a combination of all three.

As long as all this income is spent in one way or another to buy the goods and services which others produce, we will have no trouble. The workers who produced the million dollars' worth of goods may spend their share of this total income on food, rent, and clothing—or they may save some and put it in the bank, which in turn may loan it to others to spend for the building of new homes or the buying of new equipment.

The businessmen who own the plant may spend part of their profits on repairs or in adding a new wing on the factory, and pay the rest out in dividends to stockholders, who in turn will either spend it directly or put it in savings which will be loaned to other investors. Our government may spend the part it collects as taxes in building roads, dams, schools, or battleships.

This is one essential economic fact which we can never afford to forget. All the money which we receive in the way of wages, salaries, or profits must be spent by someone—ourselves, our families, our bankers, our businessmen, or our government—if we are to go on producing at top speed. Our total spending must always equal our total production if our markets are to be cleared of all available goods and services at prices that on the average cover all costs plus a profit.

You might think it would be natural for spending and production to keep automatically in balance.

The difficulty here—the reason for the ups and downs of the business cycle—becomes apparent only when we examine exactly how business and government spend their share of our income for new factories and new equipment, for roads and public buildings, and how all of us consumers spend our share for food, clothing, recreation, and household equipment.

Most of us make our *essential* purchases on a more or less regular basis. An automobile worker in Detroit, an insurance clerk in Hartford, or a miner in West Virginia each needs three meals a day. He needs a certain amount of clothing which wears out at a fairly steady rate. He needs a roof over his head for which he pays rent regularly.

We don't decide not to eat one week or to skip buying clothes one year or to close up our apartment and sleep in the park for the summer. Day in and day out, if we have the money, we buy the essentials of life according to a pattern that changes only slowly.

But investment spending on the part of business is altogether different. There is nothing regular about it. The amount spent each year is determined not by a man's daily needs, but by how business sizes up the prospects ahead.

Nothing is more uncertain than prospects. They depend not only on facts but on human judgment —judgment that is affected by thousands of factors both real and imagined. A new plant may be begun this month or postponed a year. A board of directors may decide to spend a part of the company's profits on a new turbine now or to wait a few months to see what a new design promises in the way of greater efficiency. A thousand and one things may cause the postponement of business investment spending—or may cause it to be speeded up.

This plainly means that at any time the total amount of spending in our whole economy may suddenly fall off, because the net result of all the decisions of our tens of thousands of businessmen has been to invest less money in plants, equipment, and improvements than they had been investing previously.

What does this mean to the rest of us? The number of new plants going up is cut off sharply. All across the country bricklayers, carpenters, electricians, and other construction workers are thrown out of their jobs. The lumber mills feel it, too. Output and employment and payrolls in this industry begin to go down.

But that is not the end of the story. If no new plants are going up, there is no need to purchase equipment for them. As a result, blast furnaces in Pittsburgh go out, machinery and machine-tool factories in New England close down. So, too, in the iron mines of Minnesota and Alabama and the coal mines of Pennsylvania and West Virginia, operations go on short shifts. Many workers are told they are no longer needed.

But there is still more damage to come. The men who have been laid off in all these industries, and in hundreds of lesser ones, are forced to tighten their belts and reduce their own spending. When there is a slimmer pay envelope—or none at all—on Saturday, that means less meat on the table and less milk for the youngsters. So the corner grocer finds food stocks backing up on his shelves for lack of buyers. He cuts his prices to his customers in order to hold up his volume of sales, but for that very reason he cannot afford to pay as much to the wholesaler, who in turn bids down the price to the farmer, which means less income and less consumer spending all along the line.

In past depressions, before 1933, state, municipal, and Federal governments usually added to our troubles by cutting their own expenditures as tax returns declined. Teachers' salaries were cut, government employment was reduced, public building slowed down or halted. The result was further to reduce the money available for spending in the stores, and hence further to reduce production and employment.

In a modern industrial country like ours this cycle of steadily decreasing income for all of us, which begins with a decision on the part of businessmen in general to reduce their building of new factories and the buying of new production equipment and machinery, rapidly fans out through the whole economy until everywhere we find shrinking demand of goods in the stores, falling prices, decreasing production, and rising unemployment. All of us are hurt, and most of us are *badly* hurt.

Unless something is done to prevent it, this process continues until the spending of all of us as consumers has been brought down to bedrock levels. As we have seen, our daily spending for *essential* goods and services cannot *wholly* disappear, as business spending for new factories and equipment can and sometimes does. Even in the worst depressions, most people have some income (some even have a great deal) and others are able to draw on their savings to feed and clothe their families. This provides a bedrock level of spending that will finally bring any depression to a halt. Then it is a question of how soon business spending on plants, equipment, and repairs will revive and set the swing on its way upward once more, to result in high income and high production for a brief period before the seemingly inevitable downswing again gets under way.

This is the way our modern industrial economy has always worked in the past. This is the way it always will work in the future unless we get together and plan it otherwise.

The Story Behind Our Worst Collapse

We emerged from the First World War the leading industrial nation of the world. As our experience for the past century had demonstrated, we had long been subjected to the ups and downs of the business cycle. As our statute books demonstrated, we had tried to do something about it. The Federal Reserve System, in fact, had been acclaimed as though it alone could mean the end of depressions.

As the world's leading industrial nation, we affected other nations far more by our economic policies than they affected us by theirs. Everybody recognizes that this is true today. Although it was true only in lesser degree after the First World War, it was then but little understood. If at that time we had recognized the fact of our new industrial world leadership, we might have adopted other policies than those we followed in the twenties.

Be that as it may, in turning to an examination of our experience in the period following the First World War, I shall disregard for the moment factors arising outside our own country. I do so, not because these foreign developments were not important, not because they did not have any effect upon us, but because the essential story of that period can be told in terms of what happened to our own people.

The center of gravity of the world economy had shifted to the United States and what happened there largely determined the course of economic events in other lands.

Inside the United States, important developments had taken place. By the twenties three significant changes had occurred which make it necessary for us to distinguish this period from that which preceded it.

First, there was a fundamental change in the manner of our growth. For generations, we Americans had made our plans with the great open West a very real and tangible part of our economic environment. Although America was growing in all its sections, the West was the ever-present symbol of the growth yet to come, as well as a practical escape valve for Easterners who wanted to improve their lot or to make a new start.

With a flood of new citizens joining us each year from overseas, and with a high birth rate, the bedrock demand for additional food, clothing, and shelter necessary to meet our minimum living requirements had grown at a rapid pace.

Shortly before the First World War, we reached the end of our physical frontiers. Our last continental territories, Alaska alone excepted, had been admitted to the Union as states. As we faced our new postwar world, we were all conscious that the old geographical elbow room was gone.

Actually, of course, there was then, as there still is today, ample room in all parts of the country for pioneers of a new type. But that wasn't the way most of us felt. We had begun to feel cramped. The new laws restricting immigration were an indication of our attitude. In that atmosphere, business necessarily lost some of the old boldness, which had been based on the knowledge that a business expansion might be a couple of years too early but couldn't be wholly wrong in a country growing like the U. S. A

Second, the sorts of things that we consumers spent our money on had changed significantly. In the nineties, our purchases had been limited almost exclusively to articles of food and clothing and a roof over our heads. It took only a minor fraction of a family's income to buy the stove, the washing tub, and the old-fashioned icebox that constituted the so-called "consumers' durable goods" of that day.

How different the situation in the twenties! The automobile, the radio, the electric refrigerator, the washing machine, the vacuum cleaner, the toaster, and all the host of appliances that today millions of us take for granted had appeared for the first time as a part of many family budgets. An increasing fraction of the family's income came to be spent upon these items.

What is significant about this change is that the need for these new items, unlike the need for food and clothing, was postponable. A man must eat every day, but he can postpone buying an automobile or an electric clock. A major part of the spending of all of us as consumers was becoming more and more like the spending of our businessmen for new factories and new equipment. More and more the *total* amount which each of us spent each year was beginning to depend on our prospects for the future—our job, the likelihood of advancement, the prices which we received for our crops.

When men lost their jobs or saw others losing theirs and feared for their own, that was quickly reflected in a reduction of their family spending for the new refrigerators, automobiles, home furnishings, and vacation trips—spending readily adapted to such postponement. At the same time, therefore, that business investment spending turned down, and for much the same reason, the total of all our consumer spending also turned down with greatly increased abruptness.

We went on buying essential food and clothing—although in reduced amounts. But millions of us stopped buying completely the new appliances and home equipment which had begun to make life easier. And this new development meant not only a sharper drop in the total amount of goods and services which we produced and hence in our total national income and employment. It meant, too, that depressions were bound to go much further and become much deeper before the bedrock of absolutely essential, nonpostponable purchases was finally reached and the decline in production in income was brought to a halt.

Third, there was the greatly increased ability of our workers to turn out more goods for each hour of effort. This factor had always been present, as machines became more widely used and constantly improved from year to year. After World War I, however, it became very much more important than in earlier years.

Now, one might think that a rise in the factory output of each individual worker for each hour of effort, resulting from improved machinery, better management, and increased skills, would mean more goods and more income for everybody and a steadily rising standard of living for us all. Of course, that's exactly what it should do. But unfortunately, as we shall see, it hasn't always worked out that way in the past. In the twenties, for instance, people came increasingly to talk about "technological unemployment."

This could mean only one thing. The increase in our ability to produce was not being reflected in a corresponding increase in our weekly pay checks. In many industries the total factory output, instead of moving upward, stayed the same while the number of jobs in the industry was reduced because of the more efficient machines. If wages for those remaining at work had increased rapidly enough, the total of all wages paid out in such industries might have been at least held steady. But the increases, when they came, were usually small, and as a result the total purchasing power generated by these industries was reduced.

The significance of all these developments lies in the fact that each tended to make our economy more likely to experience a sudden loss of purchasing power and more likely to remain depressed when the slump really came. With the loss of our old reliance on rapid national expansion to float a firm or an industry out of a questionable investment in new factories or equipment, with our consumer spending in the stores taking on some of the ups and downs of business spending, and with the total income of all of us as consumers increasing far more slowly than our ability to turn out the goods, we could expect future depressions to be even worse than those we had known.

The real proof of the growing dangers, however, was postponed for several years. Our next depression, although costly and wholly unnecessary, stemmed from somewhat different causes. Blithely assuming that the end of the war in 1918 meant the end of inflationary dangers as well, we pulled off the few wartime controls that had been imposed and let rents and prices go free. After three months of hesitation they started up through the roof. In the year and a half following the armistice we came close to doubling the amount of price inflation that had occurred during the four years of war. In 1920 and 1921 we paid the penalty, suffering one of our sharpest and hardest depressions.

In that collapse, factory wage-earner employment alone was slashed 3 million—31 per cent. Factory payrolls were cut 44 per cent. Business failures jumped to more than 20,000 a year. Corporation profits turned to losses, with 11 billion dollars lost on inventories alone. Farmers' prices dropped 52 per cent, and nearly half a million farmers lost their farms during the next five years through foreclosures.

Sharp as was the collapse, the recovery, thanks to a huge backlog of demand for all kinds of goods which had developed during the war, was almost as rapid. Beginning in 1923, indeed, we entered a period of prosperity almost without precedent in our history. This was the period which at the time was characterized by many enthusiasts as the "New Era."

Prosperity of the Twenties in the Making

What accounted for the prosperity of the middle and late twenties? On this, most economists and students of the period are agreed. There were four major factors.

First, there was a tremendous upswing in the construction of new homes. During that war, just as during this one, housing construction had been curtailed in order to free men and materials to meet the demands of our war machine. The growth of population and the increase in the number of families during the war, coupled with the wearing out of existing dwellings, left the country at the end of the war with a crying need for more housing.

It was this backlog that supported the housing boom which at its peak in 1925 and 1926 saw the building of nearly a million dwelling units a year, and the employment of nearly 3 millions of workers in actual construction and 1½ millions more in the manufacture of construction materials and house furnishings.

Second, there was the gigantic expansion of the automobile industry. Before the First World War the motorcar was a plaything of the rich. In the twenties it became a family necessity. In 1914 only one half million cars were produced. In 1929 production had grown to 4½ million.

This great development had an effect not only on every aspect of our daily living, but on our entire economy as well. To build the plants and supply the materials necessary to produce these cars and to operate them, a dozen new industries had to be born and hundreds of established industries had to double and triple their output. There is hardly a county in the land whose prosperity was not increased by the rise of this great mass-production industry.

Today we take the petroleum industry, the rubber industry, the production of sheet metal and plate glass so much for granted that we don't realize how powerfully the automobile contributed to making them what they are today. Service stations, roadside stands, and playgrounds far from urban centers—all these, too, we take for granted, but all came to life with the development of automobiles priced within reach of our millions.

Third was the need for highway construction. During the twenties, surfaced highways in the United States increased from 300,000 miles to 660,000 miles. The highway construction of this period matched the railway construction of the seventies. Farmers were "got out of the mud," villages were linked with cities, our urban centers were joined closely together. The whole country, from East to West and North to South, was provided with a network of modern highways over which, as the automobile hit its stride, there rolled an increasing proportion of our transportation.

These roads were in large part made necessary by the development of the automobile industry. It is equally true to say, however, that they made possible the mass production of automobiles. This again underscores the interdependence of all the parts of the economy. The roads were built by government. The automobile industry was built by private business. Each was necessary to the other. It would have been a sad day if we had depended on government to develop the automobile. It would have been just as sad a day if we had waited for individuals or corporations to develop roads for private profit. But with industry and government each doing the job it was cut out to do, the combination was irresistible.

Fourth, the utility industries, electrical utilities in particular, embarked on a program of expansion that called for a huge amount of job-producing investment. Central plants were built and provided with the most modern equipment. Giant towers were built to carry thousands upon thousands of miles of transmission lines which spiderwebbed out to all parts of the country. Transformer stations dotted the landscape.

During these years our electric-power capacity was increased from 15 million kilowatts to 32 million kilowatts. Annual output of electric energy climbed from 40 billion kilowatt hours to 60 billion kilowatt hours.

Electricity carried more and more of the burden not only of industrial toil but of household drudgery. While the quantity and size of installed industrial electrical machinery expanded year after year, American homes acquired a host of electrical appliances, large and small. Like the automobile industry, the electrical utilities carried other industries with them in this broad expansion.

These four factors, it seems to be generally agreed, were the basic reasons for the high level of prosperity and employment which we shared in greater or lesser degree in the middle and late twenties. Each created the need for more and more workers, thus tending to cover up the steady drop in employment in those industries where the increasing efficiency of the machines outstripped the ability of us consumers to buy an increased amount of the product. Each helped to maintain our total national purchasing power, which otherwise would have steadily diminished.

There were many other factors of lesser importance, and so closely are the various parts of our economy intertwined that it is not always easy to say where one factor of expansion ends and another begins. But the important thing is that the total amount of investment in new housing, new industries, new factories, and new equipment was high and sustained year after year. For the late twenties as a whole the volume of business investment spending—spending which provided jobs and purchasing power—ran to nearly 18 per cent of our total production.

It was this sustained high level of business investment spending, and the employment and payrolls that it provided, which kept the dollars flowing through all the channels of trade and production and consumption, across the counter of the corner grocer, into the cash register of the filling station, the treasury of the cereal manufacturer, the pockets of the farmer and his hired help, into the wallets and the bank accounts of all who furnished goods or services of any and all description.

Throughout these years we had high employment and briefly we even touched full employment. And it was wonderful! So comparatively healthful did conditions seem, so general and high the prosperity created by this flood of investment spending, that people talked confidently of an era in which depressions would forever be unknown.

Yet suddenly, with warnings that only very few people were able to read at the time, that golden age came to an end. On Tuesday, October 29, 1929, the bottom dropped out of the market and the crash echoed in every headline.

The panic which began in the stock market that day spread rapidly throughout the length and breadth of the land. Everywhere orders were canceled, everywhere men were thrown out of work as plants closed down and new construction came to a halt. The economy did not rally from that crushing blow. Nineteen thirty—1931—1932. For over three years economic activity steadily dwindled and unemployment grew and grew to frightening proportions.

This was nothing temporary, nothing minor. Month after month and even year after year, the purchasing power of our people steadily declined and the economic outlook for all of us grew more and more bleak. We were engulfed in the greatest depression of history—a depression that created tens of thousands of bankruptcies and foreclosures, that left 15 million workers walking the streets in search of nonexistent jobs, that reduced farm income by 70 per cent

Why did it happen? What caused this sudden plunge from the golden heights of the "new era" to the abyss of bankruptcy, unemployment, hunger, and despair?

Our Poorly Divided Economic Pie

The Hoover Administration at Washington, newly elected in 1928 to continue established policies, was as well disposed toward business as were its predecessors during the previous eight years, as well disposed as any administration ever has been. Business could not have asked for a more favorable political climate.

Nor can high taxes be blamed for the catastrophe. Taxes were not only low; they had been steadily lowered throughout the period and no increase had even been proposed.

The budget was balanced. Indeed, the national debt was being rapidly reduced.

There was no harsh "regimentation" or onerous government control. There was no bureaucratic "snooping" into the finances of corporations which might make them hesitate to expand their facilities.

Clearly the cause of the crash and of the continuing depression must be sought elsewhere. Beneath the surface prosperity which most of us enjoyed in the twenties, behind the surging investment in new plants and facilities, and behind the booming stock market, the forces of depression had been gathering year by year. These were not visible to men of that day, but they seem clear as crystal now as we look back upon that period.

I touched upon these developments some pages ago. Let us now look into them more carefully. Throughout the twenties the output of each factory worker per hour of effort rose steadily. Between 1923 and 1929 output per man-hour in the manufacturing industries increased by approximately one quarter—24 per cent, to be exact.

On the other hand, the average hourly earnings of our millions of workers—the wages being paid out by industry—increased at no such rate. Over the same six-year period the increase in the average hourly earnings was only 3½ per cent! And what was true in manufacturing was equally true in related industries. In mining, the increase in output per man-hour was 27 per cent, while average hourly earnings actually decreased 10 per cent. In the new electric light and power industry output per man-hour went up 39 per cent, while average hourly earnings rose only 6 per cent.

All across the nation the purchasing power being distributed to our wage earners, who with their families constitute the great majority of the nation, was falling further and further behind the incomes that were necessary to buy the steadily increasing amount of goods we were capable of producing. Nor was the gap between the rapidly growing output of our average worker and his lagging wages made up by a *decrease* in the average prices which he was asked to pay in the stores. The cost of living over those years remained roughly the same.

Very little of the fruits of our increased productivity of those years went to our millions of wage earners. Where, then, did they go? The record on profits makes the answer clear. Between 1923 and 1929, while industrial production increased 25 per cent, corporation profits before taxes in our manufacturing industries increased by 57 per cent. For the railroads, and for the utilities, the increase in profits was even greater, coming to 59 and 156 per cent, respectively.

This high level of profits largely explains the surface prosperity of the twenties. It explains the lush spending at resorts and night clubs, the booming stock market. It explains, too, why that prosperity could not last and why the crash finally came.

If our wage earners had received a higher share of the growing national income to spend for additional goods and services, and if our stockholders had received a lesser share, everyone, including our stockholders, would have been vastly better off.

In the light of our previous discussion, you might well ask how our economy could possibly have kept going so long at a relatively high level of prosperity. With our ability to buy an increasing amount of consumer goods held back by the failure of our individual incomes to keep pace with our rising ability to produce, how could our businessmen find any reason year after year for the building of more and more facilities with which to produce more and more of such goods? The answer is largely to be found, I think, in the stock market and in the broad illusion of growth and prosperity which speculation built upon it.

With profits increasing so rapidly, it was not long before the prices of corporation securities began to move up. This increase in stock-market prices soon generated a momentum of its own, as more and more people were drawn into the stock market in hopes of getting rich quickly. Everyone remembers the developments of that day. Everyone remembers the dopester sheets, the hot tips that were passed along by cab drivers to their passengers, by secretaries of bigwigs to their boy friends.

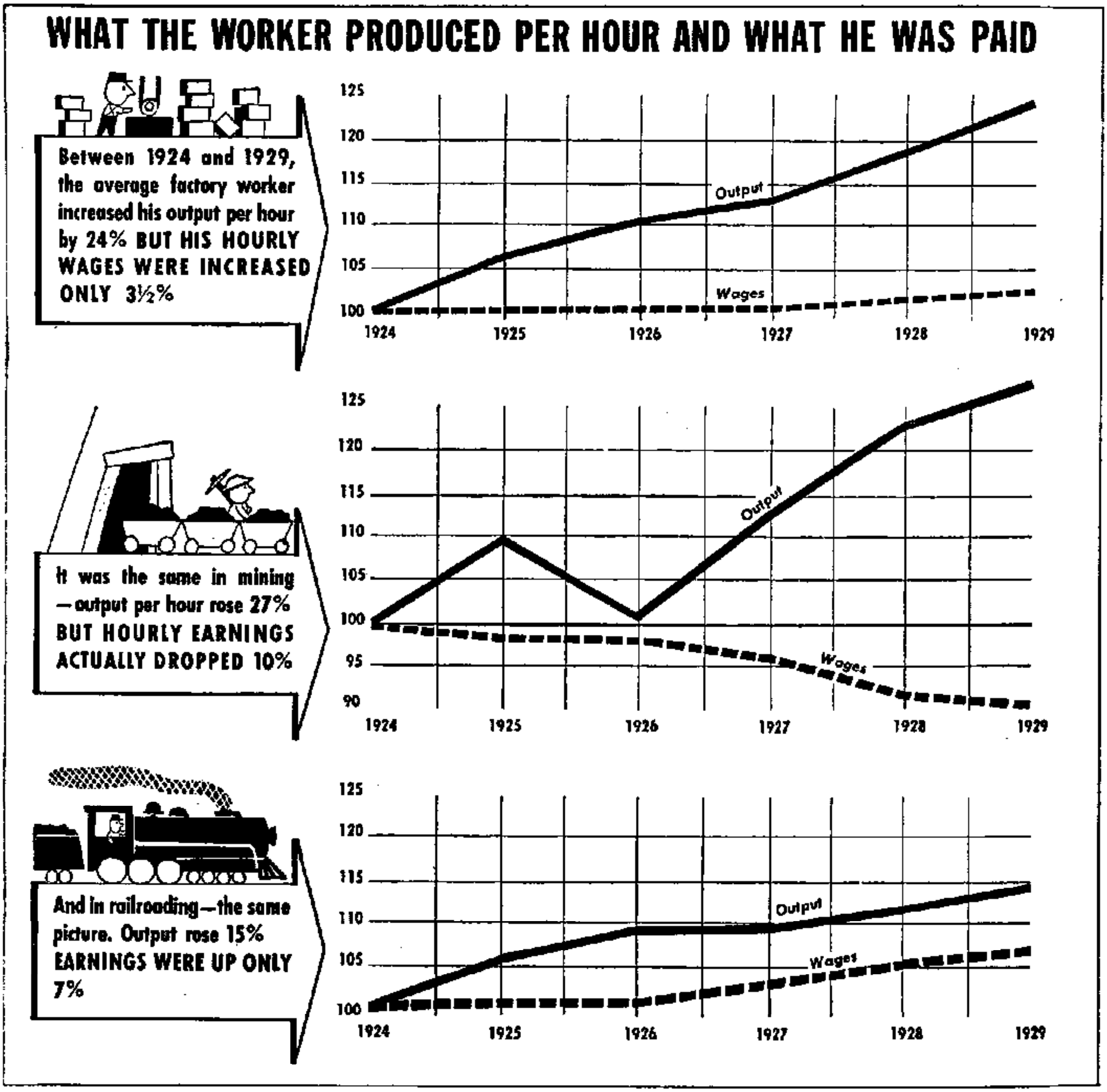
As I say, the rapid rise in the stock market stemmed initially from the rapid increase of profits. On the other hand, the rise in the stock market itself pushed the level of profits still higher. Most of those who had money were making more money, lots of money, on any security and every security they might choose to buy. There was the illusion that everything they touched would turn to gold.

Money made on the stock market was used to finance the construction of hotels, of office buildings, and even of factories. On the other hand, the money being made by the owners of the hotels and of the office buildings and of the factories was being poured back into the stock market, pushing the prices of stocks higher still. The boom fed upon itself.

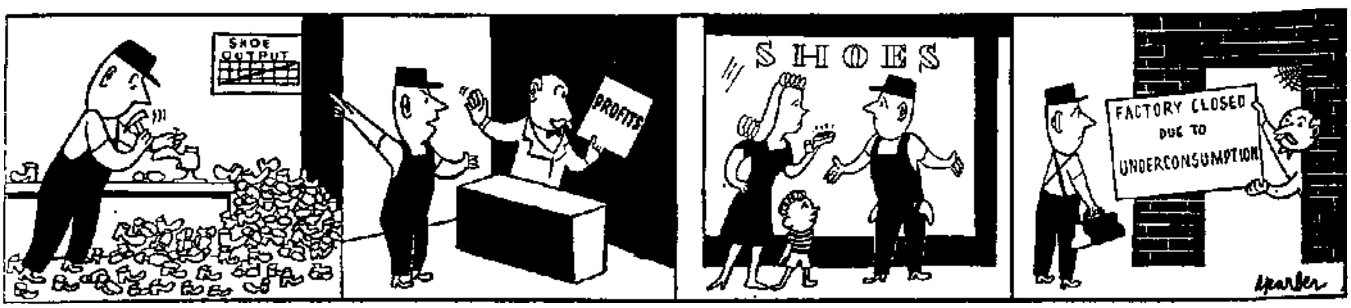
The important thing to remember is that much of the investment of those years in new factories and equipment was not made with a rational eye on the long-range profitable market for the product which the new factory was to produce. Many businessmen had long since quit asking questions of this sort. Almost any project, no matter how farfetched, no matter how impractical, found a backer. In fact, it often found ten backers where one was sufficient.

Let there be a rumor that a real-estate boom was in the making, as in Florida, and thousands of speculators with hundreds of millions of dollars were on their way to Florida to get in on a good thing. Let

How the Depression Was Born



Not Enough Purchasing Power to Buy the Increased Output!



there be a rumor of a corporate merger, and stocks skyrocketed on the assumption that this was simply the first move toward bigger and better profits.

Few were concerned that most of these mergers were simply reshufflings of existing properties whose earning capacity had already been vastly overvalued. Few bothered to unravel the complicated structure of holding companies and subsidiaries, to see what was going on. It was enough that everything was going up.

When we look back on that period in the light of what we now know about the fatal lack of sufficient purchasing power in the hands of our millions of everyday citizens, the thing that is surprising is not that the "New Era" came to an end, but that it lasted as long as it did.

As long as the profits were actually flowing into new construction, and into loans to pay for goods shipped overseas, high employment was maintained. But because of the low purchasing power of our workers and the high prices resulting from antiquated building methods, the market for new homes began to dry up as early as 1926. By 1928 new factory construction had clearly run ahead of our ability to buy the increased supply of goods which the new factories produced. Starting in 1928 the buying in American markets, financed by our own loans to nations overseas, diminished as our bankers became fearful of European instability.

It was these slowly accumulating forces in the investment markets which finally tipped the scales toward depression. But it was lack of sufficient money in the pockets of Mr. and Mrs. Average Citizen which underlay our whole basic problem.

If ever it has been demonstrated that prosperity cannot continue unless enough income is being distributed to all of us—farmers and workers as well as businessmen—to buy the increasing products of our increasingly efficient system, it was demonstrated in the twenties. If we need any demonstration of the fact that our economy can choke itself to death on too many profits, the twenties provide that demonstration.

Even with the most business-minded administration in our history, even with falling taxes and a government surplus, even with everything that businessmen thought they needed to insure continued prosperity, we could not duck that basic issue for more than a few short tinsel-decorated years.

4

The New Deal Moves In

THE three years that followed the Wall Street crash of October, 1929, were a growing nightmare to every group among us. Our national production and national income fell lower and lower, and that shrinkage was felt by all—agriculture and industry, workers and employers, small business and large, landlords and stockholders, factory hands, white-collar workers, and professional people. Each one of us saw his income shrink as our national economic life contracted.

The pattern varied from group to group, but the fundamental fact was the same.

Our farmers tried persistently to make up for lower prices by producing more, but the glutted markets meant still lower prices. As a result, farm incomes dropped steadily.

Industry, with greater control over its production, cut prices cautiously. When even that didn't help to hold up sales, businessmen reduced their output into line with what people would still buy at those prices. For both reasons, business income also dropped steadily and more and more firms went into the red.

The factory and white-collar workers who weren't needed to get the reduced production found themselves jobless. The workers who still had jobs found themselves taking pay cuts, a new one every six or eight months. All workers saw their incomes fall. For millions they fell to zero.

Doctors and lawyers still found people in their waiting rooms, but they had more trouble collecting their fees even when they reduced them from normal levels. Their incomes dropped like the rest.

America was not alone in its rapidly growing economic misery. There was mounting depression throughout the world—in the agricultural countries like Argentina and the great industrial countries like Britain and Germany. All were sucked into the downward spiral. Each nation in turn helped pull down the others. We in America were pulled down by the other countries, but they in turn were pulled down by us. And just because we were the biggest and most powerful and were falling the fastest, we had more effect on them than they on us.

Here at home the official remedy for the depression was traditionally simple—just endure it and hope for the best.

President Hoover did call a White House meeting of leading industrialists promptly after the crash and asked them to pledge not to cut their payrolls. But he wasn't very persuasive and he couldn't be very persuasive, for he offered no action on the part of government that could provide any assurance that if they followed his advice they would stay out of the bankruptcy courts.

As the depression deepened, there was some talk of expanding public works to provide jobs and put purchasing power into circulation. But there was even stronger talk of government economy, and the economy talk won out.

Government didn't expand public works to add to the number of private jobs. Instead it laid off employees of its own. Government didn't put more purchasing power into circulation to offset the cut in purchasing power being paid out by business. Instead, it made the shrinkage of purchasing power worse by cutting its own payrolls.

As the depression grew worse still, there was an increasing clamor that something be done. This was resisted. Some said that the depression was necessary to squeeze the "unsound elements" out of the economy and so to prepare the way for a sound recovery. Perhaps some people can understand what this means. Perhaps some people can understand how shrinking purchasing power, in the city and on the farm, how business losses and bankruptcies and farm foreclosures can cure what ails our economy, without crushing our people in the process. But so far I've never found anyone who could make it clear to me.

Others simply reminded us that we had always come out of past depressions and we would undoubtedly come out of this one. "So just tighten your belts a little further," they advised. "It may take a little time, but be patient and in due course everything will straighten itself out."

It is not easy to recall how dreadful conditions became. The price of corn in Iowa had fallen from 90 cents a bushel in 1929 to 59 cents in 1930, but by the end of 1932 it was selling at the unbelievable price of 12 cents a bushel. And the heartbreak that this meant to the Iowa corn farmers was matched by that felt by our dairymen in Vermont, New York, and Wisconsin, our cotton growers in Mississippi, the tobacco raisers of the Carolinas, and our wheat and cattle men of the West.

Milk at $1.08 a hundredweight. Cotton at 4½ cents a pound. Tobacco at 8½ cents a pound. Wheat at 32 cents a bushel, and cattle at $3.28 a hundredweight! Such were the lows to which the Great Depression dragged the farmers of this country.

In the cities, there was the same heartbreak but often even greater misery. In 1932, 15 million workers tramped the streets, hopelessly looking for jobs. Other millions were working only a day or two each week, and everyone felt the haunting fear that the next pay envelope would be the last.

