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LOOKING FORWARD*

It is the normal business of our Annual Meeting to lay plans for the future besides taking stock of past accomplishments. We share a common faith in the power of economic research to better human life, but the specific inquiries that we pursue require constant scrutiny and re-examination. At a time when our nation is mobilizing its spiritual and economic resources to protect its way of life against the sinister force of communism, the need for critical self-appraisal is especially strong. To aid you in making this appraisal, I shall discuss the National Bureau's program in relation to some of the practical issues of our times, and suggest the general direction in which the Bureau may usefully move in the years ahead.

I

The distribution of the national income is always a vital concern of a free and progressive people seeking to raise their plane of living. The wage bargains into which we enter, the prices and taxes we pay, the subsidies we legislate, even the careers we choose, are all affected in some degree by our notions of what is a 'fair' income. These notions are naturally linked to our impressions of how incomes are actually distributed, but on this subject we have been very badly informed. Our direct knowledge of incomes is of necessity limited to a few cases. For the rest we rely on vague impressions gathered over the years, eked out by crude statistics that occasionally come to our notice. As a result few Americans and still fewer Europeans are aware of the transformation in the distribution of our national income that has occurred within the past twenty years—a transformation that has been carried out peace-

*This paper was presented at the Annual Meeting of the Board of Directors of the National Bureau, held February 26, 1951. I am deeply indebted to Geoffrey H. Moore for his advice and assistance, especially on Parts 2 and 3 of this report.

fully and gradually, but which may already be counted as one of the great social revolutions of history.

Let me cite several figures from Simon Kuznets' recent reworking of income statistics. In 1929 the highest 5 per cent of the income recipients obtained 34 per cent of the total disposable income of individuals—that is, the total of personal incomes, inclusive of any capital gains but after deducting federal income tax payments. By 1939 their share had dropped to 27 per cent of total income, and by 1946 to 18 per cent. Since 1946 the size structure of the income distribution does not seem to have changed materially, so that we may regard the distribution in that year as roughly representative of current conditions. If we now compare 1929 and 1946, we find that the share going to the top 5 per cent group declined 16 points. Had perfect equality of incomes been attained in 1946 the share would have dropped from 34 to 5 per cent, that is, by 29 points. In other words, the income share of the top 5 per cent stratum dropped 16 points out of a maximum possible drop of 29 points; so that, on the basis of this yardstick, we may be said to have traveled in a bare two decades over half the distance separating the 1929 distribution from a perfectly egalitarian distribution. If we turn to the top 1 instead of the top 5 per cent group, the results are still more striking. The share of the top 1 per cent group in total income was 19.1 per cent in 1929 and 7.7 per cent in 1946. Since the share of this group dropped 11.4 points out of a total possible drop of 18.1 points, we have traveled since 1929 on the basis of this yardstick almost two-thirds of the distance towards absolute income equality.¹ Regrettably, the 'iron curtain' precludes comparison of our achievement with that of the vaunted 'people's democracies', but it is permissible to wonder whether many of them can point to so vast a democratization of the distributive process in their own countries.

Considerable income inequalities still exist in our midst, but they re-

¹The above figures are derived from Kuznets' report, "Shares of Upper Income Groups in Income and Savings", now being prepared for publication. For a preliminary summary of his findings, see *Occasional Paper 35* (National Bureau, 1950). Of course, the figures cited in the text refer to only two points on a Lorenz curve, and cannot be interpreted to mean that 'income inequality', taken as a whole, has been reduced by over half. Moreover, Kuznets' figures are estimates that may be modified by later research; though it seems unlikely that the *trend* indicated by the figures would be materially changed, as long as the income concept is confined to personal incomes. If, however, the undistributed income of corporations were allocated to individuals, the change from 1929 to 1946 would be less striking. On this basis the share of the top 5 per cent group comes out 35 per cent in 1929 and 20 per cent in 1946; while the share of the top 1 per cent comes out 20.8 per cent in 1929 and 9.9 per cent in 1946.

quire careful interpretation. Imagine a static society in which differences of earnings simply reflect differences in productivity; hence youngsters earn less than middle-aged men, and men with no schooling receive less than those possessing a technical education. Imagine further that real incomes are independent of location, but that both the scale of living costs and money incomes are higher in urban than in rural areas. To an uninformed observer the income differences of such a society might seem disturbing, although age and education, each correlated with productivity, account for all real differences in income. We lack the means to assess precisely the influence of the various factors that shape our current income distribution, but the data assembled by Kuznets leave no doubt that a part of the income differentials in our society is attributable to urban life; that the upper income stratum is dominated by the most productive age, sex, and educational groups in the population; and that income inequality would appear smaller if incomes were reckoned by two- or three-year periods instead of by the year.