And what about business? Did businessmen come off any better? Hardly. In the single year 1932 over 30,000 firms went to the wall. In that year 75 per cent of all American corporations were in the red. Business lost a total of 6 billion dollars. There was plenty of heartbreak in those figures, too.

As we look back today, it seems incredible that millions of us were willing to go hungry while crops rotted in the fields, that millions of us were willing to go without all the things we needed so badly, while factories stood idle and men lined up everywhere asking for jobs.

What that senseless waste cost us in misery and frustration, in broken hopes and broken lives, cannot be calculated. But we can calculate how much work went undone because the jobs weren't there and how much output went unproduced because the factories were idle.

Between 1929 and 1940 the depression cost us 88 million man-years of lost work. It cost us 350 billion dollars of goods and services that were never produced. That's a lot of work and a lot of output for a country even as rich as ours to pour down the drain. If we had kept those men on the job, if we had got that output, here's what it could have meant to us.

We could have built 10 million additional homes, a new home for every third family. We could have had 5000 new hospitals and 7500 new schools—both of which we still need badly. We could have harnessed five more great rivers—as we did harness the Tennessee—to produce cheap power, cheap fertilizer, cheap transportation, and to protect the river regions from the devastation of floods. Tens of thousands of more miles of modern highways could have added to our national system of roads.

In addition we could have had 20 million more automobiles than we actually bought during these years; 40 million more radios; 40 million washing machines and vacuum cleaners, too. For the first time every family in the land could have had enough food and the right food. We could have had 400 million more men's suits and 1200 million more women's dresses, together with 200 million coats, so that none of us need have been shabby.

Most important of all for many families, we could have paid an additional billion and a half doctors' and dentists' bills. And every family that didn't have a vacation in the country or at the shore during these years could have had one *every year.*

All these things and more we could have built between 1929 and 1940 if all of our people could have been provided with jobs—if, that is, we had licked the problem of unemployment.

We didn't see all these things then as clearly as we see them now. But we knew that something was terribly wrong and we showed it in the national election of 1932. We had had enough of do-nothing government; we wanted action. And we got it!

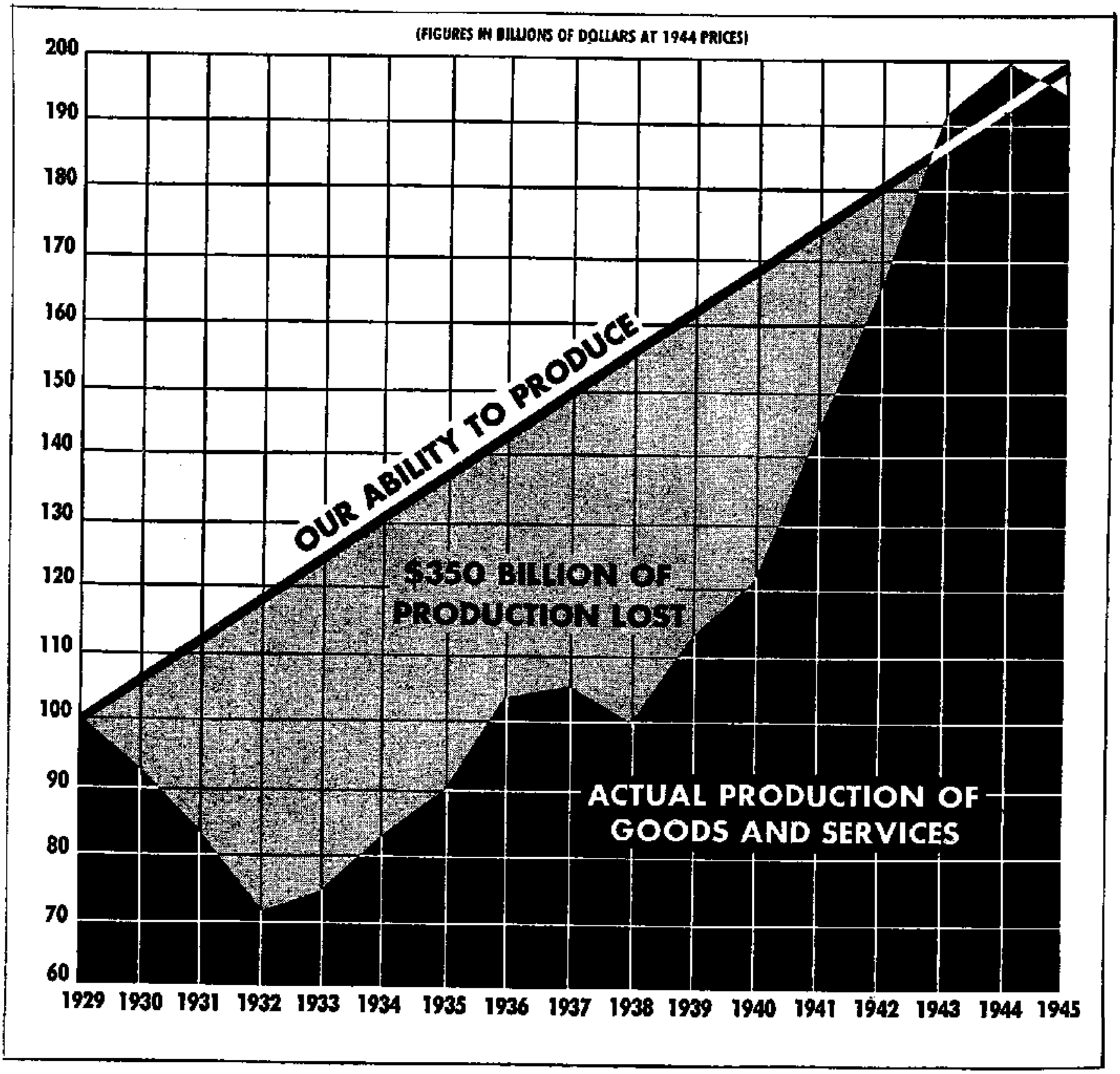
Before I go on to that, there is an interesting point I would like to make. When trouble came in the early thirties, there was plenty of talk that the free-enterprise system was doomed, that it couldn't work, that it had to be changed.

But did we change our system? No, we changed the administration of our government instead. This is a tribute to the good sense of the American people. They rightly put their finger on where the trouble lay. That is where they changed things.

This is something that some nervous businessmen should remember. At the bottom of the depression, when our free-enterprise system was working at its very worst and was in fact approaching paralysis, the American people still wanted to keep it.

In the election of 1932 there was no broad group, neither workers, nor farmers, nor businessmen, who voted to change the system. They voted for an admin-

The Cost of the Depression of the 1930's



The Loss to Individuals

istration that they believed would keep the system and make it work. That's something some of us should keep in mind the next time we are tempted to label each new proposal "communistic."

And it's something politicians should keep in mind, too. The people of this country want the free-enterprise system, but they want it to work. And they know where the final responsibility lies for making it work. They know business alone can't carry that responsibility, that farmers alone can't carry it, that workers alone can't carry it.

They know that final responsibility for the general welfare, for making our system work for all of us, must rest on all of us through our government.

I have said that in the election of 1932 the people voted for action and that action was what they got. In the early months of 1933, after a steady drift to lower and still lower levels of production and income, and before the new administration had taken office, our economic system began to fall apart at the seams. Bank failures, which had been increasing at an ominous rate, suddenly spread like a prairie fire, whipping across whole states at a time. Men rushed to save what little they had left. The result was sheer panic.

That was the situation which confronted the new president when he took office in March. He moved swiftly to correct it. After closing the remaining banks to permit a few days of stocktaking, he reopened them, at the same time making it clear that they had the full strength of the national government behind them. The panic was dispelled. Our banking system began to recover. And soon legislation was passed establishing a national system of deposit insurance that made future bank runs almost impossible.

The New Deal did not begin with a blueprint and move methodically step by step. It moved quickly and wherever the need was most acute. It was the banking situation that called for immediate attention and so it was banking legislation that was first enacted. But there were dozens of other situations that were scarcely less urgent. And so, soon there were dozens of measures that were thrown into the Congressional hopper.

To provide jobs and income quickly there was emergency relief, the Civil Works Administration, and a broad public-works program. Before long, CWA and PWA signs dotted the landscape of our cities and villages. Everybody remembers that.

Matching the swiftness of these moves on the banking front and on the relief and public-works front, there was action to stop the foreclosure of homes and the foreclosure of farms. There was action to raise wages and to restore prices to more profitable levels. There was action to establish a floor under wages and to provide insurance against the risks of old age and unemployment.

Some of the moves were made to speed recovery, some to provide long-needed reforms. But always the helping hand of government was extended—to the farmer, to the businessman, to the workers, to the home builder, to the investor. Everywhere the effort was to create jobs, to get purchasing power flowing, to get the wheels of industry turning again.

There are tens of millions of Americans who will always remember Franklin Roosevelt with deep affection because the steps that were taken meant the difference between going hungry and cold and having some food on the table and some coal in the stove.

There are many others who still shudder at the very mention of the New Deal, and who have never been able to understand why so many of their fellow citizens were devoted to Mr. Roosevelt. I think it must be because, never having gone hungry and cold themselves, they cannot imagine what a difference it makes to be hungry and cold no longer.

There was much waste and inefficiency and some politics in relief, national and local. Certainly these programs don't furnish a model for dealing with unemployment. But the situation was desperate and desperate measures were called for. Those who today look back and see only the mistakes that were made miss the point of the story.

A neat and orderly and efficient government with Congressional and public understanding could have prevented the conditions of 1932. Once these conditions had been allowed to develop, neatness and orderliness for the time being were no longer possible.

The succeeding years were to see the early emergency measures added to, amended, replaced. They were to see some, such as the NRA, struck down by the courts. But always there was a new program or a combination of programs. Always the administration was "trying something and if that didn't work, trying something else." Always there was action, action directed toward carrying out more clearly the recognized responsibility of government for the general welfare.

The "somethings" seemed to work. Or did they?

I would be the last to defend every action that was taken by the New Deal. As I have already said, there was nothing resembling a plan, a blueprint. There was no program with its parts neatly matching one another. Quite the contrary. The action taken was frequently hasty and ill-considered. Too often, even when the moves were not downright mistakes, they pulled in opposite directions, the one undoing the accomplishments of the other.

And most serious of all, there was something less than teamwork between government and business, and it showed in the results. Both sides contributed to it, and government not a little. In this atmosphere many businessmen fought hard against such innovations as the Wagner Act, Tennessee Valley Authority, the Social Security Act, and minimum wage legislation. Bitterness and recriminations on one side stirred up bitterness and recriminations on the other. Everyone was hurt and our difficulties were increased.

Much of the trouble stemmed from the newness of our problems. No longer were our people willing to sit idly by while economic depression ran its traditionally brutal course. This represented a turning in our economic history. The steps taken to correct the underlying cause of our dilemma were new and unfamiliar. Too often businessmen, overlooking the nature of the problems with which we were grappling, viewed each step as a socialistic threat to their own independence.

The Case For and Against the New Deal

But let's get back to the really basic question—what were the results? Did the New Deal work, or didn't it? That we had sharp economic recovery no one can question. The total volume of goods and services which we produced surged from 55 billion dollars in 1932 to a level almost twice as high in 1940.

Farm income rose from less than 2 billion dollars in 1932 to nearly 5 billion dollars eight years later. Nonagricultural employment increased by 10 million. Corporations, which in 1932 lost 5 billion dollars, earned profits of 7¼ billion dollars in 1940. All this spells recovery in any language.

But there is another side to the story. In 1940, as we saw in Chapter 2, our economy was far from healthy. In 1940 our national production still totaled about the same as in 1929, somewhat more, perhaps, when allowance is made for the lower level of prices in 1940. Ten years later and in spite of the tremendous increase in our ability to produce, we were merely back to the level at which the depression had overtaken us. And after seven years of recovery there were still 8 million men looking for jobs. Certainly that is nothing to cheer about.

Now, as we have seen, depressions are nothing new in our history. We've had them all the way back to our early days, and they've grown steadily worse. But throughout our history and in spite of the ravages of periodic depression, we have always made upward progress. While every boom was succeeded by a depression, the recovery which followed always carried us to new peaks. This time, after ten years, we were only back where we had started.

How can this be explained? Is there, after all, some unseen governor on our motor that shuts off the gas when we reach a certain speed? There has been much debate on the subject, and three views have been put forward.

First, it is said that while the recovery of the 1930's, unlike every preceding recovery, did not push our economy up and out into new high ground, it is equally true that no collapse in our history had ever smashed our economy so completely as did that from 1929 to 1933. To pull a truck out of a ditch is one thing; to put it together after a forty-foot drop is quite another.

Besides, as some point out, it is not surprising that after so grueling an ordeal men everywhere should play it safe for a while and that they should take no unnecessary chances. Because of this natural caution business investment spending for new factories and facilities failed to develop on the scale needed for a full recovery and for full employment.

This explanation sounds reasonable to me. It may not be the whole story, but it is certainly a good part of it.

The second view is advanced by people who consistently opposed the New Deal. They argue that a normal recovery would have come about all by itself just as it always has before. All the New Deal accomplished, they claim, was to hold recovery back. Some of these people blame the result on New Deal spending for relief and public works, some blame it on the Wagner Act, some on taxation, some on our gold policy.

Some are sure it was the regulation of securities, others the competition of the TVA with private utilities, and still others say that it was just the general attitude of government toward business in every field where the two came into contact. In other words, according to this view, business investment spending failed to develop because business was nervous about what the government might do next.

Like most other Americans, I believe in the need for a healthy business confidence in our economy and for good relations between business and government. Although I am unwilling to accept all the arguments of those who say that bad relations between government and business held back recovery in the 1930's, I do believe that there is force in their general position.

Had there been greater teamwork between government and business, had we, all of us, made a genuine effort to understand each other and to pull in harness, the recovery would surely have gone further. Later in the book, I shall come back to this factor again and again.

However, there is a point here which should be faced, whether we like it or not, and that is the attitude of the great majority of our people toward government and business. Today, our people look to government to see that our economy really functions, and that there are jobs for all who want them. If any action on the part of the government unwittingly tends to discourage business investment spending, the popular demand will be, not for *less* governmental action to encourage business to move ahead, but for *more* governmental action in order to fill in the deficiency.

Some people assume that the failure of the Attlee government in England would mean automatically a return to power of another Tory government. I believe they are wrong. Far more likely the failure of the present government to meet the hopes of the people would mean a swing toward even greater governmental participation in the economic life of Britain.

In our own country, this trend places a heavy burden on both government and business, for obviously we want only the minimum of governmental action necessary to meet our needs. It calls for carefully considered action on the part of government—action keyed to the psychological as well as the pure economic factors in our enterprise system. And it calls for a clear realization on the part of business that government participation in our economic life is here to stay, and that business must learn to fit its procedures and planning into a somewhat new pattern.

But a third explanation was widely suggested as to why in 1940 we had been barely able to struggle back to the production levels of 1929. This third view held that both of the other explanations missed the point. The trouble with our economy, exponents of this view told us, lies much deeper than either the defenders or the opponents of the New Deal are aware.

"The trouble with us," these people told us before the war, "is that we have become a mature economy. We are still growing, but our period of really rapid growth is behind us. Our population is increasing more and more slowly, our country is developed, the frontiers are gone. We don't need the energy and investment that were necessary to span a continent, to open up the West and the South, to build houses for a people whose numbers were being swollen by a flood of immigration, to build cities where before there was only wilderness. Therefore, the result must be economic stagnation, not just depression following every boom, but depression in greater or lesser degree year in and year out."

The answer to this pessimistic analysis was made abundantly clear after Pearl Harbor. Let's see what happened when this "mature economy" of ours went to war!

5

The "Mature Economy" Goes to War

This is not the place nor am I the man to write the economic epic of these past five years. It is indeed too vast and overwhelming a story for any one man to undertake. But something of the story I can and must tell. For it was in the war years that we again found our strength and our confidence, and it is on the lessons of our wartime experience that we must draw if we are to solve the problems that lie ahead.

Never before in our history has America surged forward so powerfully or risen to such heights as it has since 1940. In 1940 our national output was 100 billion dollars. In 1944 it was 200 billion dollars. In four years we had doubled the dollar total of our national production. There was nothing partial about that expansion. It went all the way.

But such was our sorry state in 1940 that there was only a handful of people who could then even conceive of our reaching the levels that we did. In May of 1940, for example, when the German Blitzkrieg swept over France and the Low Countries, the President asked for 50,000 planes. There were plenty of people who said that that was absurd, that one couldn't even conceive of 50,000 planes, let alone produce them.

But we did produce them. And when we got to 50,000 we didn't stop. We went right on up to 75,000 and then to 100,000—and I mean 100,000 *a year*.

And in the spring of 1941, when the submarines were taking their huge toll of shipping and when the tonnage to keep the life line open to Britain was shrinking week after week, we set our sights at 4 million tons of new shipping a year.

When that goal was announced, some men gasped, and when that goal was doubled before many months were past, there were plenty more who said knowingly, "We haven't got the ways and we can't build them fast enough. We haven't got the skilled workers and we can't train them. And if we could build the ways and train the workers, there wouldn't be nearly enough foremen and supervisors to run the job. Those shipping goals are flatly impossible."

But it must have been possible, because we did it. Not just 4 million tons of shipping—we doubled that. Not just 8 million—we doubled that, too. And then we added a final 4 million to hit our stride at 20 million tons a year. Twenty million tons—that's production of ships in a single year nearly twice as great as the total of all the ships we had afloat in 1940. It's more than 40 times our normal peacetime production.

And that was the story right across the board. It was the story of every part, it was the story of the whole. It is the story of steel, the story of aluminum and magnesium, it is the story of machine tools and of the conversion of our giant automobile industry.

Do you remember the bitter struggle it took to get expansion of our capacity to produce the necessary raw materials and the expansion of our plants and machinery to turn those materials into guns and planes and ships? Do you remember when the practical men were saying, "How can we ever use those new plants when the war is over? What will we ever do with all that steel and aluminum and magnesium and with all those machine tools?"

But America was on the move. Nothing could stop us, neither the physical difficulties nor the fears of the practical men. We increased our aluminum production sixfold and our output of magnesium over fifty-fold. Our national stock of machine tools was increased by 50 per cent by the end of 1944.

It wasn't only the practical men who were without vision. The economists, the students of our economic history, for the most part did no better. Back in 1940, when the Federal Reserve Board's index of industrial production—that's the generally recognized yardstick of our factory and mining output—stood at 113, the economists told us that with hard work and good luck we could push it up as high as 136, but that was our ceiling. Before that year was out, the index had gone up to 138.

That was the end of 1940. By the end of 1943 our total industrial output—I don't mean prices, I mean tons and yards and barrels of goods produced, war goods and peace goods combined—was more than double what it had been in the spring of 1940 when these timid predictions were made.

I think I've said enough to drive home the point that in 1940 this nation didn't know—or better, had forgotten—its own strength. The depression took a deep toll from us, not only in the goods we didn't produce, but in the brakes it put on our imagination, our courage, our confidence in ourselves. There was a time when all of us knew that this was a big country and took it for granted that we always did things in a big way. We forgot that between 1929 and 1933, and it took us a long time to learn it again. But learn it we did, as our war record bears witness.

In 1940 and 1941 when we broke a production record, it made the headlines. We were pleased, but surprised. But as we hit our stride and the records began to fall faster and faster, they didn't rate headlines any more. Turning out a ship in ten days' time was no longer news—that was just the way Americans did things.

Today we're a big country once more. Again we do things in a big way. Everybody takes that for granted. We're back in the groove. That's the first lesson of the war. If ours is a "mature economy," we can take any amount of it!

There is another and equally important lesson of the war. Back in 1940, when we were just beginning our defense program, we were using 3 per cent of our total output to prepare against the threat of war, and we were using 97 per cent for peacetime purposes. As the threat of war steadily increased, we stepped up the proportion that we put into ships and planes and guns, but it was only after Pearl Harbor that we squared off and the production of war materials really began to roll. On V-E Day we were devoting almost a full half of our total output to war purposes.

Back in the early days of the defense and war programs, it was said that the more we sent to war the less there would be for those of us who stayed at home. And it was said that if we were to do our full duty and discharge our full responsibility to our allies, we here at home would have to tighten our belts. It was a question, they told us, of guns *vs.* butter. We couldn't have both. Now, that looked like a sensible proposition. But it didn't work out that way.

The more we produced for war, the more there was left for the rest of us. That wasn't true of everything, of course. We, at home, had to go without new cars and refrigerators and lots of other things. And the gasoline rations were pretty thin and fuel oil was barely sufficient to squeak by on.

On these things we tightened our belts, all right. But the sum total of all the goods and services that were available to us here at home was actually bigger at the peak of the war effort in 1944 than it was in 1940, and above what we had in the years before that. In other words, the standard of living of the *average* American family actually increased, at the same time that we were putting nearly half of all our production into winning the war.

How can we explain that kind of arithmetic? The answer is very simple. Great as were the needs of war, our ability to increase our production was far greater still. Therein lies the second lesson we must learn from the war. When we are all working at our full capacity, there is almost no need among us that must go unsatisfied.

During the war, by producing up to our capacity, we had enough to win a crushing victory over our enemies and to raise our standard of living, too. It follows that if in peacetime we all continue to produce at our capacity we can rebuild this country—our cities, our factories, our highways, our homes—and at the same time raise our standards of living, expressed in food, clothing, automobiles, modern household equipment, and recreation, far beyond anything we have ever known before.

Clearly we must learn how to make our economy function for the benefit of all of us and not simply to feed the endlessly destructive appetite of war. And learn we shall, for our wartime record of production will stand forever as a barrier against ever going back to the scarcity condition of 1940. On that I am myself utterly convinced. Our people will simply not permit that to happen, for now they know it does not have to happen.

Now we come to the question of how we got this tremendous expansion. What magic was it that raised our national production from 100 billion dollars to 200 billion dollars? (Allowing for changes in the price levels, that's an increase in actual production of roughly 75 per cent.) Part of it, of course, was the fact that in the time of national crisis everyone put his shoulder to the wheel. That was important. Part of it was the expansion of our plants and facilities that broke the bottlenecks holding back production. Some of these plants were built by private capital. Others, most of them, in fact, were built with government funds.

But when you add it all up it was government contracts that increased our prewar national output so sharply. It was the government's spending of billions of dollars, made necessary by war, that put men to work in the shipyards, the engine factories, the aircraft plants. It was government wartime spending that put dollars into the payrolls of American industry, dollars that in turn got spent by millions of individuals on food and clothing and haircuts and everything it takes for daily living; dollars that were spent and spent again and again, each time putting more men to work to produce more goods.

So great was the expansion of private spending, fed by the billions which the government was spending, that the money we all had available to buy goods began to outstrip the available supplies. The result was a bidding up of prices that pushed the cost of living steadily and dangerously upward. That was when the government stepped in with a vigorous program to keep down rents and prices.

This was in sharp contrast to the government programs of the middle thirties. In those days the need was to raise wages and restore profitable prices, to pump out purchasing power to put millions of men to work and to get the wheels of industry spinning. During the period of war we found it necessary to put ceilings on wages and on prices because, with all of us working, our total purchasing power was more than enough to take off the market all the civilian goods we could produce in addition to our military production.

The Lessons of a War Economy

As a last resort unlimited government spending can be used to produce jobs in peacetime, just as in war. But government spending beyond a certain point is not, as we shall see, the solution to our economic future. During the war, government spent 300 billion dollars on guns, planes, and ships. It left us with a national debt of about 265 billion dollars, calling for annual interest payments of over 5 billion dollars. We spent that money, we incurred that debt, not because we liked it, but because we had no choice.

There is a lot of government spending that is necessary in peacetime in order to get the educational and health services, the dams and power developments, the highways, schools, hospitals, and recreation facilities, that our government alone can provide. And there will be times when government spending will have to be increased above normal levels to keep our economy running at full blast. But as I shall point out in later chapters, government investment is only one, and not even the most important, of the tools which are available to us in our program to free our economy of depression and unemployment, and to enable us to move ahead to new heights of prosperity.

Before we get down to methods, however, there is another lesson of the war that I want to point out. In some ways, it is the most important of them all. The surging expansion we achieved during the war didn't just happen. It was no accident. It was planned that way, even though on some of the plans we held our breath.

I have had some experience in the war program myself, and I do not deny that there was a lot of fumbling, a lot of mistakes, a lot of working at cross-purposes, a lot of unnecessary irritation. But I think no one can question that in spite of all the errors this was the most brilliantly fought war in our history—on the battle fronts and on the home front, too. Everything we have learned about how the Germans and the Japs operated confirms this conclusion. Our enemies didn't even approach the imagination, the boldness, and the hard, cold drive and determination that went into the war program here.

And the contrast between what we did and what our enemies did is no greater than what we did this time and what we did in World War I. Those who are old enough remember the mess that was made of transportation in the other war when freight trains feeding Atlantic shipping were backed up clear to Pittsburgh for weeks at a time. The government was forced to step in, completely take over the railroads, unsnarl the traffic, and run them as one gigantic national system until the end of the war.

Contrast that with the record this time, when the railroads, operating from the outset under government guidance but private management, successfully overcame every difficulty and carried a load of freight and passengers nearly twice as great as ever before. To be sure, the service for civilians left something to be desired, but the job got done and it got done without anyone's even suggesting that the government really would have to take over.

What was true of transportation was true up and down the line. It was true of production, it was true of shipping. In World War I, we struggled to get our shipping production up to 4 million tons a year. We finally made it—in 1920, two years after the war was over. Match that up against the record this time! We struggled just as hard in the last war to step up our production of Liberty motors for airplanes. And we produced lots of them, but only three got into action over France. Again what a difference this time!

All this wasn't by chance. We got the production we needed when we needed it because the War Production Board, and the War Manpower Commission, and the Office of Defense Transportation, and all the others were in there to see to it that men and the materials got to the factories when they were needed to get the output that was scheduled. The right things in the right place at the right time, that's what made the record in World War II.

Our record this time resulted from teamwork—the co-operative effort of all of us working together with our government. Farmers, factory workers, clerks, stenographers, and businessmen—each was determined to outdo the others in making our wartime economy hum. And we learned that our united strength was overpowering.

In the past, as we viewed our meager output, we assumed that the path to individual prosperity lay in getting a bigger share for the economic group to which we belonged. The war taught us that by working together on a basis of mutual give-and-take we could produce far more, not only for our war machine but for ourselves. That's one lesson we must never forget.

I've already pointed out some of the things it took to get the tremendous output this time, but still another, I am sure, was the economic stabilization program.

This is an awfully complicated economy we live and work in. It operates through the play and interplay of literally millions of prices on millions of individual items and services. When a heavy load is suddenly put on it, those prices, and therefore our whole economy, can get out of whack in a hurry. That's what happened in the First World War, with serious consequences.

Not many people know that in that war we hit our peak industrial production in the months immediately following the declaration of war in 1917 and that thereafter, in spite of all we could do, production went gradually downhill. Nor do they know that from 1914 to the 1917 peak year, the increase of industrial production amounted only to a meager 26 per cent.

In the last war, failure to stabilize prices and rents threw our whole system out of kilter. No businessman could tell from one day to the next what his costs would be. Few producers could tell whether, when their operation was finished, they would come out with a profit or a loss. That's one reason why, while prices more than doubled, industrial production increased by only one quarter. In 1919, as a matter of fact, with prices rushing steadily upward, production dropped 6 per cent.

This time we kept a firm grip on the price and rent level. In spite of almost unbelievable pressures, the increase in industrial prices was held to about 25 per cent, with only one tenth of the increase coming in the last two and one half years of the war. In this war it was industrial production instead of prices that more than doubled. We not only had the right things in the right place at the right time—we had them by and large at the right costs and the right prices.

Let me say once more that whatever the fumbling and the mistakes, whatever the bureaucratic red tape, and the irritations, this will go down as the best-run war in our history. Never before has our government, representing all of us, better understood what its own responsibility was.

And as government saw its responsibility for overall planning and leadership, so too did every major group in the country, our farmers, our workers, our businessmen. Each saw what it must contribute and each measured up. More than that, each recognized the responsibilities of all the others. And so a mighty nation, pulling in harness, rose from triumph to triumph.

The lesson, it seems to me, is this. When we are united we are unbeatable. When each group among us—farmers, and workers, and businessmen, and government—recognizes its own responsibilities and the responsibilities of the others, we have the basis for unbeatable teamwork.

That's something we didn't know in the thirties. That's something we mustn't forget in the years that lie ahead.

6

The $200,000,000,000 Question

Now that the war has again proved the vitality and strength of our economy, now that we have learned that a mature economy does not have to stagnate, how shall we make sure that it stays vigorous and that it continues to grow?

Let me put the question another way. On the heels of a great conflict, we are faced with the difficult task of reconverting our industrial machine from war to peace. Necessarily, production and the national income dropped during the months in which our plants were being retooled. But what happens over the next few years?

Does our output of goods and services surge back to the levels we know we can attain, and stay there? Or do we settle back to where we were before the war broke out? Do we go forward to a 200-billion-dollar economy or do we go back to a 100-billion-dollar economy such as we had in 1940? That is the question—the 200-billion-dollar question.

Before we go any further let us be sure we understand what we mean by a "200 billion economy." Economists refer to this as our "gross national product," and it represents the value of all the goods and services which we produce in a given year.

As we have seen, for each dollar of production—whether it be canned soup, underwear, new factory machinery, or the services of a hairdresser—some farm, or business, or individual receives a dollar of income.

So, mathematically, the *total* value of all the goods and services we produce must exactly equal the *total* income which we all receive in wages and salaries plus the income of all our farms and our businesses before corporation taxes. In other words, our "gross national product" is exactly equal to our "gross national income."

In books and articles on economic questions you will sometimes see a much lower figure used in describing the annual output of our economy. Usually this figure represents our "*net* national income" which is our "*gross* national income" minus business reserves and corporation taxes. A "gross national income," for instance, of 200 billion, minus business reserves and corporation taxes, would result in a "net national income" of about 160 billion.

If in 1947 and 1948 our "gross national income" and our "net national income" drop below these two respective figures, we are likely to find ourselves faced with growing unemployment, with dwindling farm incomes, and an increasing percentage of bankruptcies.

There has been a lot of talk about what a full-employment economy means to all of us in peacetime—what it means in output and what it means in good-paying jobs for our workers, steady incomes for our farmers, and good profits for our businessmen. Careful studies have been made of the size of our labor force, the expected output per worker for each hour of effort, the redistribution of war workers among peacetime industries, the number of farmers needed to produce our food and fiber, and so on through other phases of our economy.

To judge by the sharpness of the debate in some quarters, one would suppose the experts to be poles apart on these issues. Nevertheless, when you get down to cases, it is really amazing to see how minor their differences actually are. I am no statistician and there is no point to my trying to go into all the details of their economic analyses, especially as the basic facts are perfectly plain.

In 1944 and 1945 our national output ran to 200 billion dollars a year, and we produced that with only 52 million of us at work, while 12½ million of our youngest, strongest, and most vigorous men and women were in the armed forces. We did it by working long hours, far above normal peacetime levels. We did it by working under forced draft, expense no object.

The goods had to be produced and produced on schedule, no matter how tired our workers might become, and no matter how costly or inefficient the method of production. Surely, when some 10 million of our young veterans are back at work and we are all operating on a normal basis, with normal hours and normal methods, we won't produce less than we produced in wartime without them.