These conclusions of Kuznets' investigation have great significance for the American people. If we are to look forward constructively to a material reduction of income inequalities in the future, we must seek to attain it principally by raising the productivity of those at the bottom of the income scale rather than by transferring income from the rich to the poor. Between 1929 and 1946 the average per capita income of our population (including capital gains but after payment of federal income taxes) rose from 690 to 1,166 dollars. Meanwhile the average per capita income of the top 1 per cent of the population fell from 13,168 to 8,994 dollars.² Thus the upper income stratum suffered a substantial decline in money income and a still larger decline in real income. The social experimentation of our own and other countries suggests that private incentives to embark on new and venturesome investments are more firmly rooted than was generally believed to be the case a quarter of a century or even a decade ago; but there can be no doubt that as high incomes are cut, a point must come when private investors have neither the will nor the power to launch major innovations. Substantial further redistribution of incomes may therefore affect adversely the size of the national income, while it cannot improve appreciably the living conditions of the great masses. The paramount source of the rising living standards of our workers and farmers has always been an increasing volume of production, and in the years ahead it bids fair to become the only source.

² See the preceding note.

II

The evening out of incomes is partly attributable to the rapid rise of wages relatively to other forms of income—salaries, dividends, and interest receipts. Another significant factor has been the progressive income tax, which now dominates the federal revenue system.³ Lawrence Seltzer's investigation discloses that the income actually subject to tax grew three times as rapidly as total personal income between 1939 and 1948. At the same time tax rates rose sharply, so that tax payments grew twice as fast as income subject to tax. As a consequence of both developments, personal income tax payments increased six times as fast as personal incomes. The relative increase of tax revenues was still higher by 1950, and will be higher again in 1951 even if Congress accepts only partly the President's recommendations. The precise character of the additional taxes is as yet uncertain, but the raw facts on income distribution make it altogether plain that the burden will fall mainly on moderate-sized incomes. Even if the *total* income of those receiving \$25,000 or more per year were paid into the Treasury, the addition to tax revenues would fall far short of the additional sums now budgeted.

The only way the government can avoid sharp increases in taxes is to finance all or a substantial part of the new military expenditures by borrowing. But experience teaches that this method of financing is nearly certain to impose greater hardships on the average citizen than would increased taxation. For, on the one hand, financial tinkering cannot of itself change the physical quantity of goods available for civilian consumption; while, on the other, debt financing will lead to a further shrinking of our shrunken dollar, and thus further obliterate the savings that ordinary folk had laid by in the form of bank deposits, government bonds, pension accounts, and life insurance holdings. It is often noted that inflation hurts the lender and benefits the borrower, but it is easy to overlook that men of small or moderate means are far more apt to be net lenders than net borrowers. The principal borrowers, of course, are governments, large business firms, and wealthy individuals.

Whether the government obtains the dollars it needs by taxing or borrowing or doing some of each, it will use the dollars to purchase a larger portion of the national output than it did previously. Hence, unless production increases or inventories are permitted to fall to dangerous levels, the quantity of goods left for purchase by civilian users must decline. In a period when industry is converting plant from peacetime

³ See Seltzer's note on "The Individual Income Tax" in Part 3 of this report.

to military production, an overall increase in output per manhour is not very likely to occur. Absorption of the unemployed into gainful occupations will tend to relieve the short supplies; but the contribution from this source will hardly be sufficient to offset the projected increase in military forces. An increase in the labor force and a lengthening of working hours are therefore the principal means that are immediately available for attaining the military goods we need without severe curtailment of living standards.

Clarence Long's investigation of changes in the labor supply during recent decades in the United States and foreign countries throws considerable light on the elasticity of the labor force—a total that includes civilian workers, the armed forces, and the unemployed who are actively in the labor market. The labor force is normally one of the steadiest of economic factors, but it is nevertheless capable of increasing very sharply at a time of national emergency. During the 1930's the annual additions to our labor force were in the neighborhood of 600,000. Between 1940 and 1944, however, the total increase was close to 10 million, or about four times what it would have been under normal conditions. Over half of the 'extra' workers were girls and women, and most of them left industry at the end of the war. When the conflict in Korea broke out last June, the proportion of the population of working age in the labor force was not much higher than in 1940. Now the proportion is perceptibly rising again, and it seems likely that the general pattern of the recent war will be repeated in the present emergency.