Furthermore, let us not forget that for each of the three years following the First World War the average factory worker turned out 10 per cent more goods per hour than he produced the year before. This time, with the enormous investment in new plants and machines and with the giant strides our technology has made, we ought to do even better than that in many industries—once we really get settled down and squared away.

I am not saying that our annual production of all goods and services—the new homes, highways, dams, and factories, the washing machines, automobiles, overcoats, screw drivers, vacation trips, and permanent waves—will add up to 200 billion dollars right on the nose. It may be 5 billion dollars or 10 billion dollars more or less than that. And I'm not saying that "full employment" will mean exactly 60 million men and women at work. It may be 61 or 62 million—it may be 59 or 58 million. But in view of our wartime record, full production can't be too far off from 200 billion dollars, and full employment can't be too far off from 60 million jobs.

This, then, is how high we must set our sights if we are to reconvert our economy to full peacetime employment. Rather than quibble about just exactly what the benchmark is for full employment, we should keep in mind what the alternative would mean, what we face if we allow ourselves to drift back to the production level of 1940.

In 1940 our total output was only 100 billion dollars, and we produced that much while 8 million people, willing and able to work, were walking the streets in search of jobs. It would be bad enough to go back to 7½ million unemployed when we know that there need be no more than a minimum of 1 to 2 million *temporarily* out of work in this whole country at any given time. But going back to 1940 production levels would mean far worse than that.

On the one hand, the steady and rapid march of industrial technology has made it possible to produce at the 1940 level with many fewer workers than in that year. On the other hand, as our population has grown, so too has the number of available workers—by about 600,000 a year.

For these reasons, if we were to drift back to the production level of 1940 (valued in today's terms at about 130 billion dollars), we would find ourselves, not with 7½ million unemployed but with 20 million! One third of our labor force would be out of jobs! That is the shocking alternative we face. It is not simply a matter of our having 200 billion dollars' worth of national production each year, rather than only 130 billion dollars (or only 100 billion if prices slump that much in the deflationary process). It is a question of whether we shall have jobs for all or whether one potential worker in every three shall be hopelessly walking the streets.

In the Past: A Bad Year for Each Good One

We can start with one sure thing. Year after year a sustained 200-billion-dollar output of foods and services, with good jobs for all our workers, high incomes for our farmers, and fair profits for our businessmen, won't just happen.

It is true that we have had full employment in the past without anybody particularly planning it that way. We've had it during every war and we've had it even for a while during peacetime—in 1929, for example. But, as we have seen, it never lasted. The boom, whether in wartime or in peacetime, was always succeeded by depression. And the bigger the boom, the sharper the collapse and usually the longer the depression that followed.

While it is true that our progress decade by decade has been steadily upward, it is also true that for every year of boom, we have had a year of depression, for every year of full prosperity a year of black despair. There is no reason whatsoever to suppose that our experience in the future will be any different unless we undertake to prevent these swings, to rule out the slump and depression, and to maintain the activity which spells full production and full employment.

We can start with another sure thing. Only all of us together, acting through the Federal government, can guarantee that the high level of production and the resulting high level of income which we achieved in wartime will continue in peacetime. Only the people, through the men and women selected to run the Federal government, can insure that the programs we adopt and the policies we all decide to follow—business, farmers, labor, consumers, and government together—will in fact add up to full employment for all who want jobs and to sustained prosperity for all of our citizens.

Neither business as a whole nor any part of it, with the best of intentions, can make this guarantee. Neither we consumers as a whole nor any group among us can make it. Nor, indeed, can the forty-eight states, together with their subordinate governments, undertake to guarantee that, come what may, the total spending of all of us in all the markets of our economy will add up to the level necessary to buy everything we produce when all of us are working.

Before considering the government's role in sustaining our purchasing power at levels that call forth the full production of all the goods and services we need, let us examine the kinds of markets in which our total national income can be spent.

Our markets divide into three principal types. First, there is our spending for daily living, for the food we eat, the clothing we wear, the homes we rent, for our automobiles and radios and vacation trips. It is the total spending by all of us on all of these things that makes the "consumer" market.

Second, there is the investment spending of all our business firms, from the corner grocer to the great corporation. In this spending are included the building of new plants and the purchase of new machines, as well as store fixtures, new delivery trucks, and maintenance. In this group, too, falls the spending for the construction of new houses even though they are built and paid for by individuals, plus private spending to finance loans to other countries. It is the total of all this business spending that makes the private investment market.

The third kind of spending is by government, Federal, state, and local. These are the expenditures required in the business of government. Some of it is for current services, such as the teaching of our children and the protection of our property from fire and theft. Some of it is in the form of new highways, new dams, new public buildings, irrigation projects, and the maintenance of our Army and Navy.

These expenditures of government are pulled together into a separate group, not because they are any different in result from money spent in the stores for consumer goods or money spent by business for improved factories and equipment, but because their amount and nature are determined by a separate set of decisions.

It *is* the decisions of us all, as consumers, that determine how much shall be spent in the stores, service establishments, and recreation centers on all the goods and services that go to make up our daily living. Our personal expenditures move up and down as our incomes move up and down. We consumers cannot undertake to expand our spending—no matter how greatly the economy may require our increased spending, or how badly we may want to buy—unless our incomes will permit it.

It is the decisions of tens of thousands of businessmen, large and small, of factory owners, merchants, housing developers and exporters, that determine how much shall be spent on plants and equipment, on fixtures and increased inventories, on new homes, and on foreign loans. This spending is far less uniform and far less predictable than the spending of us consumers. It varies each year as our businessmen evaluate the prospects just ahead.

And here is another difference. Business spending is not limited by the income of each individual business as consumer spending is limited by personal income. Whereas we consumers may occasionally make very modest use of loans to supplement our incomes, businessmen go into debt as a matter of course to finance the expansion of their plants and facilities.

Quite naturally, they borrow only when they see a profit to be gained by increased investment. That is the way our system works and the way it should work. We cannot properly expect an individual businessman to undertake to expand or even to maintain his investment spending, no matter how much the rest of us may need that spending, if he cannot see the likelihood of a profit from such spending—either immediately or over a period of years.

Finally, it is the decisions of all of us, as voters, acting through our elected representatives and officials, that determine how much our governments may spend as well as how they may spend it. In the past, as we have seen, there has been an unfortunate tendency for our governments to behave as though they were private consumers or businessmen. As a result, when the spending of the rest of us fell off and tax revenues declined, governments usually reduced their own spending and thus made depressions worse instead of better.

Of course, our state and particularly our local governments are not free to undertake expansion of their spending on schools, roads, and hospitals except within limits. The Federal government alone can put the resources of the entire country behind its programs and thus increase its spending to any necessary level. Furthermore, when nation-wide problems are being faced, it is not our state or local government, but all of us, acting through our *national* government, that must carry the primary responsibility.

We have seen that our total income, both individual and business, divided among wages, farm income, salaries, and corporation profits before taxes, will equal the amount of goods and services we produce and sell. And we have seen that in order to keep our economy running at top speed all that income must be spent by someone. If it isn't, production soon drops off and a depression is in the making.

Naturally, we 140 million consumers buy the major share of our annual production output. But come what may, business and government between them must buy the rest. If not, then every one of us—no matter what his occupation—is headed for trouble.

Business expenditures for increased facilities, as we have seen, are likely to vary up and down from one year to the next, according to the judgment of individual businessmen and corporation executives—judgments very properly based on whether or not further expansion at that particular time is likely to lead to larger profits or is necessary to sustain current profits.

The Guarantee Government Must Make

This brings us to an issue which must be squarely faced. If in the future we are to avoid depression, the Federal government must pledge itself to expand or contract its spending to whatever extent is necessary to balance any temporary slowing down or speeding up of business spending. If the government fails to maintain sufficient *total* spending by business and government together, there can be only one result, and that is a reduction of all our incomes, which means less money for all of us to spend in the stores, which in turn means a rapidly deepening depression. That guarantee on the part of government must be the cornerstone of our national policy of full production and full employment.

Many sincere people grow pale at the thought of the government's making a commitment to make good any drop in business spending to the extent necessary to keep our total national spending up to, let us say, a 200-billion-dollar level during the next few years. Well, how large is the commitment I am suggesting?

There is one thing that has to be made perfectly clear. The firmer the commitment is, the less the Federal government will actually be called upon to do in order to make good on it. For just consider what the guarantee of sustained markets would do for all of us.

Consider the businessman. In the past, if he was at all prudent, he had to take into account the fact that for every two or three years of relative prosperity there were going to be two or three years of relative depression. He had to weigh, against the profits he knew that he could make in the boom, the losses he was likely to incur when times were hard. More important than that, the prudent businessman had to take account of the fact that once a depression struck, thousands of businessmen like himself, no matter how efficient they might be, no matter how sound the investments which they had undertaken, would go under in the wave of bankruptcies.

No one can say how many billions of dollars of business investment spending were held back in the past by the fear of depression. No one can say how many new businesses would spring up in the future, how many old ones would expand, how many additional billions of investment spending we would have, if the government's guarantee of sustained markets for all that we could produce were firmly made and widely relied upon.

And what is true of the businessman is true of the rest of us. In the past, the fear of depression and unemployment has hung over every head. The prudent wage earner set aside part of his weekly wages, if he could possibly do it, against the rainy day he knew was coming. If his fear of depression were once removed, if the wage earner could count on holding his job or getting a new one, if he could count on a full pay envelope every Saturday night, a substantial part of the savings which he carefully hoarded in fear that they might not be enough could be freely spent for decent living.

That would mean more milk for his youngsters, more meat on his table, more and better clothes for all his family. It might mean a better home, a new radio, refrigerator, and washing machine. It would mean—when you multiply the result by millions of workers—billions of extra dollars flowing through tens of thousands of cash registers.

That is why I say that the firmer the commitment of the government, the less the government will be called upon actually to do. For the more certain we are of the government's pledge, the more we all will be spending—the workers and farmers and businessmen of America—and the less will be the spending that government will be called upon to make.

This broad proposition is basic. Now let's go one step further with the particulars.

I can't read the future any more than you can. I can't, any more than anybody else, blueprint exactly the years that lie ahead of us and the programs and the policies that future events will call for. But during the next few years—unless we fumble the job of controlling a postwar inflation—everybody is agreed that economic conditions will be very favorable. During the war, huge backlogs of demand were built up and scores of billions of dollars of cash and liquid balances accumulated.

Business investment spending was held back firmly during the war to free manpower and facilities and materials for war production. We consumers were unable, for the same reason, to buy the cars, the refrigerators, the vacuum cleaners, and the new homes we wanted so badly and for which many of us had the money to pay. And government—Federal, state, and local—was forced to postpone the expansion of our schools and hospitals, our roads and recreation centers. Our government even did without ordinary essential upkeep.

All this adds up to a total of demand far beyond anything we have known in peacetime: an almost unlimited demand for goods and services of every variety.

Let's try to cast up the accounts and see what the national budget—that is, what all of us will produce and all of us will buy—is likely to be during the next few years. In making these estimates, I am assuming that we operate in a full-employment economy built on the firm Federal guarantee of adequate national purchasing power which I have discussed. If we don't have that guarantee, then the picture will be very different.

A lot of people are saying right now that it's only a question of time before we have a postwar depression just as we did after the last war. And if all of us, working together through our government, don't undertake to do something about it, I am positive that they are right. If that is the prospect, there will be billions of dollars of business reserves that won't be put to work building plants and buying equipment; and billions more of our personal savings that won't go to buy new automobiles or new homes, after all.

But let us assume that we decide that the full-employment guarantee should be made by the Federal government. Let us see what is likely to develop with that as the cornerstone of our economic policies, private as well as public. As things stand now, if we are going to have work for everybody, we will have to produce some 200 billion dollars' worth of goods and services for the next few years, and even more as our productive power increases. Who is going to buy all that?

I'll take a stab at our first item and make a guess that for the next few years business will spend on the average 30 billion dollars a year for investment purposes—maybe 35 billion dollars or more some years, maybe only 25 billion dollars or less in others, but something averaging out around 30 billion dollars.

That's a lot of money, fully one half again as much as business has ever before invested in a single year. But don't forget the proposed governmental assurance that markets will be sustained, and don't overlook the backlog of necessary new construction, the replacement of obsolete equipment, and repairs, together with the terrific shortage of housing and the needs of other countries for American capital goods. No, I don't think 30 billion dollars of business investment spending in an average year is one bit too high.

Let me turn next to the amount that we 140 million consumers might be expected to spend in 1947. Here I believe we may expect a total of something like 135 billion dollars a year to be spent on food, clothing, services, automobiles, recreation, education, doctors' bills, and all the other things that go to make up our standard of living. This, too, is a lot of spending, a full third higher than in our peak year so far—50 per cent higher than before the war.

I am by no means sure that our total consumer spending will amount to this huge total, but in view of our enormous backlog of pent-up demand and again assuming our government guarantee of full employment through maintaining the total of *all* investment spending, I do not believe 135 billion dollars is an unreasonable figure.

Third, the spending of state and local governments can be expected to run, I think, at about 10 billion dollars a year. Before the war these authorities spent in the neighborhood of 8 billion dollars a year. To catch up with the needs of an increased population, to bring our schools, hospitals, courthouses, and roads into decent repair will obviously call for more than 8 billion dollars. Under the circumstances, an increase in spending by local governments of 25 per cent over prewar levels makes good sense.

When we add all these annual expenditures together—30 billion dollars of investment spending by business, 135 billion dollars of consumer spending, and 10 billion dollars of spending by state and local governments—we arrive at a grand total of 175 billion dollars. This leaves 25 billion dollars for spending by the Federal government on current expenses and national investments. That would bring the total up to the 200 billion dollars necessary to buy all the goods and services including all the factories, machine tools, homes, and schoolhouses we shall be able to produce in 1947 with everyone at work.

Roughly 5 billion of the 25 billion dollars would be needed to pay the interest charges on our national debt. Another 3 billion dollars might be needed for the armed services. Then there are the regular expenses of our governmental departments to be met, plus the cost of many vitally needed educational and health services, river valley authorities and other public works.

The total can be budgeted as we do at present—with everything lumped in together. Or we could adopt the more businesslike approach of dividing current Federal government *expenses* from long-term public *investments*. If we did this we would spread the cost of a bridge or a public building over the estimated life of the structure, instead of against a single year.

But however we may set up our budget, the total amount is the same, and 25 billion dollars of Federal spending each year is no small change. It represents about three times the average Federal spending in the later thirties. On the other hand, it is scarcely more than a quarter as much as was spent by the Federal government in 1944. Besides, even with this level of government spending it would be possible for us to cut taxes drastically and still balance the budget of the Federal government.

In 1944 Federal tax revenues amounted to 39 billion dollars. If we are to balance the budget, at 25 billion dollars of annual expenditure, we won't need 39 billion dollars of revenue. We'll need only 25 billion dollars. So we can afford to cut our taxes about 14 billion dollars below what they were in 1944 (provided they are not still needed as an anti-inflation measure), and still balance the budget in an average year.

An End to Economic Insecurity

This, I must say, is a promising prospect. Sharply reduced taxes, a balanced budget, our standard of living 50 per cent higher than in 1940, business investment half again as large as in our best year, broad expansion of our public facilities, Federal, state, and local.

That means more and better roads, more and better schools, hospitals, and recreation centers, and, above all else, good jobs for all our workers, good incomes for our farmers, and fair profits for our businessmen. A national income of that sort, sustained year after year, would soon make poverty and the gnawing fear that stems from economic insecurity as obsolete throughout America as smallpox or typhus.

What's wrong with a government commitment that makes this possible? Some of my friends point out that in these figures I am assuming extremely favorable developments. They agree that perhaps for a few years it is not too optimistic to expect a 200-billion-dollar economy that would require no more than 25 billion dollars of government spending. They say that for a few years business investment could indeed run very high. But what happens when business investment spending falls off from that high level as in the past it has always fallen off after a few years of high volume?

Let us, then, consider just this possibility. Suppose that after two or three years of high investment by business in new housing, new plants, equipment, repairs, and maintenance—perhaps as much as 35 billion dollars a year—our business spending drops off to, say, 25 billion dollars a year. If this decline does occur, no one should be surprised. After all, 25 billion dollars would be more than the peak annual figure that in two years—1941 and 1942—tooled up American industry for the flood of planes and ships and tanks and guns that led to our recent victories. And we do know that, with the irregularity with which great new industries are born and grow to maturity, the profitable opportunities for new business investment are likely to vary from year to year.

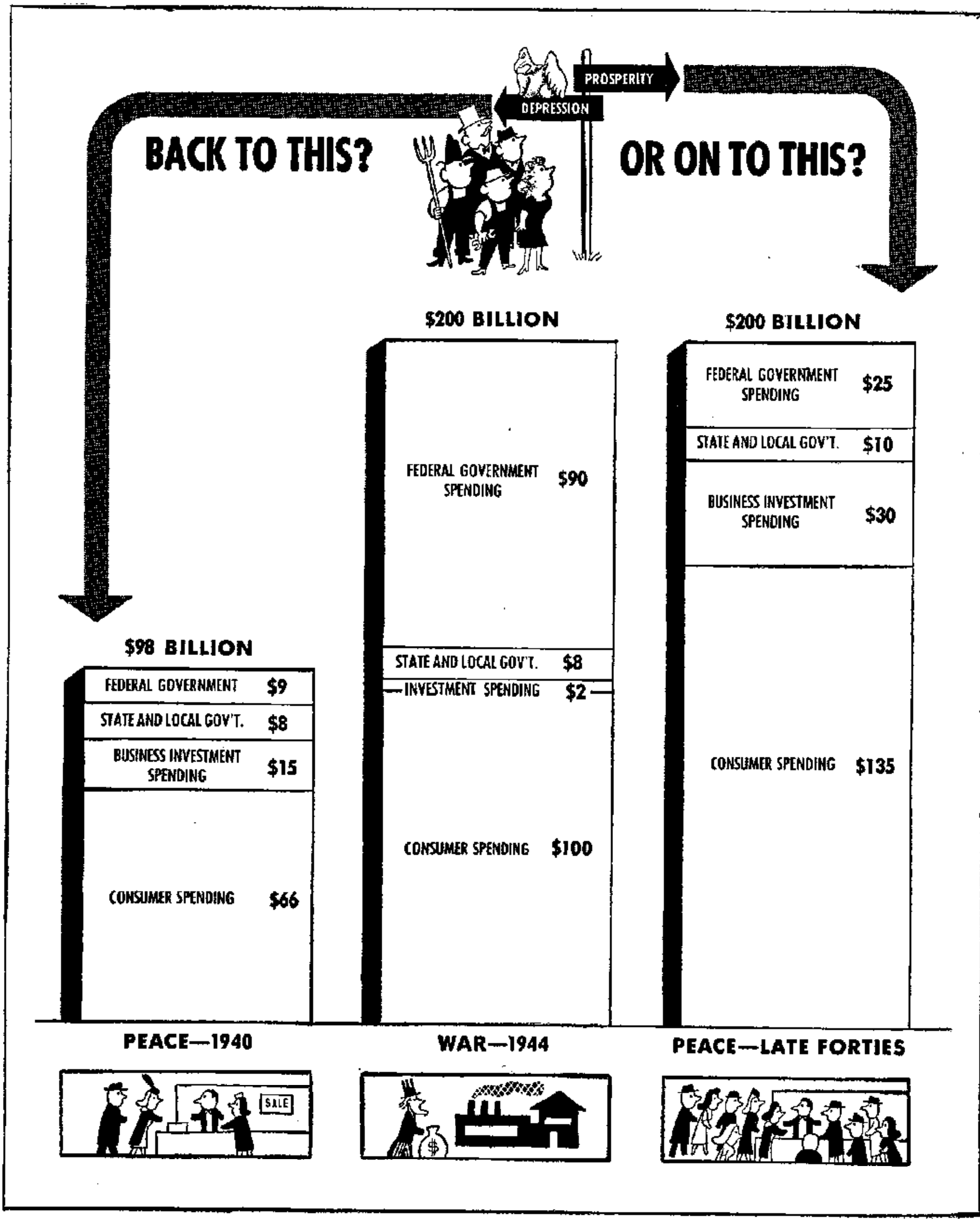
Should such a drop in business investment spending take place there is one thing of which I am sure. Government simply must step in promptly and decisively to make up the difference by increasing its own investment spending, or by direct action to increase consumer spending. If it failed to do that, the alternative would be a cumulative deflation—a deepening depression. For the decrease in spending by business, it should by now be clear, would, unless offset by an increase of government spending, quickly pull down the incomes and therefore the purchasing power of every group in the nation—farmers, workers, merchants, and businessmen.

In Chapter 3, I pointed out how a decrease of business investment spending meant unemployment in the construction and equipment industries, unemployment in the steel mills and the iron and coal mines, and ultimately unemployment in the factories producing food and clothing, and in the corner grocery, the department store, and the filling station as well, with constantly declining incomes for our farmers. The lesson we must never forget is that any decrease of spending by any of our economic groups means, unless promptly balanced by increased spending from some other source, a decrease of incomes for all of us and thus a decrease of spending by all of us, until we all are dragged down and down into a depression and widespread economic suffering.

There is no doubt in my mind that if, after a few years, our total of all business spending should drop, let us say, from 35 or 30 to 25 or 20 billion dollars annually, it would be sheer blind stupidity for this nation to sit back and allow a depression to develop. It would be folly not to step in boldly and halt a cycle that otherwise would rapidly pull all our production and incomes on down and down to a fraction of our productive capacity, as was true from 1929 to 1933. Moreover, it is my conviction that Mr. and Mrs. John Q. Citizen would not tolerate such stupidity.

As a people, we could get good value from a temporary increase of 10 billion dollars a year in government investment spending. We badly need the additional public construction that such extra spending would provide.

The Two-Hundred-Billion-Dollar Question



We have seen that 1200 counties in this country have not even a single hospital. And we know there are hundreds of other counties in which additional hospitals are needed and old hospitals need replacement. In our great metropolitan centers, the hospital facilities are nothing to brag about. In Washington, the nation's capital city, we rejoice that at last we have one truly modern hospital, with a second slowly going up. No one familiar with this situation can avoid feeling shame for our backwardness. What would be wrong about cleaning up this account with ourselves?

The educational experts tell us we have an immediate need for at least 2000 more schools. And if we need 2000 additional ones there's an even chance that another 2000 could stand replacement. For a long time now we've been cheating our youngsters and cheating ourselves. What's so wrong about setting this account straight, too?

We have the world's finest highway system. But the roads that were suited to the automobiles of the twenties won't be nearly good enough for the fifties. There's plenty more we have to do here, too. And there's plenty more we *need* to do with our waterways and airways, in the clearance of slums and the modernization of our cities. In other words, there is plenty of public investment that we need and need badly, anyway. Why shouldn't we buy ourselves all these good things and at the same time keep our total national income up, keep our factories and our mills and our mines humming, and keep all our people at their jobs?

Now let's look at the question of our Federal budget. This temporary increase of government investment spending to make up for a temporary drop in business investment spending would of course mean a budgetary deficit. For taxes, let us remember, have been set to yield 25 billion dollars of revenue. However, during the years that business investment ran at 35 billion dollars, government would have actually needed to spend only 20 billion dollars to make good its guarantee. This would mean a budgetary surplus of 5 billion dollars a year in the bank. And we should not lose sight of this surplus when we are considering the problems of the deficit. Over a given period, including years with high and low levels of business investment spending, averaging them both together, the Federal budget would be balanced. Surpluses in the high business-investment years would offset deficits in the low business-investment years.

This is what economists have in mind when they talk about "compensatory" government investment spending. They suggest that we do not try to balance the budget every year, but that we balance it over a period of years. Given the natural ebb and flow of business investment spending, that kind of government spending program makes good sense.

But let's not oversimplify our problem. Government "compensatory" spending varied from year to year to balance the ups and downs of business investment spending is a ponderous instrument. It cannot be turned on or off like water out of the tap. Each project requires careful planning, and this, as we learned through our experience with the well-run Public Works Administration of the 1930's, causes delay when delay may mean the loss of thousands of jobs. Moreover, as we shall see a little further along in this book, there are definite limits to what the government can spend for improvements without resorting to waste and boondoggling.

But the problem of how best to control and direct our government investment spending from year to year must be solved. We shall need to establish a carefully checked file of all necessary public-works projects for which Federal funds would be required. These projects would be divided into those urgently needed immediately and those which could be postponed for a year or a period of years. They would be distributed geographically as far as such distribution is practical.

Complete plans, with estimates, would be developed for all projects which had been approved. Appropriations would be voted with instructions from Congress that work on each project should be started within specified time limits at the direction of the President. Work on essentially needed projects would move ahead at once, to be paid for out of the current budget. Work on postponable projects would be delayed until the time when an increase in government investment spending would be needed to balance out a drop in business investment spending.

Economic Balance by the Tax Route?

Some people have said that the way to counterbalance the ups and downs of private business investment spending is through moving our taxes up and down from year to year, rather than through varying government investment expenditures. This approach could accomplish our objective, too, because if taxes are reduced when business is falling off, that leaves more money in your pocket and mine to spend for the things we want. And it leaves more money in company treasuries to spend on new plants and equipment or to pay out to stockholders in dividends. The reverse, of course, is true when taxes are increased.

Obviously, therefore, a carefully worked-out system of cutting taxes when business spending falls off and increasing taxes when business spending revives could, in all likelihood, keep the total spending of the nation at the 200-billion-dollar level that is necessary in the late forties to buy all that we can produce.

Another proposal calls for government payments direct to consumers when increased government expenditures are needed to balance a drop in business investment spending.

This would not be a relief payment. It would go to everyone. According to the theory it would stimulate purchasing directly at the source, and it would automatically spread itself into all sections of the country in relationship to our population.

The proponents of this measure also argue that it would be far quicker acting than a program that called for increased public works.

Whichever approach we follow, we shall not need taxes nearly as high as those we had during the war. For myself, however, I prefer to see a program of varied government spending for necessary projects rather than a program of constantly juggling tax rates. For one thing, taxes ought to be a known element on which everyone can count. For another, Congress would probably be most reluctant to vote a tax program which would operate automatically from year to year. Finally, carefully planned, flexible investment spending by the government on necessary public works is far more certain in its effects on our economy than is a system of tax increases or tax relief to meet changing economic conditions.

A dollar spent by the government, like a dollar spent by anyone else, promptly gets into a payroll and into the whole complex stream of spending. A dollar of taxes remitted to a firm or individual or a direct cash payment may or may not go into the spending stream. In any event, I don't see that it makes much difference to the Federal budget over a period of years whether one method is used or the other. In both cases, deficits in some years have to be set off against surpluses in other years.

We need a sense of proportion about the occasional need for government borrowing just as we do about everything else in our economy. You might think, to hear some people talk, that government borrowing was something that was just invented. As a matter of fact, its history in this country goes back to the Revolution, back to the very beginning of our government. The Federal government has always borrowed. The same thing is true of every other national government. By now one would think that, even if we hadn't got to like it, we would at least have got used to it.

And decade after decade there have been people who have said that the national debt was going to be the ruination of everything and of all of us. I need hardly say that things haven't panned out quite that way.

Some people even viewed with equal alarm the growth of our private debt. Within the past generation, for example, there were all kinds of alarms about the growth of installment debt, some times euphemistically referred to as installment credit.

But in spite of many excesses it was this great development of consumer installment credit that made it possible for millions of our people to enjoy durable goods they could not otherwise have purchased. It has helped make possible the growth of the automobile, the radio, the electrical refrigerator, and many other industries. It has also paid dividends to the financial institutions responsible for its development. It has paid off in dollars and cents.

How silly the talk of a generation ago that consumer installment debt was a sin, that it would ruin families and wreck businesses—how silly it seems to us today! A lot of the talk about government debt isn't very bright, either.

Now, nobody would think of saying that the American Telephone and Telegraph Company was in much worse shape than a corner grocer because its debt runs thousands of times as large as the grocer's. It is not the size of the debt that tells us whether trouble lies ahead but its size in relation to income. A small debt may break the back of a company if its income is too small. A huge debt can be carried with ease if income is large enough. That is true of business and it is true of government as well.

Two hundred and sixty-five billion dollars of national debt—which we have today—calling for nearly 6 billion dollars of annual interest—would indeed have broken our backs when our national production was 50 billion dollars per annum, as it was only forty years ago. It's another story now that our productive capacity is 200 billion dollars and certain to grow constantly decade after decade.

To be sure, there is a vast difference between our *ability* to produce 200 billion dollars' worth of goods a year and our actual *production.* But that only goes to reinforce what I have been trying to say all along. We simply can't afford to produce at a rate of only 60 or 70 per cent of our productive capacity. That would *certainly* break our backs. And that's another reason why we've got to get and to keep our people fully employed. By the same token, if our production keeps moving up, everything in our past history goes to show that we can take reasonable increases in our debt without difficulty, when they are *really necessary* to keep our economy moving.

As I've pointed out, it's the interest on the national debt in comparison to our total national income that's the important thing. Today the interest carrying charges total 3 per cent of our gross national income.

Even if we were forced to incur deficits of as much as 100 billion dollars in the next twenty years—that's 5 billion dollars a year—in order to keep the total of business and government spending in balance, we would probably find at that time that the interest payments on our total national debt were actually less than the present 3 per cent of our total gross national income—for the simple reason that our national income would be going up even faster.

The principal problem is to keep our real objectives in mind, and to realize that frequently we will be forced to choose between alternatives neither one of which will be ideal. At any cost we must avoid the catastrophic economic waste of another depression. We must keep our economy going at or close to top speed.

No one wants to see the Federal debt increase one dollar over its present total. If we handle our affairs with reasonable skill there is no reason why we should not keep our budget in balance, averaging the ups and downs over a period of a few years.

But if something goes wrong and we are forced to choose between another depression and further temporary increase in our national debt until we get things straightened out, I think I know what our decision will have to be. And on that point I don't think it matters whether the government at the moment is Old Deal, New Deal, Republican, or Democratic.

But as we shall clearly see in the following chapter, controlled government investment spending in itself is not a panacea. Although an absolutely essential device, it has definite limits. The *basic* solution to sustained full production in the next twenty years lies in other directions.

Perhaps at this point, too, I should make it perfectly clear that even the whole approach that I am proposing is no panacea. It isn't magic, and it will work only as we make it work.

I am convinced that today we have the knowledge, the tools, and the experience we need to banish forever the specter of unemployment. What is more, we are moving in the direction of achieving that goal. But I am equally convinced that in using that knowledge, those tools, and the lessons of our experience we are bound to make some mistakes, some of them pretty serious ones.

Economic developments have a way of taking unexpected turns, as we have been reminded, sometimes painfully, since V-J Day. Despite our best efforts, unemployment may show up briefly in the future. There will continue to be ripples on the statistical charts of employment, production, and prices to remind us of the violent swings of the old business cycle.

No program is perfect and man's wisdom is all too limited for us to conclude that, because we now know how to go about preventing the business cycle, there will never be any setbacks or upsets of any sort. Of course there will, but if we are on our toes the way I think we will be, we'll halt those setbacks so fast and move forward again so promptly that there will be simply no comparison between our old boom-and-bust economy and our new full-production model.