Long's analysis of foreign experience during World War II is not less instructive than his analysis of the American record. The British augmented their labor force on approximately the same scale as the United States, when allowance is made for the difference in size of the two countries. Canada also added substantially to its labor force; Germany, on the other hand, fell far behind the democracies. According to Long's calculations, "to every hundred females who would have worked gainfully under high employment conditions, the United States added 28 girls and women, Britain 26, Canada 13, and Germany lost 1. To every 100 males, this country and Canada added 7, Britain roughly 3, and Germany under 0.3."⁴ The great contrast between the German experience and that of the democracies has many causes, but perhaps the most important is that a free and peaceful people have a resilience and energy at a time of crisis that cannot be matched by a dictatorial state. Years before launching an attack, a totalitarian gov-

⁴ See Long's note on "The Supply of Labor" in Part 3 of this report.

ernment is likely to drive its citizens to fanatical effort, but the furious pace cannot be maintained physically or psychologically if the conflict turns out to be a protracted one. There is a nice balance in the energy of a people over a run of years that moral fervor may stretch but cannot override. To build up our military strength we must now act boldly and quickly, and yet guard against the danger of draining the reserves of energy we shall need if our country is forced into full-scale war.

In view of the magnitude of our military program, a considerable expansion of the labor force during the next year or two is as desirable as it is likely. A moderate increase in working hours would also contribute to smoothing the transition to a sharply higher level of governmental spending. But over a longer run we must seek to protect living standards by looking to increases in the productivity of labor rather than to an extension of working hours or a rise in the proportion of people in the labor force. The American people will willingly work harder for the same or even a lower real income while our most urgent defense preparations are being built up, but they are not likely to continue to do that—unless, of course, the Korean war is extended. If the rightful aspirations of workers and farmers for better living standards are to be realized with a minimum of social unrest, it will be necessary to strive for even greater increases in productivity than have ruled in the past.

The extent and causes of increasing industrial productivity have long occupied the attention of the National Bureau's research staff. The investigations now being conducted by Mills, Fabricant, Stigler, and Barger will probably be completed within a year or two, and it is highly important to begin laying plans for new research in this critical area. But it is only prudent to assume that whatever gains may occur in industrial productivity during the next decade, controversy over the distribution of the national product will not be less intense than in the recent past. New research on the distribution of incomes therefore seems advisable, and it is likely to prove especially fruitful if linked with Wolman's and Long's studies of the labor market. Kuznets' work on income distribution, invaluable though it is, has covered intensively only the upper income strata. Fortunately, a great deal of information on low and moderate incomes has recently accumulated and awaits exploitation. Preliminary explorations suggest that it may be possible to work out tolerably full income distributions for every year since 1939, and to cross the size distributions with other classifications among which occupation, trade union status, and full- or part-time membership in the labor force are especially important. Statistics on income analyzed in this fashion would clarify the economic policies that have ruled in

recent years, and at the same time provide a better factual basis on which current policies may be formulated. I hope that the Board will authorize research in this direction as soon as funds and personnel can be assembled.

III

At an early stage of World War II Leonard Crum began an investigation of the outlook for the postwar federal budget, in which he was later joined by Slade Kendrick. Their successive estimates were widely discussed and had considerable influence on students of government, but they rested on so many uncertain assumptions—especially with regard to the state of international affairs—that the authors were reluctant to have them published. Recalling this experiment, it is especially noteworthy that back in 1943, when the thinking of so many was still geared to the 1930's, Crum foresaw that the postwar federal budget would run on a very much higher level than any prewar budget.

Crum reached his conclusion by examining individual items of the budget, taking such account as he could of the probable needs and political pressures after the war. Recently, in the course of an historical study of federal expenditures, Kendrick gave close attention to the influence of major wars and in the process succeeded in lifting Crum's conclusion to the plane of generalization.⁵ After the War of 1812, after the Civil War, after World War I, and again after World War II, federal expenditures ran on a substantially higher level than in the years preceding hostilities. Of course, a large gap between prewar and postwar expenditures might merely mean that traditional methods of war financing have a powerful tendency to lift price levels. But Kendrick demonstrates that the gap is not a monetary illusion; it remains very substantial even after allowing for population growth and rising incomes, besides changes in the purchasing power of money. This persistent pattern arises, at least in part, from readily identifiable causes—such as heavy borrowing during a war which piles up embarrassing interest charges at the war's end, the need to care for veterans and their families, and a natural tendency to countenance what seem to be moderate increases in outlay on civilian functions at a time when military budgets are being drastically cut. Thus, although the bulge of war spending is followed by sharp contraction at the war's end, the level of expenditures remains considerably higher than before the war.

⁵See Kendrick's note on "Federal Expenditures for 150 Years" in Part 3 of this report.