7

We Are Going to Live Better

All of our discussion up to this point has been in terms of 200 billion dollars of annual production for the next few years—in other words, the total amount of goods and services which all of us, working an average 40-hour week, can produce with our present skills and technical equipment.

That's all right for the next few years, but certainly that can't be taken as a ceiling on our national output. Our population isn't going to stop growing, technology isn't going to stand still, and all these new plants and machines, bought by an average of 30 billion dollars a year in business investment spending, will steadily increase our ability to produce. Where is our productive capacity going to be ten years hence, twenty years from now? Where will we be in the late 1950's and the late 1960's? I think it fair to say that this is the most important single question that is raised in this book.

It always surprises me to realize how infrequently most of us really think in terms of the future—not the distant future, not a century hence—but just beyond the next couple of years to the time when today's kindergarteners will be in college. To be sure, we look ahead in the sense that we take out insurance to make sure that our kids can go to college, but that's about as far as it goes with most of us. And I am equally surprised that a people so proud of their achievements as we Americans often fail to realize how great some of these achievements actually are and how far we have come.

Everybody knows that a handful of Pilgrims landed at Plymouth in 1620 and that today we are a nation of 140 million souls. Everybody knows that in 1776 we were thirteen colonies huddled along the Atlantic Coast and that today we are a mighty Union that spans a continent. But how many of us know that since the Civil War our total annual national production of all goods and services, including farm products and everything else, has been doubled every twenty years? Yet that is the cold record of our growth.

In the light of that, let me raise the question once more: How much will we as a people be producing in the late 1960's? Clearly it would be foolhardy to prophesy, especially so now that the energy locked in the atom has been released. Our population will increase at a far slower rate than in our grandfathers' day. On the other hand the technological developments of the next twenty years may simply dwarf anything we have known. The progress of a century past may be telescoped into a single future generation.

Certainly, in the light of this greatest scientific stride made by man, it is unlikely that in the future we shall grow *less* rapidly than we have in the past. But if we merely maintain the rate of growth which we have had since the Civil War, by the late 1960's our national production, based on present price levels, will have grown to the breathtaking total of 400 billions of dollars a year!

Now, there are some people who will say that anyone who even talks of such a thing as 400 billion dollars of annual output must be a crackpot. But is it visionary to believe that my generation can do what my father's generation did, what his father's did before him, and what *his* father's did earlier still? Is one a crackpot to believe that America is still as robust and vigorous, as ingenious and inventive, as ever? Is it really foolish to say these things, particularly at a time when we have just unlocked the secret of the atom?

For my part, I have not the slightest doubt that in the future our annual productive capacity will not only equal but will far exceed 400 billion dollars. If there is anything that troubles me, it is not our *capacity* to produce. That we know and have known throughout our modern history.

What troubles me is that we may not succeed in learning how to *use* our productive capacity to raise our standards of living, to lighten the burden of toil for all of our people, to harness the vast forces under our hand to serve the welfare of our entire nation. I believe most of you who are reading this book will share my concern.

Very reasonably some of you may ask, "Where are we going to find markets for 400 billion dollars of goods? Who is going to buy all that output? Wouldn't it be better not to produce so much, but to work shorter hours instead?"

Let me answer this last question first. Let's not forget that over the last generation or two the average work week has been cut from a standard running in some industries as high as 72 hours a week to a nationwide standard of 40 hours a week. It is in spite of that rapid reduction of working hours that our output has doubled every twenty years.

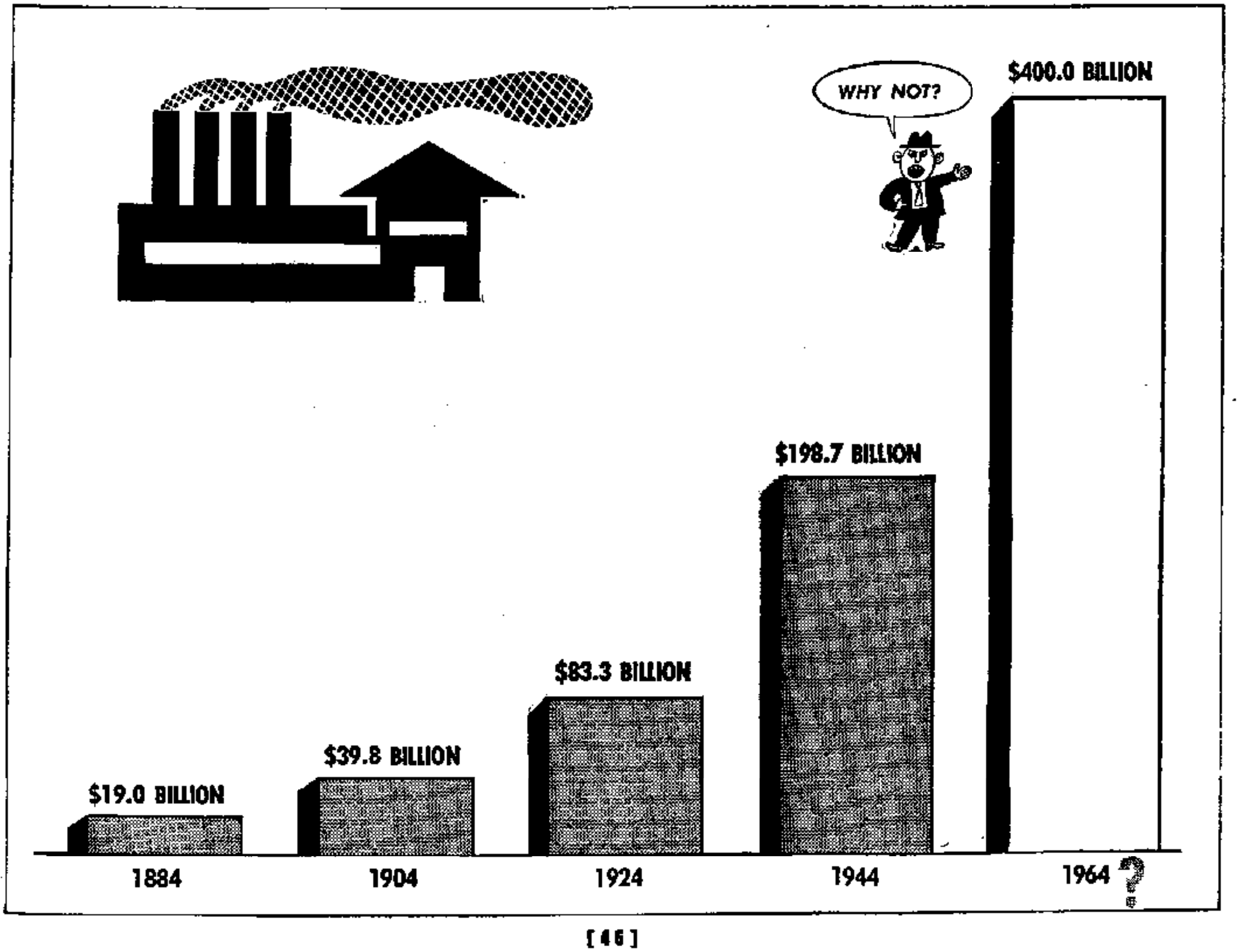
The figure of 400 billion dollars for the late 1960's is based on the continuation of our whole pattern of economic growth. It, therefore, includes the further shortening of hours below their present levels at about the same pace as in the past 20 years.

In the sixties, I have no doubt, a 30-hour average work week will be standard, with a comparable reduction in hours of work on our farms. Indeed, the standard week may be shorter still, as our machines constantly help us to develop more leisure. But in spite of all this, if all goes well, we are still likely to have the not-unpleasant problem by 1970 of finding buyers for somewhere around 400 billion dollars of output. That will mean an *average* annual income of about $5000 for every man and woman who works for a living.

Will we go on doubling our national output every 20 years indefinitely? Will we produce 800 billion dollars' worth of goods and services in 1987?

We probably could, but we probably won't.

We Have Doubled Our Production Every 20 Years



While there are almost no technological limits to the output that we can attain in future generations, the practical limits are obvious. There is no sense in producing goods and services that no one needs or wants, and someday we shall reach a production level that will satisfy all the requirements of our people. When that happy day comes the shortening of the work week will become even more rapid, and our greatest problem will be how best to use our leisure.

In the meantime there's plenty of extra output needed to achieve a modern standard of living for all of us. So let's get on with our discussion of how this output can be best attained.

There are some people—people who would not seriously question our growing to a 400-billion-dollar economy in the next generation—who will ask, why should this huge increase in our national production create any great problems? If the spending of all of us consumers, plus the investment spending of business and government, can be harnessed to provide markets for 200 billion dollars of goods and services, why can't we do the same for any output that we may reach in the next twenty years? If we double our output, for instance, why can't we just double the spending of each of the three groups that add up to our total?

I agree wholeheartedly that an answer can be found. But as we shall see, it's not quite that simple. During the next few years, I think we might expect a national full-employment budget to look something like this:

Budget in the Late Forties		*Billions*
Total production		200
Investment spending by business	30	
Consumption spending by all of us	135	
State and local government spending	10	
Federal government spending on expenses and investments	25	
Total spending necessary to buy all the goods and services we can produce in 1947	200 =	200

Now, if in the late sixties our total production has grown to 400 billion dollars, let's see what would happen if we just doubled each of the items in the 200-billion-dollar budget:

Budget in the Late Sixties		*Billions*
Total production		400
Investment spending by business	60	
Consumption spending by all of us	270	
State and local government spending	20	
Federal government spending on expenses and investments	50	
Total spending necessary to buy all the goods and services we can produce in 1967	400 =	400

It is at this point that we must watch our step. Where is business going to find opportunities for spending 60 billion dollars a year on increased facilities and equipment?

In the late twenties, business investment spending ran at 16 to 18 per cent of our total production. At that rate it was only a few years, as we have seen, before we far overbuilt our productive plant—our factories and hotels and office buildings and all the rest. Or, to put it more properly, the purchasing of all of us together was insufficient to buy all the goods and services which our increased production capacity made possible.

Again, in 1941 and 1942, it required business investment spending of less than 15 per cent of our total gross national income to convert our economy from peace to war and to make possible an increase of 75 per cent in our total output of all goods and services. In 1943 and 1944, with all our energies going directly into the production of goods for war and for civilian use, business investment spending practically disappeared. Yet in those same years production continued to expand.

The expenditure of only about 15 per cent of our gross national income was required to prepare our industrial plant for war. So 15 per cent is probably a reasonably good figure to start with for business investment spending in the period immediately following the war, when the problem is to reconvert our industrial plant for full peacetime production.

However, I am pretty sure that very soon, when the present backlogs of repairs and expansion have been worked off, and assuming a full-employment economy in which our total output grows year after year, business investment spending ten or twenty years from today will provide a steadily *diminishing* proportion of the total purchasing power we need to keep our economy running at a high sustained level.

No one can say, of course, just what business investment spending will come to, year after year, by that time, but I am sure that by 1967 it will represent considerably less than 15 per cent of our total annual output. Ten per cent of our total production, or about 40 billion dollars out of the 400 billion dollars, sounds like a far more reasonable figure.

Thirty-five to 40 billion dollars a year will probably buy all the new railroads, factories, machinery, homes, and other private facilities that even our great country will be able to find good use for. The replacement cost of all our plants plus all the equipment in our factories today, including those built for war purposes, totals no more than 75 billion dollars. A million and one half new homes each year can be built for 10 billion dollars.

Now, if the percentage of our steadily growing national production which goes into business investment spending gradually decreases year after year, we know there will be trouble—unless something is promptly done to provide a new balance. We know that the spending either by government or by us consumers or by both groups will have to increase enough to make up for this lag of business investment spending. And since our full-employment output of goods and services will itself be growing year by year, this means that spending from our other two sources must not only increase to match that expansion of output but must increase faster. Otherwise, we'll soon find ourselves floundering in another depression.

Very well, some people will say, what's so tough about that problem? Over the next twenty years we can simply double government spending—state and local as well as Federal—and double consumer spending and then increase each of them a little more to make up for this lag of business investment spending.

The "Public Plant" Has Its Limits

But let's not rush along quite so fast. First let's examine the practical possibilities in additional government spending. It's only to be expected, as we grow from a 200-billion to a 300-billion and on to a 400-billion-dollar country, that it is going to take more money than it does today to do the work of government. We have already seen that there are a lot of things that we want government to do for us that it isn't doing now.

There are the hospitals and the schools we need and need badly, the highways and the dams and the power developments, the slum clearance and modernization of our cities. All these are desirable in themselves. They will add to the general welfare and increase substantially the well-being of all our people. As we have seen, there isn't a county in the land where people don't actively want these facilities for better and richer living, for the prevention of suffering, the opening up of new opportunities, and the satisfaction of our national urge to roam the country in our leisure time and learn to know each other better.

But how much more do we *actually* need to spend, through government, to buy all these things that we want? Let's bear in mind that a doubling of government spending over the next twenty years means an additional total of 35 billion dollars a year—Federal, state, and local government spending lumped together—over what we have estimated we will need in 1947.

Just *one* billion dollars in *one* year will buy a lot of public plant. That's about what the TVA cost, for example, over a period of years—the dams, the power installations, the whole works. The Missouri Valley Authority is estimated at only a little more than a billion. A good modern hospital can be built and equipped for $500,000. At that price one billion dollars will buy 2000 hospitals. A good modern school can be built for even less. That means that a billion dollars will buy more than 2000 schools.

Let's look at something bigger—slum clearance, for example. The need there is terrific. It is estimated that there are at least 10 million housing units that urgently need to be replaced. At an average cost of $6000 a unit it would take around 60 billion dollars to do that job—perhaps a bit more or a bit less. The major part of that rebuilding should, of course, be done by private builders, the government assisting them by, perhaps, assuming the cost of demolition and clearance.

If the government were, one way or another, to finance as much as one third of this total cost in order to take care of low-income families who can't pay a sufficiently high rent to yield a fair profit to builders, the government's share would come to 20 billion dollars. Spread over a ten-year period, which the experts say is the only practical basis for planning this sort of program that cost would total only 2 billion dollars a year.

But I've said enough, I think, to make the point. If we were to add together all the programs I have mentioned and add, too, the St. Lawrence Seaway and the five new river authorities that have been proposed, together with all the lesser items that could reasonably be included in an enlarged public-works program, 5 billion dollars a year would go a long way toward doing the job in ten years. I find it hard to see how we could possibly spend as much as an additional 10 billion dollars a year in the public interest for as long as ten years.

Of course, no sensible person wants to have government spend a single dollar on public works that we as a people don't actually need. The ancient Egyptians built the pyramids, into which went millions of man-hours of work, simply to enable workers to make a living during the flood season of the Nile. However they may have tickled the vanity of the pharaohs, the pyramids were just as useless then as they are today.

We don't want *made* work, we don't want modern pyramids, we don't want boondoggling on any scale, large or small. When we've reached the point where this country has built all the dams, highways, housing projects, all the schools, hospitals, all the recreation centers, national parks, concert halls, and museums that we really want, the time will have come to slow down and to look in the other directions for the spending we will need to maintain our total purchasing power and thus to keep our economy running and producing.

What I have been saying with regard to public plant—public investment spending, if you like—parallels exactly what we found to be true of private business investment spending. Twenty years hence, in the late 1960's, we shall still need a lot of government spending on our public plant, just as we shall need a lot of private business spending on our private plant. But the point is that we can't expect either our government spending or our business spending to provide as large a proportion of our total necessary markets as it will during the next few years.

There is, of course, a lot of government spending that falls outside the field of public investment, and this spending too must be expected to increase. There are the current services of the schoolteachers, the firemen and police, the mailmen. There are the technical and information services of the Federal and state departments of agriculture, of the departments of labor and of commerce and all the others which serve us.

Today we are not paying our teachers nearly enough, even in the states which have the best salary scales. As the standard of living of the rest of us increases, we shall want to raise the standard of living of public servants, too. It is an old saying that we get only what we pay for. This holds for government as for everything else. If we want better government, and I think we do, we shall have to pay for it.

Finally, there are a lot of things that government is not doing today that I, for one, would like to see it get busy on. And I think most people in the country agree with me.

I believe we must establish a real health and medical service that will bring the blessings of modern medicine and good health into every home in the land, even the lowliest of them. Certainly our standards are disastrously low right now. I am told that there are homes in some of our states in which mothers, without benefit of doctor or even qualified midwife, bear their children on old newspapers because they cannot afford a sheet. That sort of thing has no place in our modern civilization.

We have seen in previous chapters that there are children, millions of children, who never get enough of the right food to build strong bones and strong bodies. Full employment for all of us at good income will go a long way to correct such problems. But there will still be need for government help and guidance.

And we all know that there are millions of our older people whose work is done, whose children have grown up, who have been unable to build up enough savings to permit them to live out their lives in comfort and security, free from want and free from fear. Some Eskimo tribes are said to have a way of dealing with their aged. When a man's useful years are ended, the tribe takes him away from the village, provides him with food for a few days, and leaves him to die.

To us this sounds shocking, but let us remember that in the Eskimo economy, life is a bitter struggle even for the young and vigorous. In such an economy no one wonders how to find ways to consume more goods. There is scarcely enough to go around even for the young and productive. The old are an almost impossible burden.

But it is clear that ours is not an Eskimo economy. Our problem for a long time now has been to find ways of getting more money into more people's pockets in order that they may buy all the goods which we are capable of producing. To quote an old bromide, our problem has not been poverty alone, but poverty in the midst of plenty. I, for one, think we owe it to ourselves to square a long overdue account with our aged by providing pensions sufficiently generous to banish all fear of want and insecurity, providing them as a matter of right and not as a matter of charity. Right now these payments are neither large enough in amount nor broad enough in coverage.

There is no need of my going on and on. There are a lot of improved governmental services needed in a lot of places in this land of ours. It will be some time before government has grown up to its full responsibility. Nonetheless, here, too, no sensible person wants to see government spending money to provide services that people don't need and don't want. Moreover, most of the desirable and necessary services, plus a heavy proportion of the needed schools, hospitals, highways, dams, and other public improvements, can be provided under the 25-billion-dollar Federal budget which we have suggested for the next few years.

This Is Where the Consumer Comes In

This brings us to a very basic point. There are some things that government must do for us. But most things we can do better for ourselves. And we should do them for ourselves. Unless we fail to use our collective abilities and intelligence in grappling with the problems before us, we should be able to do for ourselves individually many of the things government would otherwise have to do for us. That is why I see no reason for government to spend money on unnecessary projects just to keep total spending up to the level that is necessary to buy all that we are producing. If it is bigger and still bigger markets we need, and if business spending has reached its profitable limit and if government spending is about to reach the foolish stage, why not see to it that we 140 million consumers get enough money to do our own spending—enough money in itself to keep our economy in balance and hitting on all cylinders?

Now, this is what I have been building up to for a good many pages. It is in the increase of consumer spending on the things that consumers want and need that we must look for the basic and lasting solution to our economic future. We must all learn to live constantly better, a lot better. Our standards of living must rise steadily year by year to match the increase in our productive capacity. Indeed, they must rise even more rapidly as the years go by, since, as we have seen, both the spending of business on private plant and the spending of government will, during the next twenty years, provide a steadily decreasing proportion of the total spending we must have to keep our industrial machine running in high gear.

As Secretary of the Treasury Fred M. Vinson has aptly phrased it, we are faced right now and in the year or two ahead with the "pleasant predicament" of having to learn to live 50 per cent better than we did in 1940. Over the next twenty years we face the greater and even more pleasant predicament of having to learn to live 100 per cent better even than that!

Are you skeptical? You shouldn't be. There are tens of millions among us who would have no trouble at all in doubling and redoubling and again redoubling the standards of living to which they have been held down. Let us remember that in 1940 there were about 39 million people who lived on annual family incomes of $900 and less. Even today the situation is none too good. The number of people living on family incomes below $1000 is still 16 million.

Anyway, difficult or easy, there's our problem. Our productive capacity is going to grow year by year. Four hundred billion dollars' worth of goods and services by the late sixties, with an average income of around $5000 a year for every person who works for a living, is wholly possible and even probable. If we can't grow up to it, grow up with it, learn to use it, the very achievements of our science and technology will be our undoing. And what could be more ridiculous!

I cannot believe that we face a future of growing "technological unemployment," with our incomes lagging further and further behind our ability to produce. As I said earlier, I am convinced that the people of this country, with the knowledge which the war has given them of our power and productivity, simply will not let that happen. Never again will the American people tolerate such blindness and stupidity in public and private policy as those which led us into the dark years of the Great Depression.

At this point I should like to pull all this together in a few figures that show where we have been, where we shall be during the next few years, and where it seems to me we must come out twenty years hence.

Of course, the figures for the future are guesses. They have to be. But they show the shape of things to come, and we'll need, all of us, to bear them in mind as we make our plans and our decisions next year and the year after and the year after that.

Two things about the national full-employment budget for the late 1960's are certain. First, our total productive capacity will be at least double the level that we have today. It may be much more than this; it cannot be much less. Second, the spending of all of us consumers will have to add up to a sum sufficient to buy at least three quarters of our total annual production. In other words, consumer spending will have to play a much larger part in our economy than it does today or has in the past.

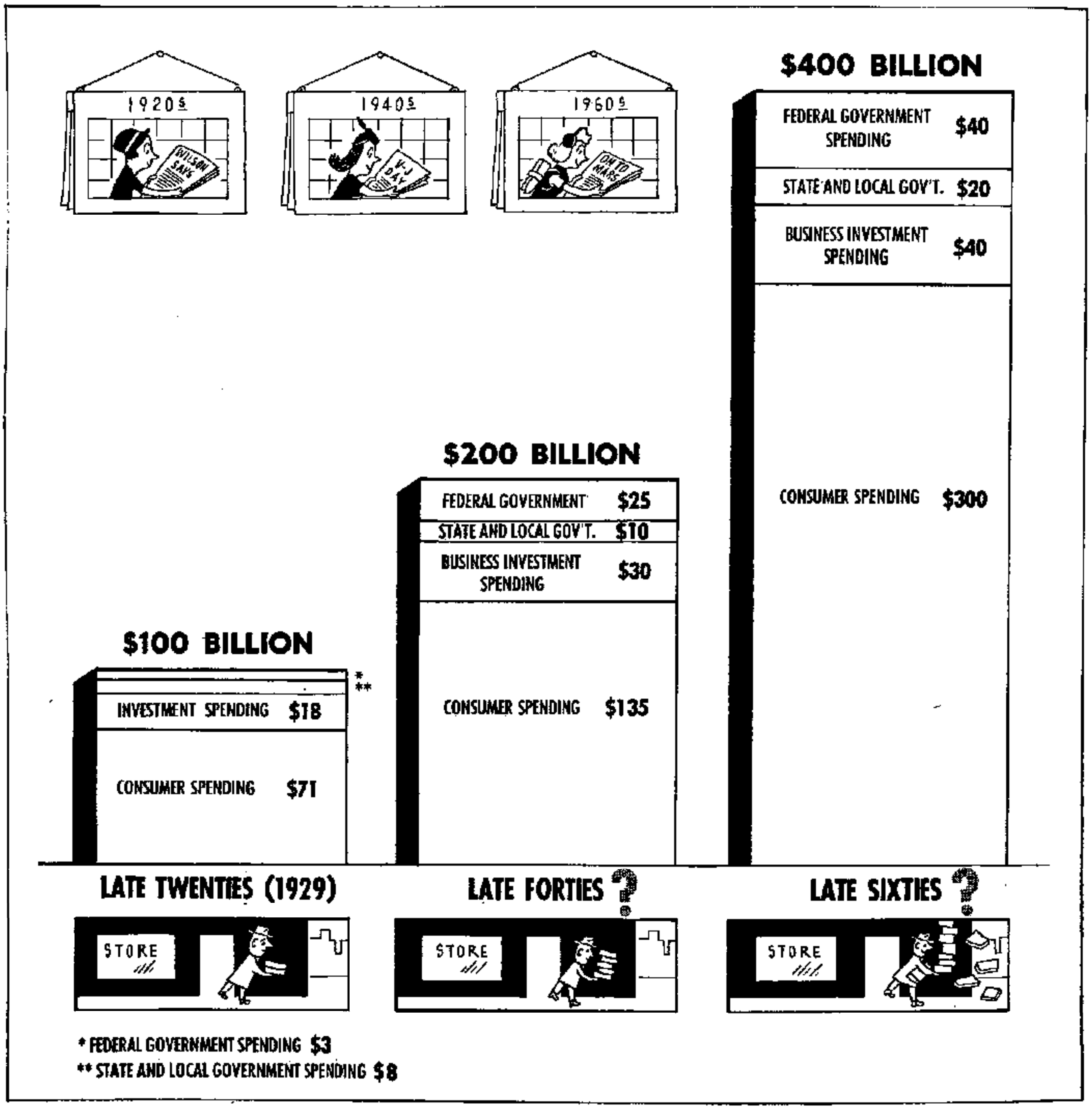
Here, then, are our budgets for the late 1920's, the late 1940's, and the late 1960's:

3 Budgets	*Late Twenties*	*Late Forties* (*In Billions of Dollars*)	*Late Sixties*
Total production	100	200	400
Business investment spending	18	30	40
Our consumer spending	71	135	300
State and local government spending	8	10	20
Federal government spending	3	25	40
Total spending necessary to buy all the goods which we produce	100	200	400

In 1929 each family spent on the average $2000 a year. In 1949, if all goes the way we hope it will, each family would spend roughly an average of $3000. In 1969 each family would spend an average of around $5700.

That means unlimited opportunity for health, recreation, and good living. It means an end to poverty and insecurity. To every family in our land it offers a tomorrow without fear.

United States Production Yesterday and Tomorrow



8

A Better Division of a Bigger Economic Pie

The problem of 140 million people learning to live better and better year after year sounds easy and pleasant. But strangely enough we shall probably find it a somewhat difficult task.

It will be difficult because what it requires is that we get a lot more purchasing power—in other words, a lot more money—out into the hands of a lot more people, particularly those people who need it most and who in our system have always had the most difficulty in getting it—the wage earner, the farmer, the lower-income groups generally.

This means a different distribution of our national income than we've had before. And the redistribution of income is a subject which many people find distasteful to talk about—much less to do something about.

But talk about it and do something about it we must, because this is not a matter of taste; it is a matter of national economic necessity.

Why is it that we as a people generally are unable to buy all that we are capable of producing except during a war period such as the one from which we are now emerging? The answer is because too many of us are unable to get sufficient money to spend in spite of our abilities, training, and desire for work. Some of the people who find discussion of the distribution of income distasteful, however, have persuaded themselves that this question of how we divide up our total national income year after year has nothing to do with the issue of full employment and full production. Let me dispose of that notion right now.

Let us suppose that one per cent of the population were to receive 95 per cent of our entire national income, with the remaining 5 per cent spread among the rest of us. Could our system—could any system—work on that basis? One per cent of the people couldn't possibly consume 95 per cent of all the goods and services which the rest of us could produce. And surely if they couldn't consume our annual output, they would have no reason to use their savings to build more and more plants and facilities to produce more and more goods which they couldn't consume, either. In a system as unbalanced as that there couldn't be much production and not many of us could find jobs.

I've taken this extreme case, not because it makes any sense but because it demonstrates the nonsense of the contention that the way our national income is divided among us has nothing to do with how much we produce or how many of us have jobs. On the contrary, the distribution of our annual income has almost everything to do with our total production and employment.

Now, there are some people who jump to the opposite extreme. They insist that unless and until there is complete equality of incomes, we cannot hope to achieve sustained full production and eliminate unemployment. In my judgment this is as bad an error as the other.

Certainly we need a *greater* equality in the distribution of our national income than that in the extreme case I have cited. That is obvious. Certainly we need greater equality in the distribution of our total income than we have had during the past generation. That, too, I think, should be pretty apparent to anybody who agrees with me that the basic reason for the Great Depression was that we simply weren't distributing enough purchasing power into the pockets of our people to buy all the goods that flowed from our increasing productive capacity.

Clearly, as we have seen in the last chapter, we are going to need a better distribution of income during the next twenty years if we are going to learn to live in the kind of world in which there is a good job for everybody who wants one.

But it doesn't at all follow that we should go to the extreme of complete equality of incomes. If the mixture being fed into a motor is too rich and the car stalls, it doesn't follow that you should shut off the gas entirely and try to run on air. A sensible driver carefully adjusts the carburetor until he gets a mixture on which the motor runs smoothly. In the same way, by one means and another, we need to adjust the distribution of our total annual income until enough money is going to all our people to buy all the goods and services which will enable our economy to run smoothly and under full power.

I don't know just how far toward greater equality of income we need to go in order to keep our economy running at high speed, and no one else knows. I do know that we must make some moves in this direction if we are to avoid another collapse. How far we go should depend upon our experience. I, for one, am willing to go just as far as we must.

I am convinced, however, that we must guard against going too far. For under our economic system, rapid progress depends upon the incentives which are provided by incomes that are above the general average for the most persevering and the most capable. So long as we operate under the profit system—and I for one certainly have no desire to abandon it—and so long as we have no alternative set of incentives—and I have none to propose—we must have inequality of incomes if we are to tap the full ingenuity, vigor, and resourcefulness of our people.

Let me go further than this. Without adequate income and profit incentives, it seems clear to me, the sources of our economic vitality would dry up. Technology, instead of marching forward in giant strides, would slow down to a walk. The problem of learning to live up to our growing productive capacity would disappear because that capacity would cease to grow.

The Russians may yet show us that their kind of system can have the same drive and vigor and productiveness that ours has shown. Certainly we should all wish them well in their search for security and abundance. No other people have earned it more.

But even if they match our *economic* achievements, I set so much store by freedom of enterprise, freedom to do or not to do, freedom to come and go, freedom to be oneself, that I will always prefer our approach. I set enough store by the opportunities for the development of the individual and the challenge to the individual to make the most of his own capacities, which can be assured only under free enterprise, that it would take a lot more persuading than the Russians are going to be capable of, before I would swap our system for theirs.

Like Eric Johnston, I believe deeply that the United States and the Soviet Union have everything to gain by learning to work and live together. Like him, I want to see us engage in a friendly competition to see which system has the most of what it takes to raise national productive power and the national standard of living.

Now, let's get back to our main question. How are we going to achieve a better distribution of our national income among all of our people—workers, farmers, and businessmen? Basically, that is a job for business, but government must help. Here is what I have in mind.

Keeping Wages and Prices in Balance

As this book is written we have government controls over prices and rents. These are temporary controls geared to temporary conditions. As supply and demand come into balance during the months to come they will gradually be eliminated. But I am talking of normal times when government controls are behind us. In ordinary times businessmen, whether they know it or not, are determining the distribution of income every day when they decide what wages to pay their workers and what prices to charge their customers.

There were relatively few industries in which, before the war, wages and prices were determined solely by the impersonal forces of a competitive market. How many firms simply matched their wages up against the going rates established in the market without any other test? Very few indeed. No, wages are largely determined by negotiation between management—organized management—and workers—organized workers. They are determined by collective bargaining. It is rare that management has the weaker bargaining position. Certainly, therefore, management has a voice, and frequently the dominant voice, in determining whether collective bargaining results in the right answers on wages.

And now with regard to prices, it is true that in many industries before the war they were still determined by the haggling of the market place, but in most of our great industries that is not the way prices have been set. Normally they were set by management executives and by boards of directors who, to be sure, took into account what the managements of their three or four or perhaps half-dozen major competitors were likely to be planning on, but who nonetheless had an awful lot personally to do with whether we got the right economic answers on prices.

By now you may be wondering what I mean by the right economic answers. What *are* the right answers on wages and prices?

The right answers from the standpoint of all our people are those which give us wages high enough in relation to the price of goods, and prices low enough in relation to the wages being paid, so that we may have buyers for all the goods we can produce. Let's examine that a little more closely.

Most of us live on wages or salaries, and so it is wages and salaries upon which the nation must principally count to maintain our consumer spending at the necessary high levels. It is perfectly true that the lender, the stockholder, the landlord, spend for daily living part of the income they receive from interest, dividends, and rents. But these people generally save a large fraction of their incomes rather than spend it, and the more they earn the more they are likely to save. Basically it is on wages and salaries that we must count for mass purchasing power.

Now, I can hear you ask, "What about the farmer?" Well, who is it that eats the bread, the butter, the meat, and drinks the milk? Obviously the bulk of all farm products are bought and consumed by wage and salary earners. Anyone who wants to look at the figures on wages and salaries, on the one hand, and farm income, on the other, will find that the two move up and down together with clocklike regularity.

When there is unemployment in our cities, when payrolls are low and shrinking, farm prices fall and carry farm incomes down with them. It never fails. And when employment picks up and payrolls rise, so too does farm income. We have never had prosperity on the farm except when the great majority of the rest of us, that means those of us who live on wages and salaries, have had plenty of money to spend. Similarly, our farmers, long underpaid for their efforts, offer industry its greatest single market opportunity. So the right answers on industrial wages and prices are the right answers on farm income, too.

Let me point out next that increased wages won't provide any more purchasing power for us consumers if prices go up just as fast. Clearly, if that happens, wage increases are not going to enable workers to buy any more goods than they could buy before—and that goes for farm products as well as for radios, automobiles, and overcoats. If we need to consume a larger amount of goods as our industrial machine grows constantly more efficient, it follows that wages must be pushed up faster than prices, or be pushed up while prices are kept stable, or remain the same while prices are reduced. Only in that way can we pay for a constantly increased production of goods.

In some industries wages amount to as much as 50 per cent of the cost of production, in others to as little as 5 or 10 per cent. But taking all industries together, wages are the biggest single factor of costs. There are, to be sure, many other costs, but for the business economy as a whole the profit on each unit turned out depends primarily upon the difference between the wage cost per unit, on the one hand, and the price charged per unit, on the other.

Now, we know that a heavy proportion of all wages paid out to our workers gets spent. Most wage income *has* to be spent for food, clothing, rent, doctors' bills, and other essentials. And most of the remainder goes to fill the need for new cars, washing machines, radios, and other developments in modern living which the average worker lacks. One way or another wages get spent. What about profits?

Some profits get distributed in dividends. The stockholders who receive dividends have to live, like the rest of us. They spend part of their dividends on daily living, but because, for the most part, their incomes are larger, they are able to save a substantial proportion. Besides, a good part of the profits is not distributed in dividends at all. It is saved by corporations and the firms that earn them. In other words, a large part of the total profits earned in any year is saved either by stockholders individually or by business itself.

These savings may go into the bank, or into the treasury of an insurance company in return for a policy. When the bank or insurance company loans out the money to pay for new housing, new factories and equipment, or when it is invested for the same purposes directly by a business or individual, everything goes smoothly.

Under such circumstances, as we have seen in previous chapters, our economy is healthy. Everywhere men are employed to build plants and equipment which these invested savings make possible. The wages they earn flow through the grocery store and the department store, back to the farmer and all the rest of us. But when those savings are not invested, when instead they stay idle in corporation reserves and the bank balances of firms and individuals, or when they are used to bid securities on the stock market higher and higher, we are in for trouble. Idle savings, savings that are not invested in job-producing new activities, don't keep men working in the steel mills and they don't buy any groceries.

Within reasonable limits, as we have seen, the government can balance up these unspent savings by increasing its own spending for highways, dams, schools, hospitals, and public buildings. But we have also seen that there are limits to what the government can do—

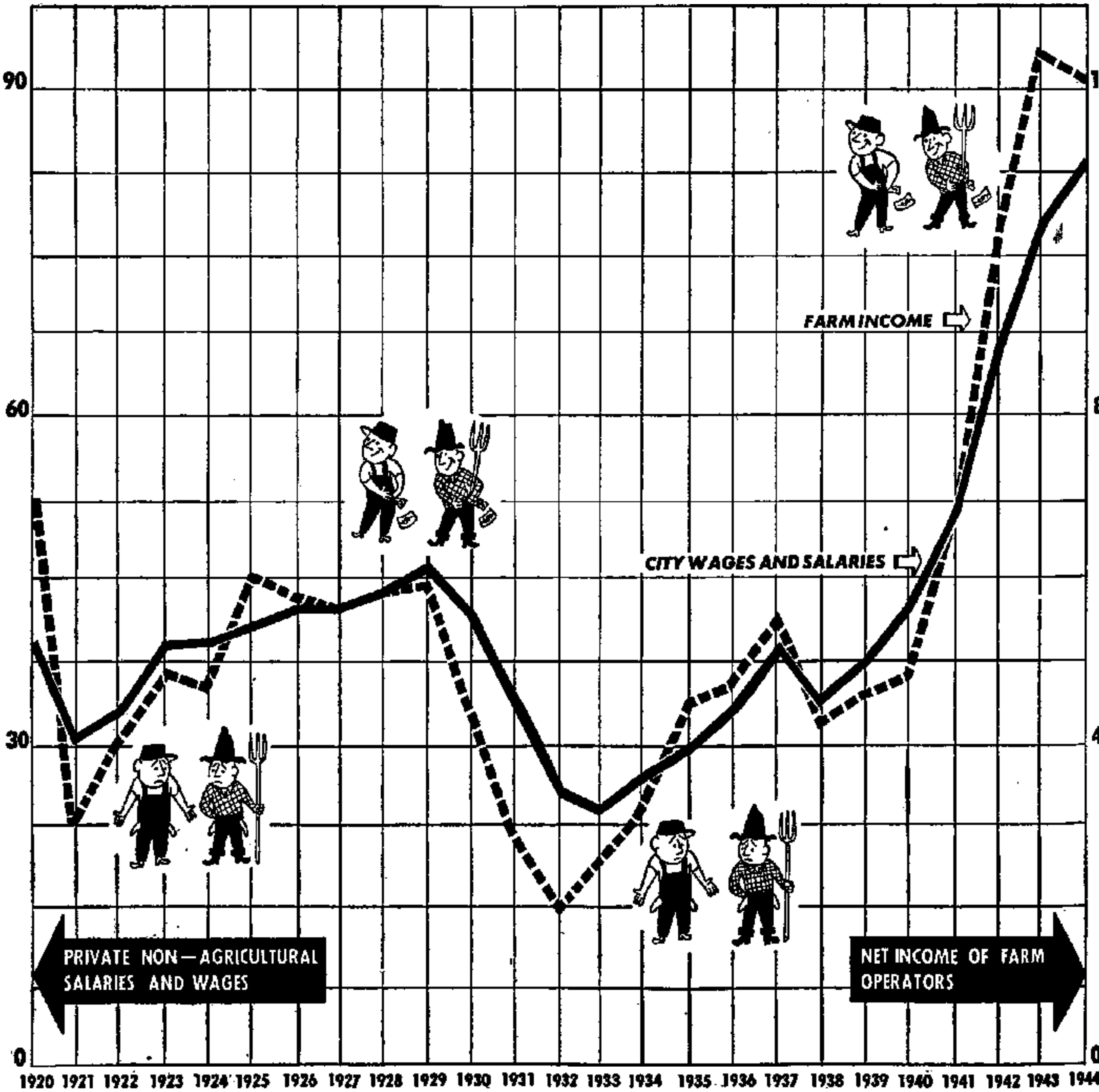
unless we want to go in for a lot of useless boondoggling, which obviously we don't.

So if we are to keep up with our increasing productive capacity without wasteful government spending accompanied by ever-mounting deficits, it follows that we need to increase the wages we pay for each unit of output, almost all of which gets spent, and to decrease the margin of profit per unit, most of which gets saved. And since businessmen play so large a role in determining wages and prices and profit margins, the job that has to be done is primarily theirs to do.

But again there will be a cry that what I am propos-

In Prosperity and Depression the City Worker and the Farmer Go Up and Down Together

(FIGURES IN BILLIONS OF DOLLARS)



ing is impossible, that wage increases must be matched by price increases or business cannot continue to operate. Here, too, a glance at our past history will prove useful.

If we go back to 1919, at the close of the First World War, we find that the level of average prices was just about the same as it is now at the close of this war. Since 1919 average factory wages per hour, however, have more than doubled. They were 47 cents in 1919 and, for several years, as we have seen in our discussion of the causes of the Great Depression, they moved upward at a snail's pace in spite of rapidly increasing labor output per hour of effort. In 1934, however, they started to rise with greater rapidity and during the past year or so, they have averaged around a dollar.

Has this doubling of wages bankrupted American business? Hardly. Corporation profits before taxes in 1944 totaled 25 billion dollars, more than three times what they were in 1919.

There are dozens of specific examples which make the point with even greater sharpness than general averages. From 1935 to 1939 radio prices remained roughly the same. But wages increased by 15 per cent, while profits increased substantially. The record on electric refrigerators is even more striking. Prices to the consumer dropped 10 per cent between 1935 and 1939. But wages *increased* 25 per cent. Overall profits, instead of going down, moved sharply upward.

So, when the claim is heard that it can't be done, that wages can't rise unless prices rise too, the answer is, it has been done, it has always been done, and as volume goes up and increased labor output helps bring down costs, the pace must be even faster—that is, if we are really determined to provide sufficient purchasing power to buy all the goods we can produce. The question today is not whether wages generally can rise while prices generally stay the same. The questions are simply: How much? How fast? Where? When?

Of course, these questions on wages could be settled by government as they were during the war, but isn't it much better if this is done through collective bargaining by labor and management, sitting peacefully around a table to decide how to divide up the income from their joint product? Of course it is. No one wants government to do what individual groups can handle better.

The techniques of successful collective bargaining—the techniques through which business income is divided among workers, management, and consumers through higher wages, increased profits and dividends, and better values and lower prices—are likely to improve rapidly in the period immediately ahead.

In bargaining for its fair share labor must accept the need for adequate profits to enable business to expand its plants, modernize its equipment, improve research facilities, and attract outside capital.

Likewise, management must accept labor's right to the highest possible wages, to decent working conditions and steady employment.

Both labor and management must protect the interests of all of us as consumers by improving the quality of the products they produce and wherever possible by lowering prices.

Over a period of years we can improve our standard of living only by increasing our output of work for each hour of effort. This can be accomplished through improved management, improved labor skills, and the use of more efficient machinery. Whatever the cause, an increase in labor productivity results in lower labor costs per manufactured unit and usually makes possible increased wages, or increased profits, or a lower price, or even a combination of all three.

In the generation before the war the hourly output of each worker in manufacturing increased on the average 4 per cent each year. Of course, in some industries it was less than that and in others more, but as an average figure it's an impressive testimony to our personal ingenuity and engineering skill.

Every group of workers that is protected by a strong union should work to increase its output in every reasonable way, for once a reasonable balance is achieved between wages, prices, and profits, at a given level of production, the soundest basis for future wage increases is through increased labor productivity. "Feather bedding" and other stretch-the-work techniques add to labor costs, increase prices to the consumer, and over a period of time hold down wages. They are a drag on the whole economy in our program for greater prosperity shared by us all.

I am hopeful that more detailed statistics on the increase in labor productivity, year by year, will become available in the future on an industry-by-industry or even factory-by-factory basis. Such figures will help tremendously to put collective bargaining on a more economic basis. They would protect employers against unreasonable demands. And they would give labor a basis for increasing its wages as its output increases.

In some industries increases in output per worker will be impossible even with the best of management and the most determined effort on the part of the employees. In such cases wages can be increased over a period of time only by raising prices or by cutting profits. If profits are not unreasonable, there is no alternative but to raise prices sufficiently to attract and hold the necessary workers at a decent level of pay. If prices on a particular product can be held down only through sweatshop labor then we consumers must accept the need for paying enough more to enable decent wages to be paid.

But in the dynamic economy on which we have set our hopes, there should be many other industries in which prices to the consumer can be reduced. Increased manufacturing efficiency will often enable prices to go down while wages and profits are going up, as we have demonstrated has been the case throughout our whole economic past. And the increased volume that almost invariably results from lowered prices serves sharply to reduce the cost of selling each individual unit.

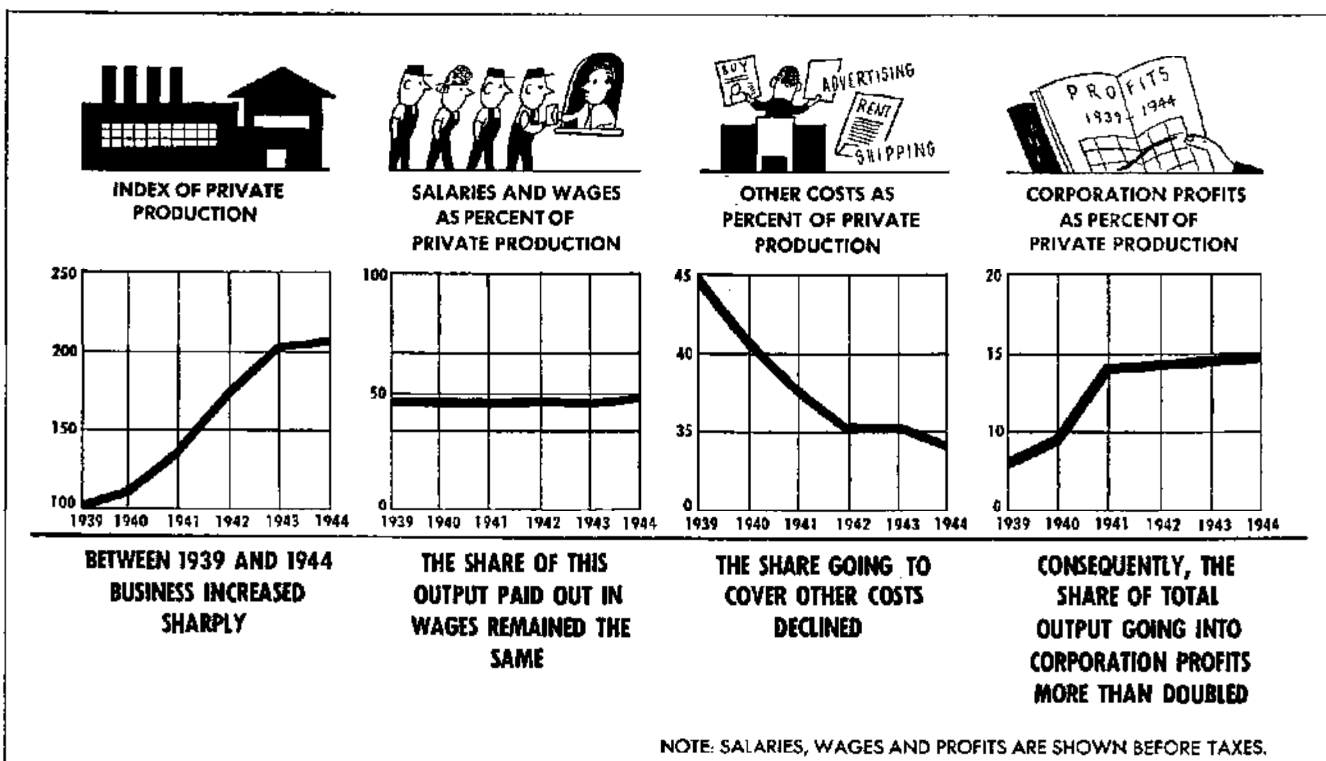
In the whole field of prices, wages, and profits lies the real key to our economic future. Steadily increasing wages are the key to the vastly greater purchasing power which we shall need to buy our constantly expanded output of goods and services. But in our very proper desire to increase wages we must never forget the two essential principles: First, a general increase in wages that results in a general increase in prices is of little benefit to anyone. Second, if general wage increases result in an *unreasonable* squeeze on profits we will tend to dry up the investment funds needed to expand our factories and to modernize our industrial equipment.

Management and labor carry a heavy responsibility in working out these problems. The solutions will require patience, good judgment, and a realization that no one group can prosper for very long at the expense of the rest of us.

No one, of course, expects miracles. It isn't going to be done overnight. No task as big as this job ever is. And there will be plenty of fumbling, too. We are all human beings working together and we are going to keep on behaving like human beings and making plenty of mistakes. But that will be all right. What will count is whether or not we're on our way.

I started earlier in this chapter by saying that free enterprise can do the job. I say that because I cannot believe that free enterprise could have carried this country so far during the past century and a half only to fail us now when we stand on the threshold of an unlimited future. That would violate all our history and all our tradition. It would violate all that we have been, all that we are, and all that we may hope to become. I know in my very bones that that just won't happen.

How the Profit Share Expanded While the Wage Share Stood Still



9

The Government's Role in a Free Economy

If a free economy is to be truly free we must have a minimum of government. But if we try to get by with too little government we shall surely end up by having too much. We must be realistic in determining what the minimum is for our day and age.

We should not fear our democratic government. We should remember that it belongs to us and represents our will. In considering government's role in our economy we should ask the question: What can government do better than business or the rest of us as private individuals? There are many things that government alone can do, and it is important that we understand them.

First: Sustaining the Market

First, government, as I have proposed, must underwrite the full-production, full-employment economy by being prepared to vary its own investment spending from year to year. This, as I have already pointed out, is the only way to encourage business in most industries to narrow profit margins on each unit sold, as we have seen they must be narrowed, so that the purchasing power of us consumers can be steadily increased. This is in reality one of the principal keys to our future prosperity.

In the kind of world in which we have lived in the past, the prudent businessman, as we have seen, has had to take into account the fact that after every few years of prosperity, with high volume and large profits, he had to face years of depression, with volume down and his business in the red or very close to it. Businessmen could ignore this cycle at their peril. Those who did usually wound up in the bankruptcy courts.

It was natural, therefore, for the prudent businessman to fix his prices and his costs, so far as possible, with enough spread between them to give him a very generous profit when times were good. Only in this way was he able to weather the storm when depression struck.

At the same time, we must not forget that this perfectly understandable policy of wage and price setting was a primary factor in bringing about the very depression that everybody feared. For, as we have seen, the other side of increasing profit margins in a period of prosperity was the fact that the purchasing power being distributed to our millions of wage earners was insufficient to enable them to buy our steadily increasing output of goods and services, which in turn sooner or later made another depression inevitable.

But if government, by undertaking to sustain markets through balancing any lag in business investment spending, can eliminate not only depression but the very fear of depression, then the prudent businessman will no longer need to set his profit on each item that he sells with an eye on the rainy day to come. In most cases he will be able to reduce his *unit* profit sharply and year in and year out, and with high sustained demand for his products, he will make higher average overall profits.

Just remember that in spite of the generally wide profit margins of our past, total peacetime profits of business, averaged over the years, were nothing to brag about. In 1929, a banner year, corporation profits, to be sure, were over 9 billion dollars. In 1932, on the other hand, corporations were in the red to the tune of 5 billion dollars. Even in the period 1936–39, they earned only 4½ billion dollars on the average.

If we can keep the volume of sales up to full-employment levels with a narrowing in profit margins on each item sold, an increase of the *proportion* of our gross national income going into wages and a decrease in the *proportion* going into profits will yield *total* dollar profits, year after year, vastly greater than anything we knew before the war. And it should. The average profit levels that prevailed before the war were not high enough to get the volume of business investment spending which we will need for our 200-billion-dollar economy in 1947.

Profits should be high enough to provide the business investment spending which we *need*—but not so high as to cause our savings to stagnate for want of good investments to spend them on, or, almost as bad, to cause us to overbuild our plants and equipment in relation to our consumer demand. Such overbuilding can only lead eventually, as in 1929, to mass unemployment or the accumulation of additional government deficits.

Second: Maximum Free Competition

Second, the government must be responsible for maintaining the maximum amount of free competition throughout industry and trade. But on this subject, it seems to me, there is considerable misunderstanding.

Before the 1929 crash many disciples of Adam Smith, the famed eighteenth-century Scotch economist, felt that our economy would work automatically if only monopolies could be eliminated and absolutely free competition assured for labor and raw materials as well as finished goods. Some businessmen even receive economic advice along these same lines today which helps explain the vigor with which they oppose government "interference" in our economy.

Adam Smith in the 1770's visualized an industrial state made up largely of small manufacturers employing from 5 to 75 people. Free competition between these units would, he believed, assure the lowest prices and the maximum improvement of products. The flow of savings into factory expansion, and even the amount of savings would be determined by the interest rate and the opportunity for profit.

When funds were needed for expansion the interest rate would go up and the money would flow to the point where it was needed. When new factories and facilities were sufficiently expanded, the interest rate would go down and investors would spend their money for goods. As long as monopolies could be kept from "cornering" a market, restricting production, and raising prices, he reasoned, all would go smoothly.

Adam Smith did not visualize the complexities of our modern economy. He did not, of course, foresee General Motors, U. S. Steel, du Pont and Standard Oil, the development of our Pittsburghs, Los Angeles and Detroits with tens of millions of city workers cut off completely from the soil, the amount of idle savings that would result under certain conditions from high individual incomes, the unwillingness of a modern nation to accept the increasingly violent swings of our business cycle.

Gradually most economists have been forced to desert his comfortable laissez-faire theories in the face of the hard facts of our modern economic development. But quite properly his belief in the basic importance of monopoly control has persisted, and there are even some who still believe that the government should restrict its economic efforts to this single area.

No reasonable man could quarrel with the statement that monopolies restrict production, decrease employment, and deprive the public of high quality products at reasonable prices. But when we speak of "price restricting monopolies" we should be clear what we mean, and when we call for completely free competition we should measure the consequences.

While it's true that almost every businessman will tell you with sincerity that he believes in free competition, it is equally true that a high percentage of them in greater or lesser degree fail to practice it. In one way or another, most of them legally legitimate, businessmen seek to avoid the rigors of the free market. In 1940 it was estimated that prices were truly competitive in less than 50 per cent of all American business. By one means or another, in industry after industry and trade after trade, prices were held artificially high and improvements in quality postponed or even suppressed altogether.

In 1929, when our economy collapsed, we have proof positive that in one way or another many important sections of industry had turned their back on the theory of free price competition.

Between 1929 and 1932 farm prices, which were subject to intense competition, fell 76 per cent while farm production decreased less than 10 per cent. Contrast that with the price and production records on various industrial products. Steel rails fell 1 per cent in price while production dropped 85 per cent. Farm machinery prices fell 9 per cent while production fell 89 per cent. The prices of sulphur, iron ore, plate glass, and aluminum scarcely budged while production fell off from 60 per cent to 90 per cent. The automobile industry dropped production 70 per cent while decreasing prices by only 11 per cent.

Informal price fixing occurs in many industries which are accepted by the public as among the most competitive. The members of such industries may circumvent each other's patents, hire away each other's top executives, insult each other on the golf course, and sue each other in the courts, but on the subject of prices they are one happy family.

Prices in an even greater percentage of business are held higher than normal by trade association pressure. In many areas of our economy a businessman who cuts prices and raises values, in other words a businessman who believes in and practices the theory of free competition, has a rather miserable time of it. At the very least he will find himself labeled a "chiseler" by his competitors and ostracized at association gatherings.

Through our government we should strive in every way to crack monopolistic practices wherever they are detected. We should take all possible steps to encourage true competition in price and quality.

But we shouldn't fool ourselves about the size of the problem. Many authorities believe that a determined effort on the part of the government really to *enforce* free competition would require more "government interference" with business than any other economic program which has thus far been proposed.

Third: Raise Minimum Wages

A third thing that all of us can do through our government is steadily to increase minimum wage levels in order to prevent the backward businessmen from undermining the wage structure and from living off the purchasing power provided by the payrolls of businessmen who pay decent wages.

There is a delusion in some quarters that the sweatshop operator makes high profits. Nothing could be further from the truth. The businessman who pays low wages doesn't help himself at the expense of his competitors. He simply drags everybody down to his own level.

If there is one thing that is perfectly clear from our history, it is that wherever you find low wages, there you find low incomes, low living standards, and low profits. The place where high profits are to be found is in precisely those industries and those sections of the country where wages are high and living standards are high. That is why, it seems to me, the government should help the progressive businessman put his wages up by steadily raising the wage floor in order to prevent the low-wage competitor from being too great a drag upon him.

And again let us remember that higher minimum wages directly increase the total purchasing power available to pay for goods in the stores. A 65-cent Federal minimum-wage law would increase the purchasing power of the workers in *interstate* commerce by roughly 1½ billion dollars. In addition, it would encourage many state governments to raise the minimum wages of workers in industries which do not sell across state lines—laundry workers and retail clerks, for instance.

Additional wages paid to workers in the lower-paid industries go almost entirely into the markets because these workers have a crying and immediate need for the goods the extra money will buy. Of the 3 billion dollars which would be added to our consumer purchasing power if a 65-cent minimum-wage became general, it is estimated that 1.2 billion dollars would be spent on food. About 660 million dollars of that sum would go directly to our farmers. The rest would go to manufacturers and merchants who make and sell the essentials of life.

And yet there are people who have worked themselves into a lather over this proposal. They fear that business could not afford the increase. But what does our history actually show? Well, eight years ago, when the present law was first enacted, it called for an immediate minimum of 25 cents an hour, to be raised to 40 cents over a period of years. The objections to this were violent. It was argued that, with wages as low as 8 cents an hour being paid in some industries, the introduction of this minimum would bankrupt thousands of firms.

Did it pan out that way? Hardly. These ten years have seen the swiftest climb of production and income in our history, with profits reaching an all-time high and business failures at record-breaking lows. It would help us all, I think, in facing today's minimum-wage problem and in finding the right answer to it, if we would look back and see just how our handling of the problem eight years ago has worked out and how unfounded the fears of that day have proved to be.

Fourth: Extend Social Security

The fourth thing the government can do to help increase our consumer purchasing power is to expand its social-security programs to provide really adequate insurance against all contingencies for all of our people, including our farmers. This would not only keep up the incomes of the sick, the injured, the widowed, and the aged, but, by freeing men from insecurity and fear, would enable them to live up to their current incomes, with less need to scrimp and struggle. This, therefore, would mean not simply the lifting of the burden of fear and insecurity from millions of families, but the ringing up of hundreds of millions of dollars in cash registers throughout the country.

Again there will be some who view this proposal with alarm. But once again let us look at our history. It was about ten years ago that the first Federal insurance measures against old age and unemployment went into effect. The debate on these social-security measures had been long and bitter. It was said that these programs would destroy thrift, put a premium on shiftlessness, and just ruin the private insurance business. Has it worked out that way? Hardly. You know from your own experience that the first two fears have proved utterly groundless. But what is most interesting is that these programs have made the people of this country more insurance-minded than ever before and the private insurance companies have done a land-office business.

The same thing will happen under a national health-insurance system. Millions of American families will learn for the first time what medical care can mean for them. As a result, the opportunities and income of the medical profession are certain to be substantially increased.

A national health-insurance program we are going to have. Nothing can stop it. But it would be a lot easier on all of us—those who are against health insurance as well as those who are for it—if we would hold our fears and objections up for examination in the cold light of experience.

Fifth: Bringing Taxes Up to Date

Fifth, the government can help business do a better job of distributing our national income by modernizing its tax structure. Our present tax structure has grown up over the years with a wing built on here and a vestibule there, until by now it's a little difficult to find any design whatever in its architecture. We must modernize that structure to make it contribute to the full purchasing power on which full production and full employment depend.

What specifically should be done about taxes? There is no room here to go into detail concerning the changes in the tax system that are needed, but the general nature of those changes should by now be apparent. In the first place, as soon as the present inflationary dangers subside, taxes need to be cut sharply from the extremely high levels established during the war. Some have already been cut; others will need to be cut in the future. Twenty-five billion dollars of revenue at the 200-billion-dollar level of output is, in my judgment, about what we should be shooting for during the next few years, because that is what it should take to balance the Federal budget at full employment.

Now, there are some people who think that we ought to keep taxes higher than that in order to establish a budgetary surplus, which would be used to pay off the national debt. There is something to be said for this, but I lean in the other direction, at least until we are much farther along our economic road to sustained prosperity than we are right now. What we need in the next few years is to do everything we can to stimulate spending by both business and all us consumers in order to make markets and jobs.

Reduction of taxes will leave more money in people's pockets for them to spend. It will also leave more money in the treasuries of corporations. I hope that they put it to good use—that is, put it into the stream of circulation. Raising wages, as I have pointed out, is one of the best ways of doing that, a way that should never be lost sight of.

The taxes which remain, and which must yield a revenue of 25 billion dollars in order, over the next few years, to balance the Federal budget at full-employment levels, should be streamlined to stimulate consumption on the part of individuals and investment on the part of business as far as this can possibly be done. As soon as inflationary pressures subside, taxes which eat most heavily into our consumer purchasing power should be cut and, as rapidly as possible, removed altogether. This obviously means sharp reduction of excises and sales taxes which take as much out of the poor man's dollar as out of the rich man's.

It means, further, reduction of payroll taxes and other income taxes at the bottom of the income scale. It is among our lowest-income groups that actual needs are greatest. It is here, therefore, that the reduction of taxes will result in the largest direct increase of consumer spending—for food, clothing, housing, and essential equipment and recreation.

The stimulation of business investment spending requires that the small and growing business, where the risk of investment is greatest, receive greater tax relief than the large, well-established corporation, which, by very virtue of its strength, is not exposed to the same risks. Furthermore, tax provisions which permit businessmen to average their good and poor years together in determining their tax liability should be extended just as far as practicable.

A further encouragement to expansion should be provided by replacing the present payroll tax paid by business with a special tax on business profits. The present payroll tax is paid by the small and the weak and the unprofitable firm as well as by the large and strong and profitable. It must therefore hinder rather than help us in getting the expansion of business which we need. Moreover, this tax, levied as it is on payrolls, discourages not only employment but wage increases as well, both very good additional reasons for getting away from it.

Finally, every encouragement should be given to the investment of profits in new facilities or their distribution in dividends as against their accumulation in idle business reserves. This means, it seems to me, the revival of a tax on uninvested and undistributed profits. The same result could be achieved if credits were granted against corporation tax liabilities for that portion of earnings which is distributed to the stockholders or actually invested in expansion of new equipment.

One closing thought on taxes. As long as we need revenues, we can't get along without taxes. However pleasant it might be to live in a world without taxes, I'm afraid there just isn't any way to do it. We shall need taxes, as we have seen, to yield about 25 billion dollars in revenue in the next few years. If we don't get them from one tax, we'll have to get them from another. And so the question is not whether a given tax is better than no tax at all, but only whether it is better than an alternative tax.

In deciding between one tax and another we must keep in mind that our basic and continuing problem is to get the purchasing power of all us consumers high enough to buy all the goods and services we are so capable of producing. Where we are forced to choose between a little more of a tax that may discourage business investment and a little more of a tax that may discourage people from buying in the stores, we've got to pick the one that does not check consumer buying.

Fortunately for us all, during the next few years, as inflationary pressures subside, we face a decrease rather than an increase in taxes. As taxes are lowered, we shall therefore be stimulating the purchase of goods by consumers and aiding business investments rather than discouraging them. The question is only how much we shall stimulate the one as against the other.