Whether and in what degree this pattern will apply to the present bulge in governmental spending is a question that cannot be answered with assurance. War with Russia is by no means inevitable. Some approach to international comity within the near future cannot be ruled out. Further, the pattern depends on factors that are in considerable degree within human control even if the calamity of war cannot be averted. It is therefore premature to conclude that when full peace reigns again, the rate of governmental expenditures will be substantially higher relatively to population and national income than in the past three or four years. At the same time it is well to recognize that apart from wars the broad trend of governmental expenditures has been emphatically upward. Fabricant's study, now approaching completion, reveals persistent growth in the utilization of human and material resources by government. Between 1900 and 1949 private employment in the United States approximately doubled, the combined employment of state and local governments quadrupled, while federal employment increased more than twelvefold. One out of twenty-four workers was on some governmental payroll in 1900; the proportion rose to one out of fifteen in 1920, one out of eleven in 1940, one out of eight in 1949. In 1902 one out of every thirteen or fourteen dollars of capital assets (excluding military equipment) was government property; in 1946 the proportion became one out of four. Nor do these striking figures tell the full tale, since they leave out of account the employment provided and the capital utilized through governmental purchases from private business, which in the aggregate add very materially to the government's command of real resources.⁶

It is interesting to speculate on what the trend of governmental activity might have been in the complete absence of wars. From this point of view, it is well that the figures I have cited on employment are imperceptibly affected by interest on the federal debt or by outlays on the veterans' program, both being predominantly legacies of war. The figures do include the military forces and the civilian workers employed by government in connection with the military establishment. If these were omitted, governmental employment would be notably lower but the broad trend would be unchanged. The crux of the problem, however, is the indirect influence of war on the civilian functions of government, and on this matter it is difficult to touch firm ground. It does seem clear that the domestic and international dislocations caused by

⁶Fabricant's full report will probably not be published before next year. See his preliminary report, "The Rising Trend of Government Employment", *Occasional Paper* 29 (June 1949) in the National Bureau's series.

war extend the need for governmental activity, and it is not unlikely that once government undertakes a new function there is a tendency to maintain it even if underlying conditions change. Not only that, but the decisive role of government in conducting a war probably fosters a tendency on the part of many to look to government for a solution of their special problems. But these and other indirect influences of war, important though they may be, can account only in part for the increasing role of government in economic life.

The broad trend of development in a progressive economy is towards sharply increasing emphasis on the service industries, and the government is merely one of the major channels through which the public's demand for services is satisfied. An economy undergoing rapid industrialization and urbanization increases the interdependence of men—their exposure to the wisdom and enterprise, also the folly and indolence, of their neighbors. Social and economic problems arise that cannot be handled adequately by private enterprise. With the spread of political democracy the demand increases for collective action to broaden educational opportunity, to improve sanitation and health, reduce slums, conserve natural resources, eliminate or regulate private monopoly, supervise banks and insurance companies, protect workers against the hazards of unemployment, and so on. Thus the line separating private enterprise and governmental responsibility is constantly redrawn, the range of governmental activities broadens, and a 'mixed economy' comes into being.

In these few sentences I have touched on one of the gravest problems of our time—namely, the proper line of division between the functions of government and private enterprise. This has always been a controversial issue in our democracy, and every significant relocation of the line has been preceded and followed by extensive public discussion. What makes the problem so acute today is that despite the notable shift toward government in recent years, Americans feel that new changes are impending—the scope and consequences of which they can but dimly foresee. Over a large part of the earth collectivism has triumphed, and even in the democracies of Western Europe the government is a more significant economic factor than in the United States. To make social changes intelligently amidst the uncertainty bred of crisis and tumult in the world is not easy. But that very fact imposes a heavy obligation on economists to clarify and set out scientifically the extent, character, and impact of governmental activities.

The National Bureau's research in this area dates formally from 1939 when the Conference on Research in Fiscal Policy was set up. In the last two years our research on fiscal problems has been accelerated.