The adjustments that need to be made in our tax structure can and should take the form of reduction and relief where it will do the most good. Thereafter, if we are wise in our policies, both private and public, the additional revenues which government will need to carry its share of our economic responsibilities should result from the application of the same or even lower tax rates to a rapidly growing national income, not from an increase in tax rates themselves. This isn't too unpleasant a prospect.

Sixth: A Bold Plan to Build Homes

Sixth, if we are to develop the purchasing power necessary for sustained full production, the government must take vigorous leadership in the entire field of housing. As we saw in Chapter 2, we are sadly lacking in modern homes. In only one year, 1925, did we build as many as 900,000 homes. In the 1930's we averaged less than 500,000 annually. In the war years the average was considerably lower, while repair work practically stood still. Today nearly 50 per cent of all our homes are in need of replacement or major repairs.

This problem, which has been in the making for two decades, has suddenly become extremely critical. Veterans are returning to their families, or on their return are getting married, and they all need homes and need them now. Yet at the close of 1945, there were 1¼ million families doubled up with relatives or friends—that means at least 2½ million families living in cramped quarters. During 1946, it is estimated that 2½ million *more* families will require homes—a trebling of the problem.

Anyone can see that it would be years before veterans got the houses they need if we relied on the methods of the past. That is why the Veterans' Emergency Housing Program—incorporating the techniques and the know-how that we developed in achieving our wartime goals—has been launched, with its immediate goal of 1,200,000 dwelling units in 1946 and another 1,500,000 in 1947.

The veterans' housing needs are of course at the top of our list, but in planning the emergency program the longer-range requirements of us all have been kept in mind. These are only relatively less desperate, and in the critical state of our housing lie opportunities for sustained jobs and sustained increases of purchasing power that are almost unlimited.

In the next ten years we shall need a minimum of 12 million new dwelling units just to replace present substandard units and those which will wear out meanwhile. That is an average of about 1¼ million units annually—nearly two and one half times the amount of home building we had during the thirties. A home-building program on that scale would employ directly and indirectly some 4½ million workers at excellent wages, and it offers huge opportunities for the profitable investment of our savings.

In housing, as in other fields, the responsibility must rest largely with free enterprise. But we had better face the fact that our housing industry is shockingly backward, and unless government does its part those 12 million homes are unlikely to be built. Let's list briefly a few of the problems in the field of home building and its closely related field, slum clearance:

1. Our cities have grown haphazardly over a period of generations. They have grown largely without plan or program and with little thought for the strategic location of parks, recreation centers, and city buildings.

2. Land values in city slum areas are frequently so high businessmen cannot profitably buy the land, tear down the dilapidated structures, and build modern homes at prices our people can afford to pay. Similarly, our city governments for the most part lack the funds to finance the purchase of land on a large scale for the civic developments which make for attractive and healthful living.

3. With a few notable exceptions, the building-material industries are relatively inefficient. They have operated for the most part on the basis of low

volume and high prices. There has been a minimum of vigorous enterprise and business imagination. Partly because most of the firms are small and unprofitable, there has been but little research to develop improved methods. The industry has been shot full of monopoly or near monopoly, economic defeatism, and "scarcity thinking."

With a few exceptions and for very human reasons, the labor groups operating in the building field have been equally backward in their approach to an all-out housing program. Long ago, with only a limited number of people able to afford new homes, they began to realize that improved methods usually resulted in fewer jobs and longer periods of unemployment. A carpenter, bricklayer, plasterer, or plumber could see only too readily that by speeding up his efforts he would only speed the day when he would be out of work again.

As a result, we had the development of "feather-bedding" and various make-work practices which served to drag out the job, raise the costs, and limit still further the number of families which could afford new homes.

4. Out-of-date municipal legislation in hundreds of communities has served further to increase the high cost of home building.

Only through a vigorous and united attack on this complex housing problem, directed by the Federal government, can we develop the solution which must be forthcoming if we are to have an adequate number of modern homes for all of us and if our purchasing power is to be brought to the levels necessary to maintain full production.

Adequate Federal loans or grants should be provided to enable cities and towns to eliminate slum areas completely. This financial assistance should be granted only to those cities and towns which have developed complete long-range development plans covering highways, recreation centers, schools, and hospitals, as well as housing itself.

In the absence of a bold attack on the problem by business itself, Federal research should be undertaken to develop more efficient building materials and building methods.

Monopolistic practices should be vigorously weeded out, and if our present legislation is inadequate to the task, it should be broadened and strengthened. Outworn local building-code legislation should be eliminated. A broad educational program on the effect of "feather-bedding" in reducing our workers' incomes rather than increasing them should be undertaken by the government housing agencies and by the unions themselves.

Adequate governmental subsidies should be made available to finance low-cost housing, and ample credit facilities should be provided to encourage increased home ownership among both rural and city families.

In order to speed up new housing immediately, temporary subsidies should be granted to reduce the present costs of lumber and some other basic materials and to stimulate production of new kinds of building materials. As long as they are in short supply, building materials should be rationed exclusively to low-cost housing and to those industrial and commercial users who can show actual need.

This program for the pricing and distribution of scarce building materials, while drastic, is the only way we can meet the really critical needs of our veterans and others who are now desperately in need of homes. It should be considered as a temporary expedient and abandoned as soon as the supply and demand of our basic building materials are again balanced.

In the construction industry lies perhaps our greatest single opportunity, not only to correct our shocking lack of decent homes, but to increase the purchasing power of our people. Steady wages to 4½ million workers will mean vastly increased sales in our grocery stores, our clothing and appliance stores, in all the markets of our nation. There isn't a group in the land which is not certain to benefit from a vigorous program of home building—benefit in increased farm income, higher pay checks, or better profits.

In this field, above all others, the government has a major job to do if the new homes and the added purchasing power are to be forthcoming. But again let us hope that the present inept leadership in the building and real-estate industry will be replaced by men of boldness and imagination—men who in the name of enterprise which is really free will grasp their opportunity and run with it. There are plenty of such men in the building field, men who have already demonstrated the vision and daring to develop new engineering techniques and new building materials. It is time that they went to work.

Seventh: Fostering Foreign Trade

Seventh in the list of things the government can do to help business carry its responsibilities for increased consumer purchasing power in a full-employment economy is the active encouragement of international trade and the free movement of investment capital from country to country.

Great strides have already been taken by our government in concert with the governments of our Allies. Still greater strides must be taken in the years ahead of us. The world needs vast quantities of American goods. The export of these goods can provide billions of dollars of spending in our markets and millions of jobs for our people. And we need vast quantities of the products of other countries, the importation of which will pour billions of dollars into markets abroad which will there help to increase the standard of living. Surely the increased trade of the nations of the world is something worth working for.

At the present time the world needs billions of dollars of American capital. It needs these billions to repair the ravages of the war, to rebuild the bombed-out factories, the shattered railways, the torpedoed ships. Beyond this, there is need for additional billions of American capital to speed the industrialization and to raise the standard of living of China and Russia, of India and Africa, of eastern Europe and Latin America. Surely their destiny, like our own, lies in the peaceful development of their productive strength and the raising of their standard of living. Impoverished nations, like impoverished individuals, are rarely ardent believers in democracy.

We need to invest these billions abroad as much as the rest of the world needs to have them. We need these investment opportunities because without them, as we have seen, it will not be easy to find outlets for the investment of the tens of billions of dollars which our corporations and many of our individual citizens will be saving year after year. We need them because without prosperous customers for our goods abroad it will be harder to find prosperous customers at home. We need them because to an increasing extent world prosperity and world peace are tightly tied together. Surely this, too, is something worth working for.

In all this, government has a vital role to play. Men will not risk their capital in other countries when they fear the depreciation of foreign currencies and the default on obligations. And men will not invest their savings while political turmoil based on economic suffering threatens the security of the property in which they invest.

It is the responsibility of government, therefore, to promote the stability of the money exchanges, the sound development of the economies of the rest of the world, and steadily to strengthen the bonds of peace and friendship and collaboration among all nations. Great as have been the strides already taken by our government toward some of these objectives, the opportunity and the challenge which we face in this key economic sphere must, as I said earlier, spur us on to even greater advances.

Eighth: A Fair Share to Our Farmers

I have reserved for eighth and last place in this list of methods through which our purchasing power can be increased the responsibility of government toward the farmer. Farmers constitute the largest single business group in the country. There are 6 million independent farm operators. They produce the most essential of our basic goods. Without a strong agriculture we could not have a strong economy or a strong nation. Yet until a dozen years ago, callous disregard of the farmer, his welfare and his problems characterized our national policy.

In spite of the awakening of the nation's conscience in 1933, and in spite of the very concrete advances made by 1940, we saw in Chapter 2 that the lot of our average farmer in that year was not an enviable one. It took the war to raise the prices our farmers receive for their products into a decent relationship with the prices they pay for what they buy, and to raise farm incomes into a more equitable balance with the incomes of the rest of us.

The proportion of farmers in our total population needed to supply the food and fiber required by the rest of us has dwindled ever since the Revolution. It will continue to dwindle in the future.

With our city people fully employed at good wages, the demand for farm products will greatly increase over prewar levels. But there are limits to what even a prosperous nation can eat, and beyond a certain point our markets for food products overseas can be expanded only slowly. Farm mechanization will increase rapidly in the next few years. Improved techniques and new irrigation projects will add more output.

This means that proportionately fewer workers will be required—even with shorter working hours—to produce the food and fiber needed by the rest of us. Clearly it does not mean that our farmers will not share and share fully in the growing abundance of our expanding economy. On the contrary. It means simply that the sons and daughters of our farmers will, even more than in the past, seek opportunities in the city.

There will be no economic need for more people to seek a living from farming than can make a really *good* living that way. In too many years tens of thousands of workers were forced to seek refuge on the farm from unemployment in the city. Our goal must be the individual freedom that high and sustained production brings with it, the freedom to work where greatest opportunity beckons, whether that be on the farm or in the city.

Looking toward the future, I must emphasize once again that the prosperity of our farmers, like the prosperity of all other businessmen, depends upon the prosperity of the nation as a whole. It depends, therefore, upon there being enough consumer purchasing power, enough mass spending, to buy all the goods we can produce—on the farm and in the factory—when we are all working. But even when all the measures have been taken which insure the high and steadily increasing volume of wages and salaries which we have seen to be so essential to a prosperous agriculture, there will be many more things that need to be done before our farmers are truly secure.

I do not presume to be a farm expert. During the past few years, however, I have had an unusual opportunity to study farm problems and to talk with thousands of farmers in all parts of the country. I have come to know on intimate terms the leaders of the major farm organizations.

If our farmers are to enjoy their fair share of our nation's steadily increasing income, and if they are to make their full contribution toward providing the markets for what is produced in the cities, I believe four main things need doing.

We Owe the Farmer at Least Four Things

I think that farmers' prices must be supported, farmers' crops must be insured, the nation's social-security system must be extended to include the farmers, and a far greater share of government building and government services—the schools, the hospitals, the highways, and the electrification—must be provided in the rural areas of the country.

The need for the first two items, farm-price support and crop insurance, is based upon the uncertainties of the weather. No matter how hard or how intelligently the farmer may work, inadequate rainfall or rainfall at the wrong time, or an early freeze, any of these things, may destroy his crops and rob him of the fruits of a season's work. In addition, when the weather is favorable it may make his labor so productive that even with greatly increased purchasing power in the cities his bountiful crops are a glut on the market, bringing ruinously low prices.

What seems clearly called for is government price-support programs to protect the farmer against the latter, and government insurance programs to protect him against the former.

The price-support program, however, should, in my judgment, be carefully reconsidered. At present, it is put in terms of "parity" and provides government purchase or other action to support individual farm prices at 90 per cent (for some crops 95 per cent) of "parity." This has two disadvantages. In the first place, if we manage our affairs badly and prices in general are slumping, the farmer does not have a firm support for his own price, but a support which itself is sliding down the toboggan. We ought to do better by the farmer than that.

In the second place, because the base period is now more than 30 years in the past, it has very little relevance for today's economic conditions. There has been a lot of technical progress these past 30 years on the farm as well as in the factory. This has cut farm production costs but it has not cut them uniformly. We discovered during the war that some of the most profitable crops were among the last to reach "parity" prices. In some cases, therefore, parity prices, as presently calculated, seem too high, in other cases too low, when viewed in the light of current costs.

Two different new approaches to this general problem have been suggested. Senators Aiken and La Follette have proposed a Food Allotment Program, in which they have built on the principle of the old Food Stamp Plan. Under this program the government would at all times be directly aiding low-income families to obtain sufficient food, thereby supporting the farmer's market. And if unemployment were to appear and incomes to start falling, the government under this program would increase its assistance and thereby increase its support of the farmer's market. This, if done on an adequate scale, would clearly be a very important instrument to sustain farm prices and incomes at fair levels.

Another proposal would leave farm prices in *prosperous* years entirely to market forces. Only with the appearance of any unemployment above a minimum level of, say, two or three million, would the government guarantee with respect to the farmer go into operation. Under this guarantee, farmers would be compensated directly for any decline of their prices below the average level of the three years preceding. It is argued that this proposal would provide protection to our farmers without depriving our American consumers or our export trade of lower free market prices.

As a general policy I myself tend to favor the Food Allotment Program approach for the reason that, while it offers very real protection to the farmer, it is geared more broadly to the economic interests of the country as a whole. That program does not, however, directly protect the prices of fibers or the economic position of farmers who are engaged in producing flax, cotton, or wool. Here, support prices or the alternative of compensatory payments plainly have a major role to play. The support or compensation levels, however, should be determined, it seems to me, in terms of current economic facts, unhampered by relationships which prevailed a generation ago.

The problem is particularly important in the case of cotton, which for a century has played such a key role in the economic destiny of the South. Today cotton prices are high on any competitive basis, while the wages of the field workers are pitifully low and most of the land owners fail to earn a reasonable living. Sooner or later, if our southern cotton farmers are to maintain their domestic and foreign markets in the face of growing competition, cotton production must be mechanized in order substantially to lower costs and to allow lower prices.

Eventually hundreds of thousands of cotton workers displaced by cotton producing machinery will find their way into far better paying jobs in industry, into fruit and vegetable growing or other more profitable types of farming. The workers who operate the new cotton farming equipment will earn good wages and the plantation owners should show substantial increases in their income.

But this revolution in cotton will not take place overnight, and in the meantime there will be widespread dislocation. To ease the transition some farm economists favor direct payments to our cotton farmer over a period of, say, 10 years at a steadily decreasing rate each year. At the end of this period it is expected that American cotton, picked and harvested by modern machinery, would be selling profitably in competition with rayon fiber at home and with Egyptian, Indian, and Brazilian cotton in the world markets.

The crop-insurance programs are still essentially a thing of the future. I hope that we shall see rapid progress toward a workable and adequate program.

Nothing could more clearly show the disadvantageous position that our farmers occupy than our failure thus far to include them and their families in our national programs of social security. Nothing, that is, except the fact that they have also shared so unequally in almost all of the services the government has provided for the rest of our people. The injustice of these things is so obvious that they need only to be mentioned to suggest that prompt action must be taken to get them straight. I hope it will not be long before important and far-reaching steps in this direction are actually taken.

And let us not forget that the assistance which we give our farmers in raising their living standards puts extra income into the pockets of all the rest of us wherever we may live and whatever we may do. Our farmers represent 23 per cent of all the people in America. Today, as a group they lack good homes, proper equipment, modern furnishings and appliances —in fact, all the goods and services which our businessmen and our workers are so able and anxious to produce.

Given good incomes to spend for decent living, there is scarcely a businessman or a worker in the land who will not receive the benefit of their increased purchases in better profits and higher wages.

Over and over again we see the lesson repeated: The economic destinies of all of us—workers, farmers, merchants, and industrialists—are tied tightly together. None can prosper unless the others prosper, too.

10

What All This Means to You and Me and the Next Fellow

Up to this point we have been talking about our economic system, how it has worked in the past and what is required in order to make it work better in the future for the benefit of all of us. And so we've had to talk about consumption and investment and spending, and the flow of purchasing power, which is the lifeblood of our economic system.

It is time now that we talked, not about our economic system, but about our people. It is time we talked, not about the billions that flow through the channels of trade and industry, but about the dollars of income that you and I and the next fellow earn and spend in supporting our families and putting our children through school.

Let us try to look back again on how we lived before the war and then look forward to see how we will live in the years that lie ahead both in the near future and twenty years from now. Let us see what our steadily expanding economy will mean for the daily living of the more than 40 million families that make up our great nation.

I will begin with the material side of our living, not because things we can see and touch are more important to us than the things of the spirit, but because so long as hunger gnaws the stomach and cold stiffens the limbs only saints can bring themselves to think of anything beyond food and clothing and shelter. For the truth is that it is only when men have satisfied their basic bodily needs that there is room in their thinking for anything else, and it is only when fear of hunger and cold and the insecurity which makes hunger and cold an ever-present threat have been banished that they can begin to live like free men.

Let us look back again on how we lived in 1940. For millions of American families, although it was far easier than ten years before, living was still brutally hard in that year. In Chapter 2, I gave considerable attention to the cold facts about the way our workers, our farmers, our clerks, stenographers, and businessmen, fared in 1940. I am still shocked each time I turn to those facts again. In that year there were about 40 million so-called "family units" in this country. This number included not only the households with children and the childless married couples, but also the single men and women living alone.

Now, everyone knows that the incomes of these families ran all the way from practically nothing at the bottom of the economic scale to those of the millionaires at the other end. But how much more than that do we know? President Roosevelt dramatized the fact that one third of the nation was "ill-housed, ill-clothed, and ill-fed." We saw the privations and insecurity of our farmers, our workers, and many of our small businessmen. But do you know what the income of an average family in the lowest third amounted to? Or, for that matter, what the income of an average family in the middle third was or of one in the upper third?

As it happens, we do not have those particular figures for the year 1940, but we do have them for 1941, when stimulation of war had pushed our national income about 10 per cent higher than in 1940. If, therefore, we use the 1941 figures on family income as representative of 1940, we shall get a somewhat more favorable picture than actually existed in the earlier year.

In 1940 the 13 million families which were in the bottom third in our economic scale contained 38½ million men, women, and children, or a little under three persons to the family. Of the families having two or more members, about one in three had a second breadwinner. Yet in spite of this, the average family income was the pitifully low figure of $527 a year, or $10 a week. Do you find this shocking? You should. It is shocking.

How could a family of three manage to live on so low an income? I've gone over these figures many times and I still can't see how they did manage. Here are the figures in a little table:

Income and Expenditure of Average Family in the Lowest Third in 1940

Annual income		$527
Annual expenditure for:		
Food	$210	
Clothing	75	
Rent and fuel	115	
Transportation, utilities, drugs, and other necessities	100	
Everything else	65	
Total		$565
Deficit		$ 38

We know that somehow, in spite of privation and no small amount of actual suffering, these 13 million families did manage, and these figures show how an average family in this group spent its meager income. Let's look now a little more closely at the items that are listed. The first one is $210 for food. That amounts to just about $4 a week, or, with three in the family, about 7 cents per meal per person. How much food and what kind of food could that put on the table?

You don't need to be a mathematician to see that 21 cents a meal for three people wouldn't pay for much of even the cheapest meat or for eggs, butter, milk, or oranges—even at the somewhat lower prices which we paid in 1940. For that reason, these basically essential items didn't appear on the table very often. It was difficult enough to manage on cabbage, potatoes, beans, oleomargarine, and bread.

On the farm and in the rural areas, things were a little easier, of course, and even in the cities the good housewife could make her money go a little further by picking over the fruits and vegetables just before the close of business on Saturday, when the grocer had to mark down his stock to avoid spoilage over the week end. And occasionally the distribution of surplus food by the Department of Agriculture through the food-stamp plan brightened the diet.

But the going was far from easy, and it is not hard to understand why one out of four of our people in that year had insufficient food and three out of four did not get enough of the "protective" foods—the citrus juices, the milk and eggs, the butter and meat—that all dietitians agree are necessary for good health. And even with mothers taking care to give the children the best of what they had, there were millions of American children who were undernourished and rickety, sluggish at school, and easy victims for disease. The draft boards found that out two years later.

The next item is $75 for clothing. This was the sum spent not for one person, but for an average family of three, and not for one season, but for the entire year. Any family in which the man of the house got an overcoat and suit in a single year would have had less than half its entire clothing budget left for everything else. So, mighty few of these families did that. They didn't buy coats, anyway, for the most part. They wore lumber jackets or sweaters, at a cost of $3 or so, and they made these last three or four years.

They didn't buy shoes very often, and when the shoes wore out they were repaired and repaired again. There wasn't enough money to buy rubbers or overshoes for the youngsters. A new item of clothing was an event because, except for the oldest child, clothing consisted of hand-me-downs.

How these families kept themselves clothed with even reasonable dryness, warmth, and decency is a miracle to me. Even when we take the bargain counter into our reckoning, where prices were cut below cost because most customers had passed over the goods, it just doesn't seem possible that they were able to make out.

The other items in the budgets of these 13 million lowest-income families tell the same story. Ten dollars a month for rent and fuel combined couldn't buy very much more than the shabbier of the cold-water flats in one of our city slums, with coal to be brought in by the scuttleful, and an indoor toilet the exception rather than the rule. Another $2 a week went into carfare to and from work, for soap and brooms, for gas and electricity if there were gas and electricity, for infrequent haircuts, drugs, and an occasional doctor bill. Two dollars didn't buy very much of any of these things.

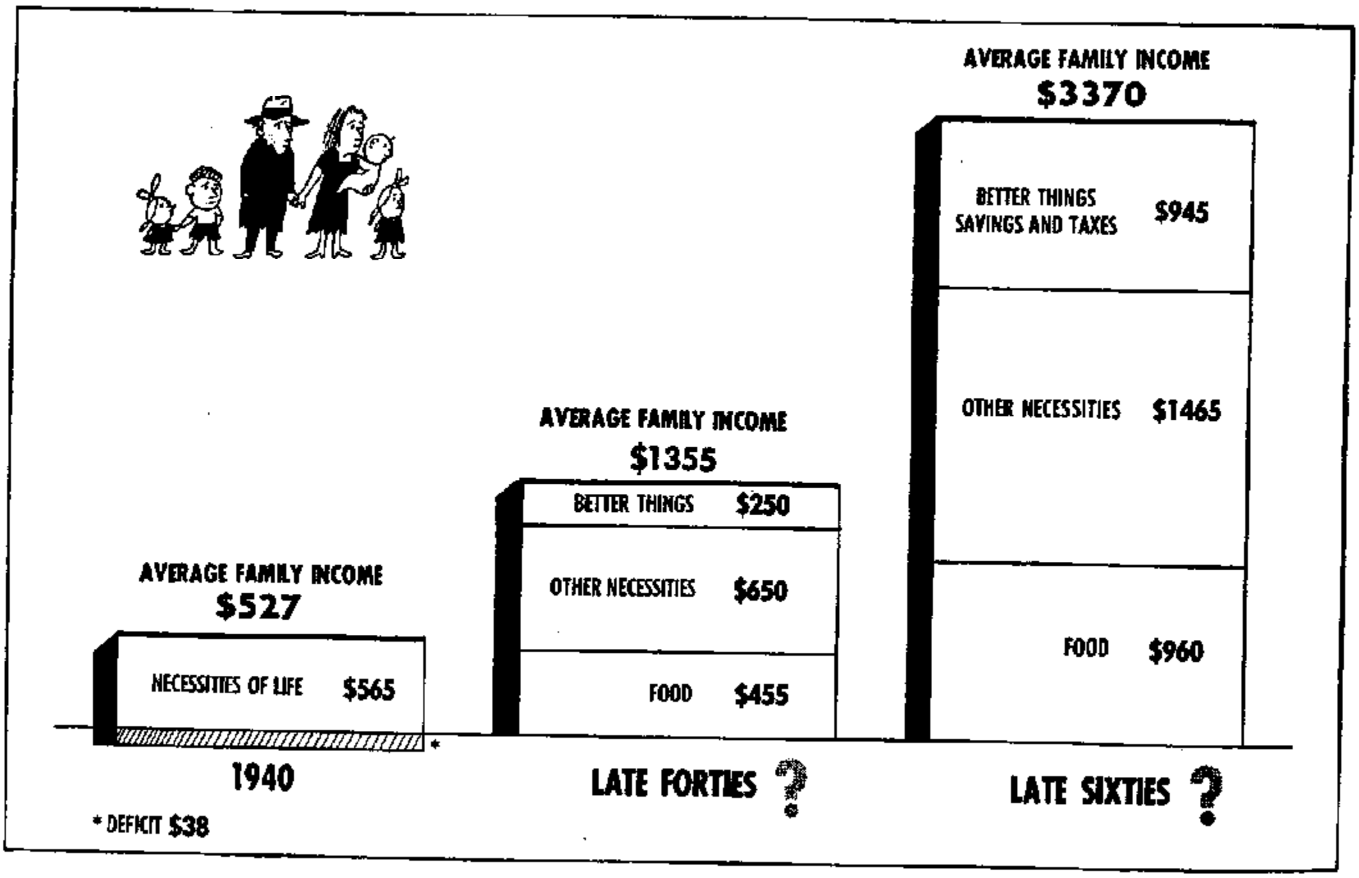
For everything else there was left about $1.25 a week. This had to cover tobacco, an occasional movie, newspaper, or magazine, and, for some families, insurance to assure a decent burial. Out of this, too, had to come the purchase price and the upkeep of the jalopy which, believe it or not, several million of these families, mostly in the rural areas, managed to buy.

It shouldn't be surprising that the average family, try as it might, couldn't make both ends meet. Occasionally they got help from the relief agencies and from relatives who weren't quite so badly off. But for the average family this was not enough. They ran up debts at the corner grocery and with the doctor which they simply could not pay off. The average family in this group ran in the red to the tune of $38 a year.

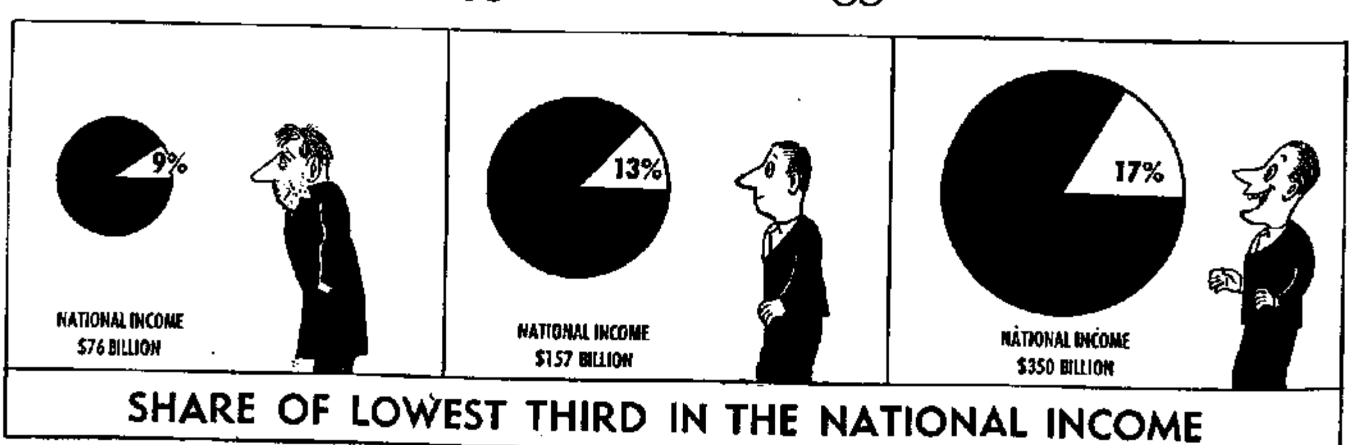
There is the picture of the "bottom third" of our people in the peacetime year 1940. It's not a pretty picture, but those are the grim details that added up to one third of the nation's being ill-housed, ill-clothed, and ill-fed.

What the Future Holds for the Lowest Third of Our Families

". . . The Ill-fed, Ill-clothed, Ill-housed"



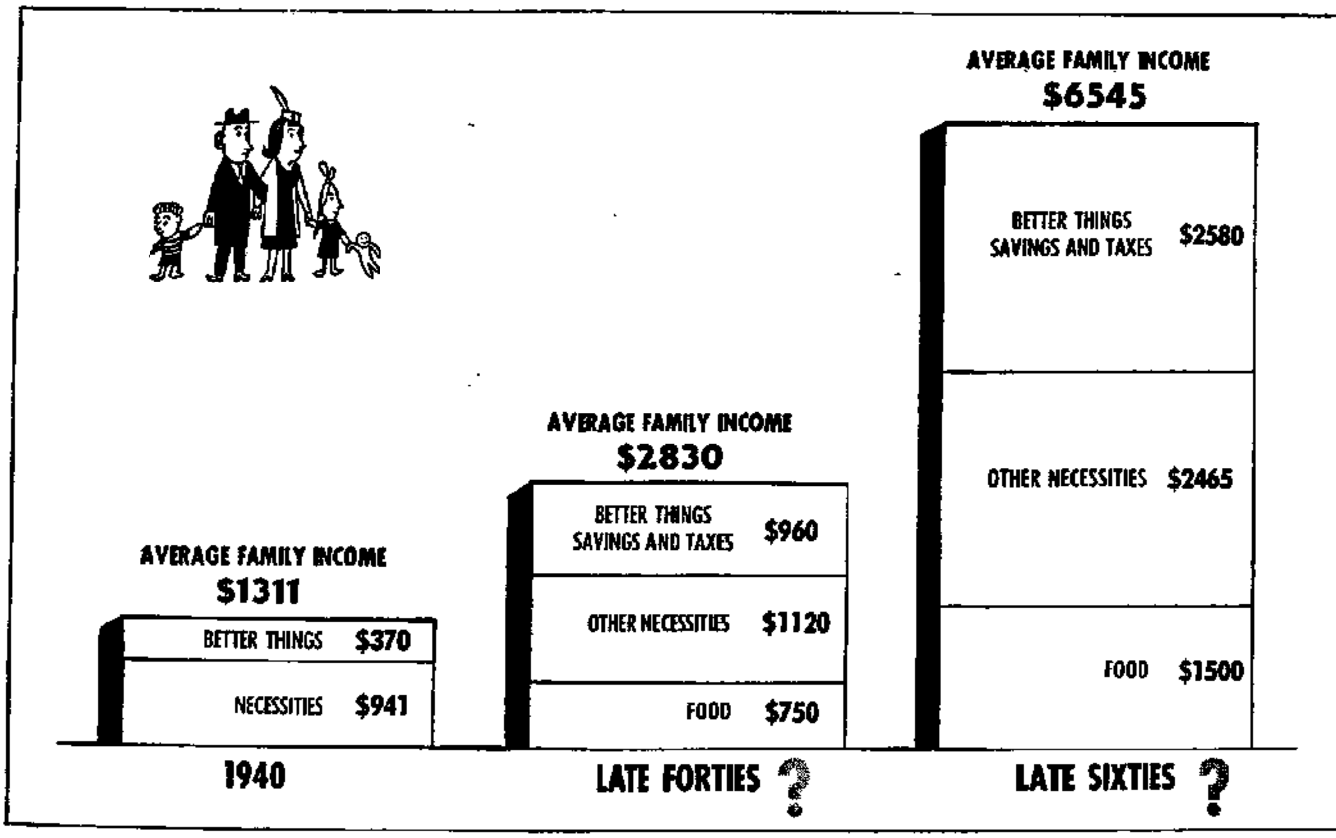
A Bigger Piece of a Bigger Pie



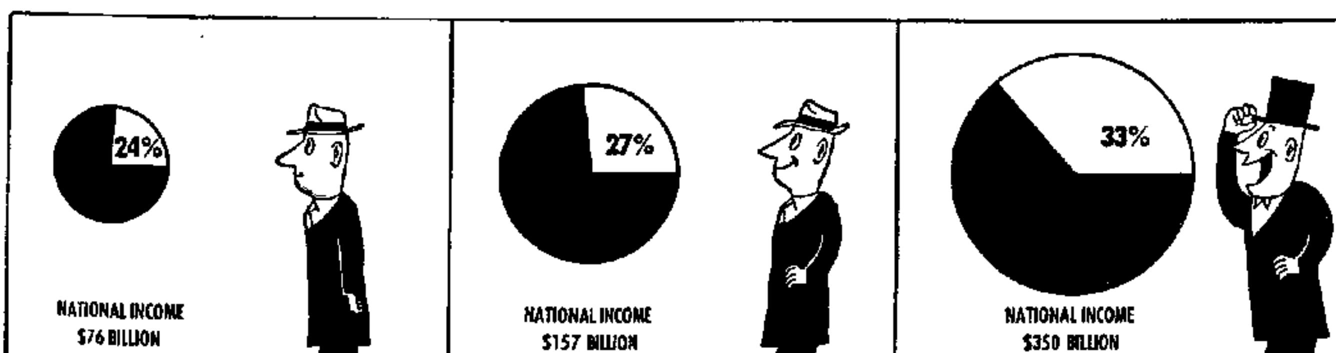
What about the rest of us in 1940? How well off were we? In 1940, it is true, the middle third of American families were a lot better off than the bottom third, but only by dismal comparison. The average family income of this group was $1311 a year, or about $25 a week. Their families averaged a little over three members, but with incomes about 2½ times those of the lowest third, this still meant a far-better standard of living—but again only by comparison with those nearer the ragged edge.

For them there was rarely a question of a large enough *amount* of food, although the food budget normally didn't permit the buying of enough of the protective foods so vital to health and especially to the

What the Future Holds for the Middle Third of Our Families



A Bigger Pie and a Thicker Slice, Too



SHARE OF MIDDLE THIRD IN THE NATIONAL INCOME growth of the youngsters. There was enough money for clothing at least to keep the family warm, even though it took careful budgeting and buying to do it. And with an average of $18 a month for rent and fuel, these families were not obliged actually to live in slums. They occupied the smaller row houses such as are common in Baltimore, Philadelphia, Brooklyn, and other eastern cities.

On the farm, they occupied reasonably weathertight homes. They generally had running water, indoor toilets, and gas and electricity. Where a city family in this middle group owned its home, it was worth about $2000.

And after paying for food, clothing, rent, and the other necessities, there was about $30 a month—for a few of the better things of life, including savings and insurance. These families pretty generally had cars, bought second- or third-hand, but usable. Usually they had radios and a few other electrical appliances. They could afford some insurance and to put aside some money for a rainy day. The average family of this group managed by scrimping to save about $10 a month.

This is probably not your idea of our American "middle class," but that's what the figures show. The following table pulls them all together. I think you may find it instructive to get out a pencil and see whether you can figure out how you would have managed in 1940 on this budget. Remember, 13 million average families of three did, and even thought of themselves as sharing in the high American standard of living!

Income and Expenditure of Average Family in the Middle Third in 1940

Annual income		$1311
Annual expenditure for:		
Food	$388	
Clothing	140	
Rent and fuel	218	
Other necessities	195	
The "better things," (plus savings and insurance and income taxes)	370	
Total		$1311

There remains the third of our families who had the highest incomes. And this brings me to a question I often put to my friends: "How high an income does a family have to have to be included in the highest third of all American families?" I have rarely received an answer that wasn't at least $3000 off. Suppose, before you read any further, you make your guess, remembering that we are talking about 1940, of course.

Surprising as it may seem, the answer is a bare $1675 a year. In other words, two thirds of all American families had incomes in 1940 of less than this amount. You will be surprised, too, to learn that the *average* income of this upper third—including the millionaire as well as the $1675 family—was only $3722.

Now, you may think there is not much point in talking about an average income for a group of families having incomes that are spread out so widely as those in this group. And you will be quite right.

However, only a very small proportion of our families, even in this more favored group, have really high incomes. Only one in every seven families among the upper third had an income of over $5000, and only one in twenty-five an income of over $10,000. The average for the entire group is therefore only slightly higher than the average for the families in the group having incomes of $5000 or less.

It is only here in this upper third of our families that we find the American standard of living we all talk about, but so few of us actually enjoy. It is only here that we have the really comfortable homes, the good and stylish clothing, the well-set tables, as well as a plentiful supply of the automobiles, refrigerators, the electric fans, the toasters, and all the rest of the modern conveniences that technology has produced.

And it is only here that medical and dental service is adequate, that trips to the seashore or the country or to hunt or fish are part of the normal family budget. The average family in this group goes to the movies regularly and to the theater from time to time. It gets a paper daily, subscribes to several magazines, enjoys a hobby or two, entertains and is entertained. The children look forward to a college education and generally get it.

Families in this group support the community chest and other charities, are generous church supporters, and still have enough left to carry reasonable insurance and to put aside substantial savings. Just to compare this group with the others, here are the figures:

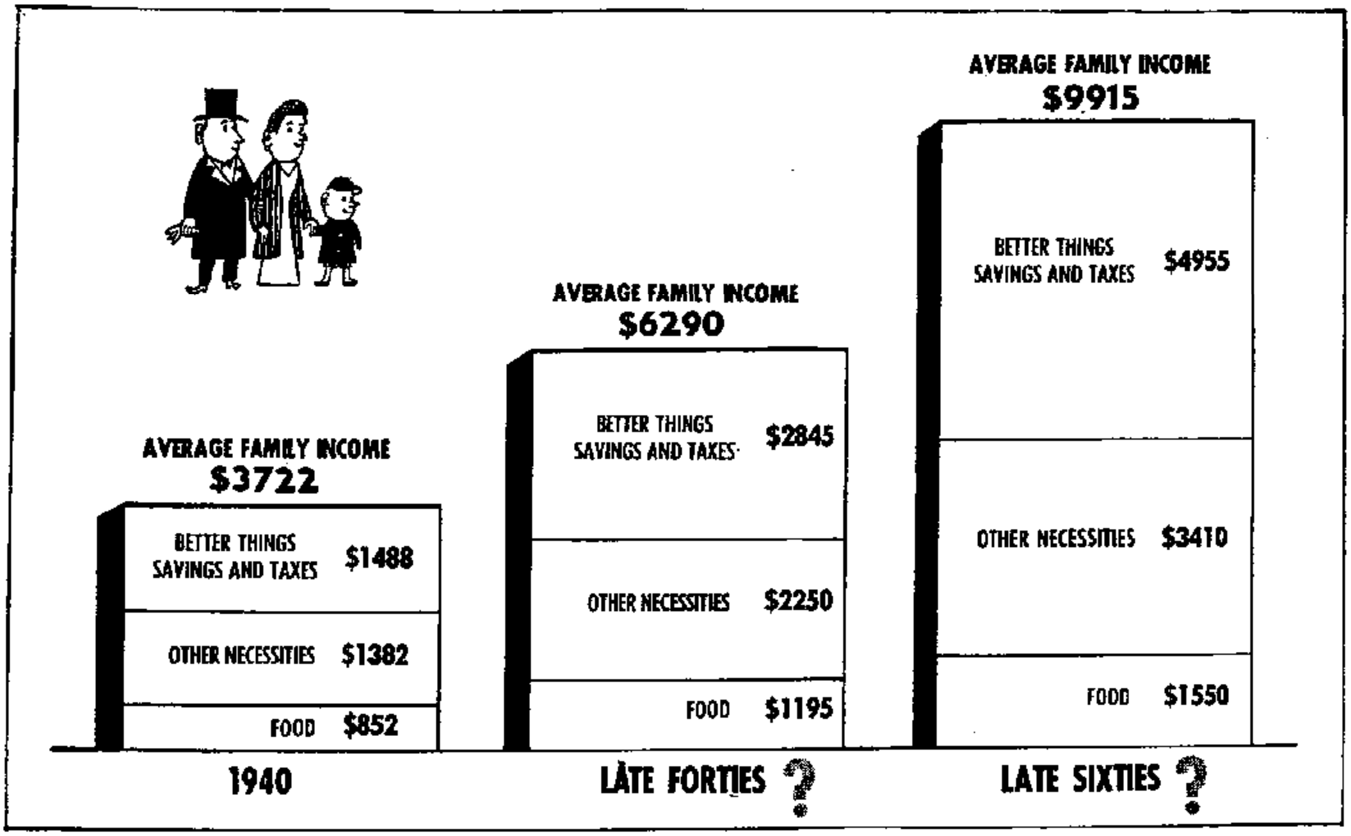
Income and Expenditure of Average Family in the Upper Third in 1940

Annual income		$3722
Annual expenditure for:		
Food	$ 852	
Clothing	380	
Housing and fuel	488	
Other necessities	514	
The "better things," (plus insurance, savings, and income taxes)	1488	
Total		$3722

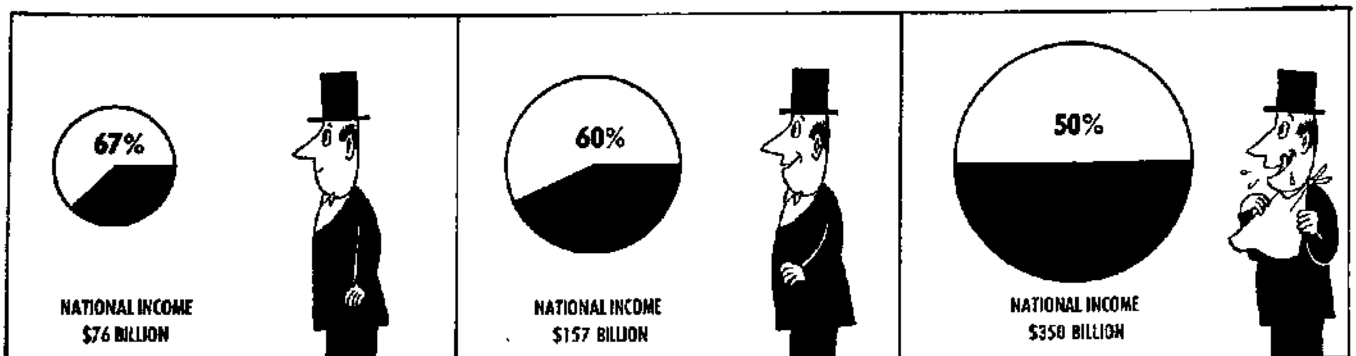
Now, when we put these three budgets side by side, we get a picture for 1940 that looks about like this. The third of our families having the lowest incomes lived in really pitiable circumstances, far below the very minimum level that our great nation should demand of itself. Families in the middle third, while twice as well off, still did not share in the things that go to make up a "real American standard of living." And even the upper third, where comfortable living standards did prevail for families at and above the average, included other families whose incomes ran down to $1675 a year and who lived only on the fringe of the better things of life.

All in all, it was not a pretty picture for the country

What the Future Holds for the Top Third of Our Families



A Thinner Slice from a Bigger Pie Still Means More Pie



SHARE OF TOP THIRD IN THE NATIONAL INCOME as a whole. The good things of life, the opportunities for free and full living, were enjoyed by a very small part of our people. And the worst of it was that it was all so wholly unnecessary.

As I have said again and again, here were vast unsatisfied needs, here were vast potential markets. And alongside them were idle factories and idle men and women—7½ million of them—eager to go to work. Our trouble was insufficient purchasing power in the hands of the families whose spending of it would at one and the same time have enabled us to satisfy those needs and to put those idle hands and idle plants to work producing at a profit more of the goods which most of us needed so badly.

It is sometimes said, and it will be said again, that a redistribution of our income cannot help anybody because there is not enough money in the hands of the upper income groups to raise incomes very much at the lower levels—even though everyone had an *equal* share. That argument misses the point altogether. Of course, it isn't a question of taking money from the few to give to the many. It's simply a question of producing more so that we can *all* have more—the upper third along with everyone else.

Better distribution of our national income, more wages paid out to the workers in the lower-income groups, narrower profit margins for business on each individual unit, will create the purchasing power which will put more men to work at good wages. This will mean higher incomes for everybody, including most of our businessmen, and a higher standard of living for everybody.

The benefits of a better distribution of income do not lie in the fact that some people get a larger slice of our economic pie, but in the fact that our pie—what we all have to share—becomes so much larger. And it cannot be made larger unless we do get the better distribution of income. We've seen that again and again.

Let us turn now to the future and see the promise it holds for us all. In the late forties, when we shall have completed our reconversion from war to peace, we can, if we are wise, have a country with 200 billion dollars of output distributed among all of us to use for the purposes of peace rather than those of war. As we have seen, we can all, as consumers, be spending 135 billion dollars a year, 50 per cent more, on the things that we eat and wear, than we consumed in 1940.

This means that while the average standard of living of the nation must rise by 50 per cent, the standard of living of the lowest two thirds of our families must rise by more than 50 per cent and that of the upper third, most of whom are already living well, by somewhat less.

No one, of course, can say how much of a redistribution of income is required, but here are some figures that suggest something of what the next few years must bring.

As we have seen, the lowest third of our families received, in 1940, only 9 per cent of the total income. By the late forties, I think, we must see that they have something like 13 per cent of the much larger total income which full production will make possible at that time. In fact, 13 per cent of our bigger economic pie for one third of our people sounds like an absolute minimum.

If we are able to do this, the average income of these families will be raised from $527 to $1365. The increased percentage of the larger total national income would more than double the dollar incomes of our "bottom third"—the ill-housed, ill-clothed, and ill-fed of the 1930's.

In the following table, you may see how the income redistribution I am suggesting would affect each of the three groups of American families:

WHAT THE LATE FORTIES CAN HOLD FOR AMERICAN FAMILIES	*Lower Third*	*Middle Third*	*Upper Third*
In 1940			
Total Income of All Families: *76 Billion Dollars* Per Cent Received by Families in Each Third	9%	24%	67%
Average Income Per Family	$527	$1311	$3722
In the Late Forties			
Total Income of All Families: *157 Billion Dollars* Per Cent Received by Families in Each Third	13%	27%	60%
Average Income Per Family	$1365	$2830	$6290
Improvement over 1940 by Late Forties			
Average Standard of Living (taking account of price rises during the war)	+100%	+66%	+30%

As you see from this table, if all goes well the average family in each of the three groups will have sharply improved its position by the late forties, in terms both of dollar income and of its real standard of living. For all families taken together, the increase in the standard of living is 50 per cent. For families in the bottom third, the increase will be twice as great—100 per cent. For families in the middle third, the improvement will be 66 per cent.

Families in the upper third, although receiving a smaller slice, will benefit from the increase in the size of the total economic pie and will themselves enjoy a standard of living 30 per cent higher than in 1940. This last percentage, of course, understates the improvement that will be felt by the families in the lower part of the upper third, families which in 1940 earned between $1675 and $5000 a year. Generally speaking, these are the families of our doctors and lawyers, our skilled workers and educators, our foremen and accountants.

In 1940 most families in the *really* high income group were able to buy about everything they wanted to buy. It is in the lower ranges of the upper third of our families that incomes still really need to go up and the standard of living really needs to rise to achieve what ought to be our "American Standard of Living."

This is an exciting prospect—a standard of living for all groups considerably higher than we have ever known. Not less for anybody, but *more* for everybody. Enough food and enough of the right kind, enough clothing—not just for some of us, but for all of us—and more of the better things of life for everybody, too. And unless we fail miserably to meet the present issues, this is not the prospect for the distant future, either. This is the prospect for 1947, 1948, and 1949.

The Department of Commerce suggests that in 1947, with full employment and full production, we should be able to buy 72 per cent more clothing than we bought in 1940; 62 per cent more food; 140 per cent more automobiles; 74 per cent more electric refrigerators and washing machines; 165 per cent more radios; 105 per cent more furniture. We should have 77 per cent more money for traveling, and 42 per cent more for recreation. That surely sounds like an easier world to live in!

And even this is only the beginning. For alongside this almost immediate increase in our average standard of living we may look for 30 billion dollars of business investment every year, a full 50 per cent more than we have ever had before in peacetime. And this investment will mean more and better factories and railroads and airways. It will mean 1½ million new houses a year. It will mean more and better machines and the full application of our technological genius.

All this will continue to sweep us forward. Where in the past we have taken two steps forward in every boom and one step back in every depression, we shall now move steadily forward, with increasing stride, year after year.

And year by year, if we will use good judgment and a little courage, this will mean a further increase in the standard of living for all of us. And it will mean more and more of the better things for the families at the bottom of the scale. Before ten years are out, our present slums will be only an unpleasant memory. Every American family will have a good, sound, substantial home, provided with the necessary equipment for decent, healthful family life.

Every American family will enjoy the good health that complete medical service will make possible. Every American family will know the joy of a vacation every year. All our children will be able to finish high school and no one will miss a college education because he can't afford it.

And we won't stop after ten years. We'll keep right on going. Once we get over our initial difficulties and stumbling blocks, once we have learned how to do the things we know we must do to make our system work the way we know it can work—there will be no stopping us.

Let me show you, then, where I think we will be in the late sixties if we follow a program that calls for full production and the employment of all of our people. And remember that in offering this outline of the future I am assuming that during these next twenty years our annual national output will grow no faster than it has grown every generation since the Civil War. I myself can't see how, if we lick recurring depression and with the discovery of atomic energy, we can fail to grow even more rapidly than this, but I'm putting my figures on the basis of only another doubling of our output by the late sixties.

Here, then, is another table, showing where our three groups of families will stand in the late sixties as compared with the late forties and with 1940—if we approach our problems with courage and good sense:

WHAT THE LATE SIXTIES CAN HOLD FOR AMERICAN FAMILIES	*Lower Third*	*Middle Third*	*Upper Third*
In 1940			
Total Income of All Families: *76 Billion Dollars* Received by Families in Each Third (Billions)	$7.0	$18.0	$51.0
Per Cent of Total Income	9%	24%	67%
Average Income Per Family	$527	$1311	$3722
In the Late Forties			
Total Income of All Families: *157 Billion Dollars* Received by Families in Each Third (Billions)	$20.5	$42.5	$94.0
Per Cent of Total Income	13%	27%	60%
Average Income Per Family	$1365	$2830	$6290
In the Late Sixties			
Total Income of All Families: *350 Billion Dollars* Received by Families in Each Third (Billions)	$59.5	$115.5	$175.0
Per Cent of Total Income	17.0%	33.0%	50.0%
Average Income Per Family	$3370	$6545	$9915
Improvement Between Late Forties and Late Sixties			
Average Family Income and Standard of Living (under stable prices)	147%	131%	58%
Improvement Between 1940 and Late Sixties			
Average Family Income	540%	400%	166%
Average Standard of Living (taking account of price increases during the war)	392%	284%	105%

In other words, by the late sixties, there is no economic reason why the lowest-income third of our families should not be nearly as well off *on the average* as the average of the highest third was in 1940. Does that statement startle you? I hope so, for then you'll remember the challenge inherent in it. We'll all *need* to remember it in the months and years that lie ahead of us if we are to have an understanding of what our country can do and if each of us is to have a proper perspective for judging the policies and measures that will be under debate.

On every possible occasion I have expressed my own conviction that we can and should accomplish these economic goals not only under free enterprise but with free enterprise taking the lead and carrying the major part of the load.

Although government has a key role to play, it is to free enterprise that we must look for our production. It is primarily to free enterprise that we must look for our jobs. It is to free enterprise that we must look for the purchasing power without which we cannot keep producing or keep working. Finally, it is in free enterprise that we have our best hope of technical advances, initiative, and continued freedom of the individual.

I am convinced that free enterprise can create the increased prosperity for all of us which I have just outlined. I am equally convinced that free enterprise *will* do it.

But I think I owe it to my readers, especially those who are in business themselves, to point out the alternatives we face in the event I am wrong and our present free-enterprise system, for one reason or another, is unable to meet the test of the future. For there is one thing of which we may be certain. If our present system fails to keep our people fully employed and our production running near or close to capacity levels, our people will insist that our system be modified.

We Americans are not going to sit by and patiently accept 10 or 15 or 20 millions of unemployed. With all that needs to be done to develop our country and our future, we are not going to be able to understand why there should be even 5 millions of unemployed.

We are not going to accept farm prices and farm incomes that condemn millions of our farm people to lives of poverty and squalor. We are not going to accept business failures at 10 and 15 and 20 times the low rate that we knew during the war.

We are not going to accept poverty and slums and mass insecurity while our great productive machine chugs along at half speed.

In other words, we Americans are not going to accept another Great Depression as a substitute for the prosperity and abundance which we are all so anxious to create and to share. One way or another, the job is going to be done. I wonder if any thoughtful person really doubts that?

11

"The Impossible We Do Immediately—the Miraculous Takes a Little Longer"

THE title of this chapter is the slogan made famous by the Army Service Forces. I don't know any slogan that's more genuinely American than that one.

It characterizes the spirit of the Service Forces. But it doesn't stop there. What about the rest of the Army and the Air Forces? What about the Navy and the Marines? What about the splitting of the atom and the harnessing of its gigantic power? What slogan catches the spirit of the whole war effort—from 100,000 planes a year to the atomic bomb—a tenth as well as this one: "The miraculous takes a little longer"?

But the real significance of that slogan is emphasized by the whole peacetime development of our country. Go back to the founding of our American Union in 1789. That was a new and impossible way for men to govern themselves!

Go back to the spanning of the continent with railroads. That was so miraculous that there were few who heard of it until we did it—in one short generation. Then, we cut a canal to join two oceans—a canal that had been already proved impossible, and to do it we licked yellow fever, a disease that people said only a miracle could conquer.

But while we've had our heroic periods, we've had the other kind, too. The periods of vision, courage, and drive have given way to periods of timidity, blindness, inaction, and despair. And even in the best of our years, there was a seamy side—the things we left undone, the things we should have done better.

It seems to me that as we look back over our past we ought to see where we have been weak as well as where we have been strong. And we ought to keep those weaknesses in mind, along with those strengths, as we look toward the future.

The future that we seek will not just happen. It will not come about by wishful thinking or by pushing some economic buttons. Our progress in the past took work and then more work, and so, too, will our progress in the years ahead. Our production of goods and services hasn't been doubled every twenty years just by the parade of dates on the calendar. It took the hardest kind of work—not only physical effort to overcome physical obstacles, but the even harder moral effort—to overcome the ignorance, and prejudice, and fear that stood in the way of our national growth.

Let's not kid ourselves about the tasks and the obstacles that lie ahead. The tasks that confront us are every bit as big as those we have had in the past. And the chief of our obstacles will be, as they always have been, not the physical difficulties, but these same forces of ignorance, prejudice, and fear.

There will always be those who say of any suggested forward move that it is visionary, impractical, and impossible. It is only because we, as a people, have always resisted this counsel and overcome these obstacles that we have got where we are today. And that must be our rule for the future, too.

As we tackle these tasks that lie before us, we can save ourselves a lot of heartache and worry if we bear in mind the broad sweep of our history and the achievements of the past. It is an old saying that the only thing we learn from history is that we never learn anything from history. But unlike many old sayings, this one is basically untrue. We have just witnessed a demonstration of that.

The war effort included hundreds of mistakes, to be sure, but the big mistakes that held us back in World War I—the mistakes on the production front, the price-control front, the transportation front—were not repeated. We had learned our lesson and learned it well.

The proposition should be clear to anyone that, while we don't *always* learn from our experiences, there isn't any other way we can learn.

The war provides one example. The collapse of our economy in 1929 provides another.

Does anyone think that we are going to miss the lessons of the Great Depression? Does anyone think that our people will again sit idly by while our economic life is slowly suffocated? Does anyone think that we shall again wait, as we waited in 1930 and 1931 and 1932 and into 1933, until the closing of our banks brings almost complete economic paralysis?

The answer to these questions seems to me to be self-evident. The real question is: Have we learned the more difficult lesson—that it is easier to keep a truck on the road than to haul it out of a ditch, that it is easier to keep a depression from getting rolling than to recover from it after our economic life has been paralyzed?

That lesson I am not so sure we have learned. For as everyone knows, voices are still being raised to resist the very suggestion that *any* effort should be made to stop a depression before it gets started, and even more are raised to resist vigorously the specific programs that we must have in order to stop it.

Even these people would learn in time. But I don't think we can afford another depression to provide the final necessary lesson. We're a wealthy nation, but not that wealthy. We'll just have to go about building a solid wall against depression even if some of us still can't see the need.

As I see it, there are four big questions to which we must be able to answer "Yes" before we are safely on our way. These are:

1. Can we keep our feet in the treacherous going of the transition from war to peace? Can we avoid the mistakes that were made after the last war? In short, can we avoid the danger of inflation in the period before supply catches up with demand?

2. Can we organize ourselves to carry out the program that we have seen must be done? Can government streamline its own legislative and executive organization and operations so as to discharge smoothly and effectively the responsibilities which we have seen government must carry? And can management and labor and farmers and all the rest of us, working with each other and with government, make teamwork as integral a part of our peacetime operations as it was during the war?

3. Can we learn, all of us, to understand our economy and what makes it tick? Can we learn, each group among us, that only as we serve the national interest can we serve our group interests best?

4. And finally, can we learn, as a nation, what our responsibilities in world affairs are and what we must do to make our full contribution to world peace and prosperity?

The first three of these four questions I would like to discuss together. The fourth, because of its special importance, I am reserving for a chapter by itself—a chapter which I have entitled "Live and Help Live."

We face innumerable difficulties in the present period of transition, but the principal one is the danger that an inflation such as that which followed the last war may be repeated.

We Must Not Lift the Lid on Prices

As this book is being written, there are irresponsible demands everywhere to pull off price and rent controls and to "let prices find their own level." In some cases, these demands are purely selfish. In others, they are sincere but the result of ignorance. Whether the one or the other, they are equally dangerous to us all.

To strip off our controls before we have enough goods to supply our needs would put prices and rents right through the roof. Prices would find no "level"—they would go straight up! Can you look at the hundreds of billions of dollars of cash and liquid assets that have been accumulated during the war and doubt that?

These hundreds of billions have been held safely in bank balances and government bonds because we all have had confidence that prices would be stabilized and the value of the dollar protected. But if price and rent control is ended prematurely, or if the hands of the OPA are tied, that confidence will be weakened and before long destroyed.

What would be the result? Fearing an increase of prices, more and more people would take their money out of bonds and savings accounts and put it into stocks. They would put it into real estate. They would take it out of business reserves and put it into inventories. And that would push up the prices of stocks, of real estate, and of commodities at a faster and faster pace.

But that very rise would serve to increase the fears, and would cause even wider and greater speculation, until those hundreds of billions of "hot dollars" would be stampeded into a wild scramble for stocks, real estate, raw materials, clothing, food, personal belongings—anything but money itself.

This is the way it has always happened before. This is the way it would happen again. Do you doubt it? As this is being written, prices and rents generally are still under firm control. But look at the stock market! Look at the real-estate markets!

One reason for booming stocks is the high profit-ability of business, just as was the case in 1929. More of it is due, however, to pure speculation! The elevator boy and the cab driver are beginning to bet on market tips they pick up from their passengers, as they did during the boom of the twenties. And finally, it is now clear that money is being put into the market because of *fear* of inflation. Irresponsible investment advisers in Wall Street are telling their clients to get rid of their bonds and their cash because all prices (they hope!) will soon be on the move.

In the real-estate markets where Congress has thus far refused us the legal authority to hold down prices, you can see the same upward surge of inflationary pressure. The shortage of housing is approaching the proportions of a national scandal. Millions of veterans cannot rent a place to bring their families. When in desperation the veteran seeks to buy a house already priced way above its true value, he finds himself competing not only with other veterans whose plight is as desperate as his, but with speculators who are out to make a killing in an inflationary market.

In the commodity markets and in rents, OPA ceilings keep prices reasonably well in line, but here too the evidence is plain. Prices everywhere are pushing up hard against ceilings. In a number of cases, so confident were we that supply had come into balance with demand that we suspended price control. In too many of these cases, prices simply squirted above our old ceilings.

I have been working on price and rent control, one way or another, ever since Pearl Harbor, and I don't just fear—I *know*—that the dangers of inflation are greater now (spring, 1946) than they have ever been before. That's not just a feeling—that's a conviction. And I tremble to think of what would happen to us if, through selfishness or ignorance or lack of courage or for any other reason, we slackened our grip.

A runaway inflation would benefit no one. It would rob us of our savings and of our security—those of us who have it. It would disrupt our reconversion, with hoarding and speculation taking the lead over production and merchandising.

Even the speculator who made a killing couldn't come out ahead, because in the crash that would follow, his paper profits would go up in smoke just as paper profits always have. And, if ever we let ourselves in for such an inflationary spree, a crash will surely come—a crash that will carry us all down, a crash from which none of us will escape.

We simply cannot take another such depression. *Perhaps* our system could survive it. *Perhaps* it could survive another decade like the thirties. But I doubt it. If we are foolish enough to let that happen again, Mr. and Mrs. Average American, patient as they have shown themselves to be, might do more than change the administration, as in 1932.

I hope and pray that price and rent control will be continued until the danger of inflation is past. And I am profoundly convinced that the American Congress, after supporting the stabilization program throughout the war, is not likely to throw its benefits away just as we are entering the home stretch back to peacetime operations. I believe that we will see this particular job through to the finish.

In the present period immediately following the end of the war, it is the dangers of inflation which are predominant and which are obvious to all responsible people. But the forces which make for future depression are also at work. As the work week is reduced, the weekly pay checks of millions of our workers are being cut and cut sharply. Still further reductions are resulting from the downgrading of workers who are reclassified into lower-paying jobs. There have already been sharp cuts as men and women have been forced to shift from the high-paying war industries to lower-paying peacetime occupations.

For many months these potential forces of depression will be more than counterbalanced by the billions of dollars of wartime savings, by the huge backlog of unfilled needs built up by the war. For some time—no one knows how long—we can have a kind of giddy prosperity, just as we did in the late twenties, regardless of the fact that the purchasing power of millions of our people is too low to give them a decent living.

But at some point, the backlogs of war-created demand will be satisfied. At some point, people will decide they have used up enough of their savings. When that day comes, if we still have too little purchasing power in our weekly pay checks and in the incomes of our farmers to match our ever-growing ability to produce more goods, our economic house of cards will tumble about our ears just as it did in 1929.

And I can't draw any comfort from those who say that when that day comes, it will be time enough to raise wages. If we let that day come and prices have already begun to fall, it will be too late to raise wages. That's common sense. The time to check the forces which make for a future depression is before those forces are in command of the situation. That's common sense, too.

Remember that it was government wartime spending that kept the wheels of industry humming since 1942. The backlogs will help us for a while, but when they are worn off, labor will need to be getting even higher wages than were paid in wartime, that is if we are to keep our economy going full blast, producing civilian goods and services.

Wages will have to be higher in the years immediately ahead. More than that, they will have to be a growing proportion of a growing national income. If we are going to accomplish this—and accomplish it we must—we can't afford to take any backward step. We can't afford to let wages fall now. We need to press forward.

There will be some who ask if the increased purchasing power which higher wages will give us in a period when our supply of goods is still insufficient to meet the already present demand doesn't add to the danger of inflation. To some extent, it does.

But if price and rent controls are kept firmly in place until production really gets moving, if wage adjustments are moderate and reasonably well geared to present prices, the danger is not too great. And it's a risk that we should run to protect ourselves now from trouble in the future.

Certainly I do not mean that every wage demand can or should be met. Some industries cannot raise wages at the present time without raising prices as well—and the general level of prices, as we have seen, must be kept firmly in place. But I do mean that industry must search its heart and examine its books to see what it can afford to pay without increasing prices. And having done that once, it must make a habit of it as labor productivity increases and our workers are able to produce more goods for every hour of effort.

A Government Geared to Meet the Challenge

This brings me to the second of our four big questions: Can we organize ourselves as a nation to get the job done? Can government streamline its operations and can all our economic groups pull together so that as a nation we come up with the right answers, the right policies and programs, not as a matter of accident, but day after day as a matter of course?

In the crisis of war, we had to get the answers and we had to get them fast. And we got them, though I sometimes wonder how. The machinery of government was not prepared—either in the legislative or the executive branch—for the load that was placed upon it. We had to improvise as we went. We had to create the machinery to do the job at the same time we undertook the job itself. What is surprising is not that we occasionally fumbled, but that for all our improvising we achieved so good a record.

Our governmental machinery is not much better prepared for the problems of peace than it was for the problems of war. We must, therefore, still improvise. But we cannot afford to continue to operate on this basis. We cannot afford to operate with catch-as-catch-can organizational devices, however brilliant. We need to apply intelligence to the business of government, so that the tools we use are adapted to the job to be done. If the job calls for a steam shovel, let's not break our backs trying to do it with a spade.

Everybody knows the present organizational state of the executive branch with war agencies superimposed upon the peacetime establishment. A first step has already been made toward bringing order out of the present confusion. Congress has granted the President broad authority to reorganize the executive branch.

There can be no doubt that we need to reorganize the executive branch of the Federal government. We need to streamline it so that overlapping is eliminated and responsibility is clearly placed, with somebody in position to do each job that needs to be done and not a single person more than that. But when I say that government needs the most efficient organization and the smoothest operation and the best talent, I mean just that. The best government is, in the end, the only economical government.

There are some people, of course, who think that the way to reorganize is to "economize" at any cost. These people want us to scrap the steam shovels we already have and start shopping around for some second-hand spades.

No sensible man wants to see a cent spent unnecessarily. Clearly, now that peace is here, our overall governmental expenses must be sharply cut. But the business of governing this country is the most important business in the world. Anyone who can't see that just can't add and subtract. And if we are to handle our governmental responsibilities successfully, we need the most efficient organization, the smoothest operation, and the best talent we can find.

If we are going to reorganize our government by simply taking a hacksaw to all expenditures, the result is going to be more costly to the American people than we can afford, no matter how low the Federal payroll is brought. This should be obvious. But it is surprising how often talk of reorganization runs simply in terms of slashing.

The same observations hold for the legislative branch as well. The Congress operates under a constantly expanding committee system that goes back to the First Congress a century and a half ago. Most members of Congress will agree that the Congressional committee system is simply not set up to deal as effectively as it should and must with the affairs of a complex economic system, such as we have today.

I hope that I have succeeded in this book in making it clear that it is the interrelation of all the economic elements of our society which counts most in our march toward sustained prosperity. The amount of wages that are paid to New York garment workers affects the price of wheat in Kansas. The tax on cigarettes that is borne by the smoker in Oregon affects the price that the tobacco grower in Kentucky gets. And the wages paid the tobacco worker in North Carolina affect employment in the typewriter and sewing-machine factories in Connecticut.

As against this interrelationship of every part of the economic system with every other, what do we find in the Congress? We find dozens upon dozens of committees, many of them overlapping and without coordination, without sufficient staff or sufficient time, harried and overworked.

When the leadership in the Congress is exceptional, legislation is pulled together into some semblance of a unified program. But this makes the effective functioning of the Congress dependent upon the accident of personality. When Congressional leadership falls below the level of brilliance, the Congress gropes and fumbles and becomes ineffective—and that through no fault of any single person.

Revamping of the legislative branch of the government to fit it to discharge its present-day responsibilities seems to me, as well as to many members of Congress, imperative. The changes that are called for seem to me to be these:

1. The committee system needs to be overhauled to eliminate overlapping and to establish clear-cut responsibilities for each committee. The jurisdiction of the committees and their number should be so determined that, on the one hand, there will be no gaps of responsibility and, on the other hand, no member of Congress will have to serve on so many committees that he has inadequate time to give to any of the matters requiring his study and judgment.

The seniority system through which the oldest committee member in terms of service on the majority side automatically becomes chairman should be revised. The chairman should, of course, be a member of the majority party. But his selection should be based on his intellectual ability and capacity for leadership rather than on his years of service.

2. There should be set up a joint committee of both Houses on national economic policy such as was proposed in the Full Employment Bill. The responsibility of this committee would be to draw up a general economic program, every part of which dovetailed neatly into the whole.

Once accepted by the Congress, this program would provide the general policy directives for all other committees in the light of which to consider the legislation before them. If there is a simpler and more obvious way to bring legislative order out of confusion, I have yet to hear it.

3. The committees and members of the Congress should provide themselves with expert staffs competent to draw upon the statistical resources of the executive branch and to put the material so secured into the form in which the committee or member needs to have it for effective use.

There is no need to duplicate the large research departments of the executive branch, but there is crying need for established channels through which the legislative branch can draw upon these departments. That requires experts in the service of the committees and members, experts who know what questions to ask and who can judge whether the answers fit the questions. This will take money, but it will be money well spent.

4. Congress should increase its members' salaries at the same time it revises the salary scale for the executive branch. If we are to have in government the talent we need, we'll have to pay for it. The legislative and judicial branches, no less than the executive branch, are today losing the services of badly needed men because these men cannot afford to spend the best years of their lives in government service under present salary scales.

Unless we are prepared to see the quality of government service deteriorate or to see the business of government done by men of independent wealth, there simply must be a substantial increase in Federal salary scales.

To accept deterioration of quality in our public servants is unthinkable. And while a man should not be barred from public office because of his wealth, neither should wealth be a condition of public service. Democratic government requires the services of men of ability, regardless of their economic status.

It is true that some men are willing to come into government at a salary well below the income they could secure in business or in the professions. But they cannot be expected, nor is it fair to ask them, to deprive their families of the comfort and security with which they could provide them if they stayed outside government. And that's what a really capable man without independent means is usually doing when he runs for Congress or accepts a post in the executive or judicial branches.

5. Finally, better working arrangements between the legislative and executive branches must be worked out. Today the two branches of government are frequently working at cross-purposes. When the President presses for adoption of the legislative program which under the Constitution it is his duty to recommend, there are always some who cry out that Congress is in danger of becoming a "rubber stamp."

And there have been occasions when desirable legislation has been voted down for no better reason than to make a show of Congressional independence. No great corporation could conduct its affairs if the board of directors were to work at cross-purposes with the chief executive. Government can't work effectively on that basis, either.

In England they avoid this difficulty because the Prime Minister, who heads the executive branch, is also a Member of Parliament and the head of the party in power. And his cabinet, heads of the executive departments, are also Members of Parliament, leaders of the party in power.

There is no room, therefore, for conflict between the executive and the legislative arms of the British government. When conflict arises it is between the leadership of the party and the majority in Parliament. If this cannot be resolved within the party, the result is a general election and the people make a fresh start.

Ours is a different system of government, but some steps to secure better working relations between the legislative and executive branches are essential if our Federal government is to live up to the responsibilities which today confront it. Representative Kefauver of Tennessee has proposed that cabinet officers and other department heads be given the opportunity of explaining their policies on the floors of Congress, where members could question them freely.

Whether this would be enough to get smooth working relations, I don't profess to say. I believe, however, that it is a step in the right direction, and I think it ought to be tried.

These suggestions, although I have pulled them together and explained why I think they are essential, have originated with others. For the most part, they have come originally from members of the Congress themselves. Indeed, for the past two years or so there has been a real ferment on Capitol Hill as the Congress, both individual members and the special committees which they have established, have wrestled with the problem of making the legislative branch an efficient and thoroughly modernized arm of the Federal government.

A joint committee under the leadership of Senator LaFollette and Representative Monroney has recently issued a comprehensive report after extended hearings on the subject. All this study and effort will certainly bear fruit in the near future.

I have had a unique opportunity to work with Congress and to study its operation and its make-up. I am convinced that no group of people in this country is more underestimated or less appreciated. Our average Senator or Congressman is a person of ability and integrity, with a high sense of public service. He works long hours and under the most trying conditions. In spite of many rather superficial editorials and cartoons to the contrary the record of our Congress from Pearl Harbor to V-J Day is one of the outstanding chapters of the entire war effort.

With an adequate staff and a streamlined committee set-up, our Congress could make its influence felt with increasing effectiveness. It could prove to people all over the world that a democratic government is an assurance, not only of freedom for the individual, but of greater efficiency as well.

Farmers, Labor, Management, Consumers

But however smooth and efficient the operations of the Federal government may become, that is not the whole of our requirements. We need teamwork among all our economic groups—farmers, labor, management, consumers—working with each other and with government.

In the kind of economy we live in today, no group can long profit at the expense of the national interest. As we have seen throughout our discussion, any group which seeks to do so does not pull itself up, but only holds all groups, including itself, down.

What is required, therefore, is not subordination of group interests to the interest of the whole, but appreciation of the fundamental truth of our age that the interest of the part is identical with the interest of the whole. It is one thing to recognize this truth and quite another to operate on the basis of it. That takes teamwork, organized teamwork.

One of the most interesting and important developments of the war was the machinery of teamwork that was gradually built up. Nobody planned it that way, but circumstances required it and so it was brought into being. Every major war agency—the War Production Board, the War Manpower Commission, the Office of Price Administration, the War Labor Board, and all the others—called upon the leaders of the various economic groups for help. And they got it.

In some instances, as in that of the War Labor Board, the agency itself was set up on the basis of group representation. In others, the groups were invited to participate in an advisory capacity. In some agencies these advisory groups were few in number, in some they ran into the hundreds. The OPA, for example, had hundreds of industry, trade, labor, consumer, and farm advisory committees functioning.

For some purposes these committees consisted of members from a single group or industry. For others, for example, the Advisory Board of the Office of War Mobilization and Reconversion, they included members from every economic group, representing every economic interest in the country.

It simply would not have been possible to ring up the wartime record we did without teamwork, not only the teamwork of the rank and file, teamwork in the factory and on the farm, but the organized teamwork of these emergency committees and boards. Our problem is not to invent a mechanism for organized teamwork, but to use and improve the mechanism that has been set up.

There are some people who, although not objecting to the use of this machinery during the war, will strongly oppose it as part of our peacetime arrangements. They will object on the ground that it would bring pressure groups under the roof of government and make them part of the government itself. The pressure groups, they point out, already have their foot in the door. If they are invited in, it will not be long before they have crowded everything else out and we shall be left with pressure-group government in all its naked ugliness.

Now, I must confess that there is danger. No one can view without concern the development of pressure-group politics. The lobbyist, the paid representative, who feels he must stir up a fuss at Washington to justify his salary, is a far cry from what the Founding Fathers had in mind when they wrote into the Constitution the right of petition, the right "peaceably to assemble and to petition the Government for a redress of grievances."

I recognize the danger, but it is a danger we must master, not shrink from. For our society does fall into economic groups as well as into geographical districts, and as long as our society remains free, these groups will organize to make their voices heard and their power felt in government.

The remedy for the present evil in the operation of pressure groups, it seems to me, is not to abridge our fundamental freedoms, not to restrict the right to organize and the right to petition. The remedy is rather to couple power with responsibility and to set up an effective mechanism for teamwork.

This is just what the developments of the war have provided. In my judgment, our course must be to make even wider use of this machinery in the future than we have done in the past.

By bringing these groups into government in an advisory capacity, responsibility is placed upon them. They are no longer free to make demands upon their government, leaving it to someone else to find a way to meet them without sacrificing the interests of others and of the nation. They are free to make demands, but they are under responsibility to justify them in terms of the national interest.

In my experience there have been only a few cases in which the representatives of the various groups have not welcomed the opportunity of participating in the formulation of policy and the development of programs, helping to carry the responsibility of making them work as well as the privilege of helping to devise them.

At least as important is the opportunity which these boards afford for the representatives of the various groups to sit down around a table and work out together their own problems and problems affecting us all. It is only in some fashion such as this that we all can really learn and put into practice the basic truth of our society, that we cannot advance except as we all advance together.

The problem of pressure groups has another aspect that can be met only in part by bringing these groups as advisers into the executive branch of the government. Anyone in Washington is familiar with the clamor that these groups create in the halls of Congress, before its committees. The public is familiar with the organized campaigns that bring floods of form telegrams into Congressional offices, telegrams prepared beforehand at headquarters and distributed to the membership for copying with just enough difference of wording to avoid giving the game away completely.

People are not so familiar, perhaps, with the carefully arranged parade of witnesses and of evidence, seldom manufactured out of whole cloth, but often twisted and distorted out of any relation to the truth. Recent months have witnessed some of the most beautifully organized and at the same time most flagrant examples of this in Congressional history.

These difficulties will, of course, be met in part as economic groups are drawn more fully into participation on advisory boards and committees of the executive departments. With the development of a tradition of responsibility on the part of these participating groups, the influence of their responsible approach to problems of government will inevitably be felt in the lobbies of Congress as well.

And Congressmen, once satisfied that full opportunity for participation has been provided by the Federal departments, will know how to discount the claims of the irresponsible pressure groups, the maverick lobbyists, who continue in their old ways.

It is essential, too, that the people organize more fully to protect their interests as consumers, just as manufacturers, retailers, labor groups, and farmers organize to foster their interest as producers. Well-selected consumer committees, working with various governmental bureaus and departments, can provide an economic conscience against which to balance the pleas of the special interests.

Our joint interest as consumers is a unifying interest. A strong consumer movement is the essence of economic democracy, as the Scandinavian nations have demonstrated for several decades.

The proposal for a Department of Consumers in the executive branch of our Federal government to represent all of us who buy in the stores deserves particularly careful study.

In this connection the proposed reorganization of the Congressional committee system, with its lightening of the burden imposed on the individual Congressman, should be extremely helpful. Today members of Congress are operating under such pressure and are so harassed and torn by conflicting duties, that they do not have time to get back home frequently to talk to their constituents and to see for themselves how the people—all the people—are getting on and what it is they really feel government should do differently from what is already being done.

It is not surprising that, overburdened as they are, members should occasionally mistake the clamor of the lobbyist for the voice of the people. The simple and sufficient remedy is for Congress to provide its members the opportunity to remain close to the people.

I have tried to stake out what I think government must do to organize itself and all the rest of us to do the job that can be done only by organized teamwork. You may not agree with every point. Indeed, I hardly expect you to. But I don't think you will disagree with the principle that I have tried to keep always in mind, a principle that the elder Bob LaFollette always invoked. When democratic government is ailing, he insisted, the cure is not *less* democracy. The cure is *more* democracy.

I have discussed two sets of difficulties, those of keeping our footing in the period ahead and those of organizing our government and ourselves to do the job that lies before us. I come now to the third and the most fundamental difficulty of all. Unless we overcome it, I do not see how we can hope to overcome the others. The question, you will recall, is: Can we learn to understand the nature of our problems? Can we learn to understand our economic system? Can we learn to understand each other?

I *think* we can, but again we will have to hurry. Our economy, as we have seen, is exceedingly complex. Most of us are busy on our own immediate affairs. And yet unless we take time out to see where we are going, to study the relationship of our individual interest to the whole, to figure out just what makes our economy tick and what makes it wheeze and stumble—we will certainly fail to achieve the kind of future which I have outlined in this book.

As I have pointed out, a good share of the responsibility for our economic future rests on our businessmen, most of whom are bogged down in the details of their own specific problems. As a result, their views on economic questions are sometimes emotional and based on political prejudices. Their economic advisers are frequently chosen because their advice is comfortable and reassuring rather than because it represents the most enlightened economic thinking.

Not only every businessman but every labor leader, farm leader, civic leader, and public official has a sacred obligation to search everlastingly for the right economic answers, which are the answers which will lead us to the full use of our tremendous productive powers for the benefit of all of us, under a vigorous democracy. That calls for reading, study, discussion, and debate. It calls for intelligence and patience and plenty of old-fashioned common sense.

The fourth question which I have asked in this chapter—how we can best contribute to world peace and prosperity—I will discuss in the next chapter.

12

Live and Help Live

I AM indebted to Senator Charles Tobey of New Hampshire for the title of this chapter. In a very moving statement made on the floor of the United States Senate some months ago, Senator Tobey, speaking of our international obligations, said that it was no longer enough to "live and *let* live" but that we must learn to "live and *help* live." This is a fresh and arresting statement which puts into the words of today an ancient truth which has been preached by all the religions of the world since the dawn of human conscience.

This statement is particularly appropriate today because never before have the requirements of ethics been so closely intertwined with the requirements of our economic life. Never before have good morals and good economics matched so perfectly.

Good morals and good ethics have, of course, been the same throughout the ages, though in every age men fell far short of living up to them. And it has always been true that those communities in which the strong extended a helping hand to their weaker neighbors have been economically stronger and healthier for it. But only in recent generations has it become true that the smooth functioning of our economy for the benefit of all of us actually *requires* the practice of the best of our moral teachings. Today our economy simply cannot operate effectively on any other basis.

In an earlier chapter we saw how the Eskimos met their old-age problem. When a man's productive years were over, the tribe abandoned him to freeze in the Arctic waste. However brutal this may appear to be, there was about it a stern necessity. Since there wasn't enough to keep *both* the young and the old alive, they necessarily sacrificed their old folk.

In primitive times something of that stern necessity has colored the behavior of men of all races through the centuries. The sacrifice of their aged did not in any way weaken the young and more vigorous in their struggle to wrest a living from nature. On the contrary, by relieving them of the burden of those who could no longer produce, it enabled them to go on living themselves.

Gradually in mankind's progress the stage was reached when such brutal treatment of the aged and the weak and the underprivileged groups of whatever sort was no longer a matter of iron necessity for the survival of the strong. But still neglect of these groups did not seriously interfere with the effective functioning of the economy. On the eve of the French Revolution there were hunger and cold and disease among millions of peasants and city workers. This violated every moral principle, but it did not mean that food rotted in the fields, that workshops stood idle and rusting, and that workers sat on their hands.

Poverty in the midst of plenty is a development of our own times, of the last few generations. And that is why poverty for any group in our modern economy means that everybody is dragged down to a lower level—the strong as well as the weak.

So in our modern world, for the first time in history, what makes good morals makes good economics, too. As we organize our economy to provide more and better food for the hungry, the corner grocer and the farmer find their incomes increased. As we increase the incomes of the needy, the textile mill begins to run again, people go back to work, and the factory owners see their businesses move up out of the red into the black.

As we get the better distribution of income that will enable families with smaller incomes to live in comfort and decency and to share in the living standards which the better-income groups already enjoy, then and only then will our economy begin to operate with the sustained speed and power of which it has long been capable.

As we have seen, this means rising standards of living not only at the bottom of the income scale, but at the top as well. Greater equity in sharing our economic pie costs no one anything. Instead it means a bigger pie for all of us to share and, hence, more pie for every one of us.

The same proposition holds for the world economy as well. National boundaries don't change it. As the great industrial nations of the world extend the helping hand to their agricultural and undeveloped neighbors, their export industries will spring to life and grow as never before, increasing the incomes and the purchasing power of millions of their people.

Here in America, the future health of the cotton and tobacco industries, of steel, of machinery and machine tools, depends upon our finding additional markets in other lands. There is hardly an individual or an industry in this country that does not feel the effects of prosperity in the industries I have named. When these are working full blast, the purchasing power they pay out quickens the economic life of all the others. And when these industries slow down because of shrinking foreign markets, or for any other reason, a creeping paralysis is felt in the last nook and cranny of our economic system.

As I have said before, we need to lend to the other countries quite as badly as they need to borrow from us. They need the equipment and machinery that we can build, and we need the productive and job-producing outlets for our billions of savings. Unless we can find outlets for what we save, these idle hoards of cash will choke the arteries of our economic system as they have in the past.

We have long recognized that when American citizens borrow American savings and invest them in American plants and machinery they create jobs and purchasing power and markets. We need to learn that when the people of other countries borrow American dollars to buy American equipment and machinery and materials, that creates jobs and purchasing power and markets in exactly the same way, and right here in America.

Some of you may ask at this point: What happens when all other countries become industrialized? Won't that rob us of our export markets, close some of our factories, and throw many of us out of work? The answer to that is: Not in the kind of full-employment world we are determined to live in.

Surely there is no lack of *need* in this world of ours. In Asia, Europe, Africa—the human *needs* are overwhelming—even, as we have seen, in our own America. It is purchasing power which is lacking—lack of income with which our needs and the needs of people everywhere can be fulfilled.

As we help to increase the productive power of other countries and so increase their output, we will at the same time be increasing their ability to buy more of our goods. A steadily improving standard of living all over the world means steadily increasing markets for all of us. Here in America it means more jobs and better jobs, higher purchasing power for our farmers, better profits for our businessmen.

Today two thirds of all the people in countries overseas devote their energies to the production and marketing of food. And yet, two thirds of all the world's population is living *below the minimum levels* of proper nutrition while one half of those are near the borderline of actual starvation.

The short-range answer is greatly increased emergency food shipments. The long-range answer lies in modern farm equipment, river developments and irrigation projects, increased supplies of fertilizer and improved farming methods which will free tens of millions of people in China, South America, Russia, India, Africa, and Europe from grubbing a meager existence from the soil. It will free them to change hovels into homes, to produce new transportation systems, more adequate clothing, to free their fellow citizens from disease and ignorance.

The world, unlike America, cannot achieve a high level of prosperity in which all can share during the next five years, or ten years, or even fifty years. But the faster the standard of living can be raised in India, Russia, China, Britain, Italy, Greece, Brazil, and Panama—among people everywhere—the healthier, the happier, the more prosperous our America will be.

To the extent which we can help through our own exports, in this world-wide struggle for peace and prosperity, to that extent will we benefit also. We will benefit in greater world security, in lasting peace, and in greater prosperity from Bangor to Los Angeles.

We shall, of course, accept interest on the loans which we have extended and we must accept it in the form of imported raw materials, goods, and services. But why should that present a problem? It is only because we are so accustomed to a world in which markets and purchasing power are inadequate that we ask ourselves how we can use the goods and services with which other countries will repay us.

Britain, Russia, China, and Latin America—indeed, about every foreign nation—need modern factory machinery and transportation equipment, textiles, food, and a thousand and one other items. The savings that we loan them to buy part of our production will earn their way, not only in material dividends on the actual loans, but in good will, peace, and understanding.

Let us remember that there are many raw materials obtainable in other countries in which we are now seriously deficient. Let's remember that our own needs for those goods which can be bought *only* abroad will increase tremendously as we achieve full employment and sustained high purchasing power.

Let us remember that there are many other products which can be made *better* abroad than we can make them here. Let's remember the hundreds of millions that we will spend each year traveling in other countries—millions which will pay for a huge amount of American exports.

As we gradually solve the question of purchasing power and markets, the difficulties of international payments will disappear along with the others. In that kind of world, no one will be fearful, as some of us have been in the past and some of us are today, that the more we produce the greater our difficulties will be.

In that kind of world, in which purchasing power and demand and markets keep pace with expanding output, we shall all see plainly what has always been true—that production, production, and still more production is our strength and our well-being. The greater our production—the greater our strength, and the greater our well-being.

In our own history it was Britain's hand that first helped us to our economic feet. It was British capital that built our railroads and our textile mills, and it was British technology, which we imported along with British equipment, that gave us our start.

We have long since outstripped the British in the march of technology and industrial production. The time has come for America, not only to establish liberal credits for Britain herself, but to take the lead and to do as much for the young and undeveloped countries of the earth as Britain did for us in our national youth. And as the hand which Britain extended to us in past generations helped her as well as us, so our hand extended today will help us as well as other countries.

It is nearly a century and a half since Britain took the lead in opening the age of steam and in harnessing the power of steam to do men's work all through the world. Today America must take the lead in opening the new age of atomic power and in helping others as well as ourselves to do the peoples' work all over the world.

We are entering a new cycle of human progress. Just as at the beginning of the age of steam no one could foretell what nation would contribute most or benefit most, so today no one can say what the age of atomic power will bring to all the nations of the world.

When Becquerel and the Curies were experimenting in France with radioactivity, when Einstein in Berlin was formulating the mathematics of the relation of matter to energy, when Niels Bohr in Denmark, Lise Meitner in Germany, and Sir Lawrence Bragg in England started exploring the atom, who could have foreseen that we in America would build upon this knowledge and bring to final conclusion the splitting of the atom and the first harnessing of its power?

And just as no one could have foreseen that turn of history, no one today can tell where the next great triumph of man will be achieved, who will contribute to it, and where it will come into full flowering. When we extend help to others no one can say how rich will be the dividends or from what quarter they will come.

To create international good will and world prosperity, we do not need to be international suckers, nor am I proposing that we neglect our own tremendous domestic needs. A program of expanded exports simply means good sense, however you may slice it. It's proof again that in our modern world good morals are also good economics.

13

Tomorrow Without Fear

WE COME now to the end of our book. I have tried my best to put before you just as clearly as I can what I think has been the trouble with us in the past. I also have tried, however inadequately, to stake out what I think could set things straight, and the difficulties we must overcome in doing so.

You may not agree with me on all points, although I hope you do on most. And even if you don't, I am grateful that you have taken the time to let me tell you the story as I see it.

By now I think you know why I have called this book, *Tomorrow Without Fear.*

When you look into the source of most differences between people and their conflicts over policies such as we have been discussing, you find that an amazing amount of it is based on fear and on the prejudices that are born of fear. I have no doubt in my own mind that the greater part of all that is mean and nasty and shameful in our history and in our life today can be traced to that one thing—fear.

What are the occasions when we have fallen farthest short of our great traditions? They are always the occasions when we have allowed fear to blur our visions and to stifle our creative energies. How else can we explain the economic chaos of 1931 and 1932? We were paralyzed by fear. How else can you put it?

Or consider our foreign policy in the early twenties, when we shrank back, fearful of the responsibilities which must fall to a great nation in the new world community. Because of our fears, we rejected the League of Nations, dooming it to failure and ourselves to a Second World War.

And even today, when the American people have finally put isolationism behind them and are prepared to accept the responsibility that must go with our great strength, our prospects are again clouded by fear. Here we stand, a great nation among other great nations who together have just fought and won the greatest war in all history! With the economic strength the war has shown we possess and the teamwork we have demonstrated, what better basis could there be for confidence and for good will?

Yet voices are already raised to warn us against communistic plots for world dominance and British plots to tie us to the tail of the Imperial Lion. "Beware of the Russians. Beware of the British and Chinese and the French. You can't trust these foreigners—any of them." Through it all, the same paralyzing theme: fear—fear—fear!

I do not see how anyone can fail to see the tragic fact that where we have failed in the past it has been through fear and that if we are not to fail in the future, we must conquer fear.

This holds in smaller affairs as well as in large ones. Why do some leaders of the medical profession oppose the national health-insurance program proposed by the President? What is it that blinds them not only to common sense but to the lessons of our experience?

Why do some people resist raising the floor under wages or increasing unemployment-compensation payments? Is it not fear that hardens their hearts against the plain needs of the present and closes their minds to the plain lessons of the past?

But it's the same thing everywhere. The businessman fears he will have no market for his output. Workers fear there will be no jobs. So we get high prices and low production and we get "feather-bedding" in railroading and antiquated, inefficient work methods in construction.

Among both businessmen and workers there is the stubborn fear of minorities—fear that business will be lost to certain competitors, fear that wages will be pulled down or jobs taken away. And so we have discrimination against Negroes, Catholics, Jews, Italians, and every other minority strong enough to offer competition, but weak enough to be attacked or undermined.

There is so much else we are fearful about, too. Some people fear corporations. Some fear unions. Others fear bureaucracy. Up and down the line, it is shocking to realize how much of our thinking and acting is colored by fear, or by the unthinking prejudices into which so many of our fears get frozen.

Now, let me ask, what is it that this nation has to be afraid of? President Roosevelt spoke truly when he said, "The only thing we have to fear is fear itself." He spoke for the crisis in which he took office in 1933, but the truth he spoke is not limited to that painful period. It is universal. For what is it that this great nation has to fear other than fear itself?

Everyone who thinks about it knows that it has never been the physical difficulties that held us back. It has always been timidity and fear that have blocked our way. Once fear has been overcome, we have always found, with the Army Service Forces, that "the impossible we do immediately—the miraculous takes a little longer."

Today we know our own strength. We know what we have done and what we can do. In the confidence that this strength gives us we can shake off these fears and move steadily forward toward our goal. As we move ahead, the timid ones among us will lose their fears, too. For just as fear breeds fear, so does confidence breed confidence.

And it is not alone here at home that fear and distrust blur men's vision and alter their behavior. As we take the lead in shaking off our own fear and distrust, other nations will follow. Our confidence will stimulate their confidence. If we will recognize that this is one world and that its rule must be to live and to help live, what people will deny that truth and refuse the hand we offer?

Through most of this book, I have been obliged to talk about things, the things we must have for a minimum of decent living as well as the better things of life. But my real interest lies in what can't be measured in dollars and cents or put into little tables. What I am hoping for is an economy that will be rich in its material output, but even richer in what it offers the human spirit.

In this full-employment economy, there will be jobs and opportunities for all. That means that the haunting dread of unemployment—of no income at the end of the week to keep the family going—will be lifted from every corner of our land. It means that no mother's heart will ache hopelessly because her child is undernourished and there is no food, or because he is ill and there is no doctor. In such a nation, moving ahead to new levels of prosperity, freedom will come to lose the empty sound it has held for impoverished millions.

In the kind of nation which we must build, our young folk, all of them, will look to the future with hope and confidence. In our middle years we shall all know the self-respect that comes from being a productive member of society, from pulling our weight in the boat. And our old folks, independent as a matter of right, will finish out their years in security and comfort, finding happiness not only in their own lot but in the opportunities, the hopes, and the security of their children and grandchildren.

As our productive power increases year by year, we will have vastly more leisure as well as more goods to distribute. There will be more time for recreation, for reading, for movies, for plays, for the vigorous development of our intellectual life, and for the creation of a mature civilization.

In such a nation, the tensions and conflicts, the inhumanity of man to man, which have poisoned our lives in the past, will disappear. We—140 million of us—shall then at last truly be good neighbors, free from want and free from fear. And as we learn to live kindly and generously with one another, we shall become a better neighbor to other nations, living at peace among ourselves and with all the world.

That, it seems to me, must now be America's objective: So to conduct ourselves, so to plan our lives, so to use our great productive power for the benefit of all of us, that we and all the world's people shall move steadily toward that tomorrow without fear, and without cause for fear, for which all mankind yearns.