Several investigators—Seltzer, Kendrick, Maxwell, Lent, Holland, and Dobrovolsky—now have in hand important research concerning federal finances and state-federal fiscal relations. But in our experience ‘public finance’ or ‘fiscal policy’ is a subject that cannot usefully be kept in a box by itself. The major projects on which the National Bureau has worked—that is, our investigations of national income, money flows, capital requirements, the credit system, business cycles, and employment and productivity—have attempted to cover, each in its own image, the operations of the economy as a whole. So large a factor as government inevitably obtrudes itself in such inquiries, and our research staff has been alive to the opportunity. Kuznets’ papers on income originating in governmental activity, presented to the Conference on Research in Income and Wealth; Copeland’s paper “Concerning a New Federal Financial Statement”; Stigler’s paper “Employment and Compensation in Education”; Fabricant’s monograph on trends in the government’s use of resources, of which a preview was published as *Occasional Paper 29*; Wolman’s *Planning and Control of Public Works* and Gayer’s *Public Works in Prosperity and Depression*; Firestone’s current study of cyclical fluctuations in federal revenues; Coppock’s *Government Agencies of Consumer Instalment Credit*; Colean’s recently published volume, *The Impact of Government on Real Estate Finance in the United States*; Harriss’ *History and Policies of the Home Owners’ Loan Corporation* which is ready for press; Copeland’s new investigation of the capital used by government—every one of these studies has grown out of a major project concerned with the overall operations of the economic system, and each has aided and will continue to aid the more specialized inquiries in public finance.

Thus government operations have for some time been a large factor in the Bureau’s research program. It would be well, however, to give them greater prominence by making the expanding role of government one of the high themes of our research in the years immediately ahead. The Executive Committee has recently taken one step in this direction by requesting Saulnier to organize a comprehensive investigation of the entire field of governmental lending, including federal loan guarantees and loan insurance. A still more important step is the authorization of a study of international trends in the governmental use of resources. Both in Europe and in the United States discussions of governmental activity, especially of the socialization of industry, have hitherto been carried on without the aid of basic measurements, and great confusion and suspicion have unhappily been wrought in the process. Hence the projected study will have as its first aim the development of detailed and accurate information on governmental employment of men and

other resources in each of the leading countries of Western Europe since 1900. Thus a factual foundation may be laid for comparing European trends with those set out by Fabricant in his American study. But it would be desirable to go further and search for the causes of international similarities and differences in the economic role accorded by free peoples to their governments. Such a comparative study would help everyone concerned with large affairs, whether on the theoretical or practical level, to see developments in our own and other countries in clearer perspective.

To carry out this broad and fundamental investigation properly will require larger funds than we have in hand, but we shall at least get the project launched through an exploratory survey by Abramovitz. What makes the project enticing to the economic student is the prospect that it will open up an array of problems concerning not only government, but economic development at large. To derive information on governmental employment it will be desirable, if not strictly necessary, to work out occupational tables for each country covered. Thus materials of very great significance for a study of comparative economic development will come into being, and perhaps pave the way for wide-ranging investigations of the conditions of economic progress. But it is much too early to say whether we shall be led in this way or by some other route into extending the modest international studies we are now pursuing.

IV

I have emphasized the operations of government because of the strategic role they have come to occupy in the modern economy. The government, however, is merely one agency in the complicated process by which the citizens of a democracy obtain their living. The figures on governmental employment, which I cited earlier, would have appeared less striking had I observed that 96 per cent of Americans were privately employed in 1900 and that, despite the growing complexity of economic life and our participation in two major wars, as many as 88 per cent continued to be privately employed in 1949. Even during World War II, federal income payments at no time reached a fourth of the national total, although the government's payroll was swollen by over 11 million in the armed forces. Of course, these figures convey little concerning government's regulatory functions, but these too must not be exaggerated. By and large, except in times of the gravest national emergency, the predominant mass of economic decisions concerned with choice of occupation, industrial location, production, pric-

ing, saving, investing, financing, working, buying, and selling has remained in private hands; though, to be sure, it has become necessary for everyone to function within an expanded framework of governmental rules.

Under the impact of economic mobilization such as we are now facing, it is possible to form the impression that the size of the national income, its physical composition, and the manner in which we share it are all determined by some will of government. In fact, the end results of our economic activity depend both in times of peace and in times of war on actions taken by millions of workers and farmers, households, business firms, financial institutions of various sorts, trade unions, farmers' cooperatives, businessmen's associations, and state and local governments, besides the federal government. Our vast economy is essentially a partnership. In an emergency like the present, the federal government becomes the dominant partner. But while there are many silent as well as quarrelsome partners in the joint enterprise, none is dormant—not even in wartime.

The gains registered over the last two decades by our joint enterprise have been many and substantial. The combined output of our factories, mines, utility plants, and construction yards is now about twice what it was in 1929. The production of the service industries has increased enormously, and even agricultural production has expanded about 40 per cent. The gain in population has been 25 per cent, in the physical volume of personal consumption nearly 75 per cent. The glaring inequalities of our income structure have in large degree been eliminated. We have devised a tolerably comprehensive system of insurance against the hazards of bank failure, unemployment, and an indigent old age. And we have shared the fruits of our industry and knowledge with the peoples of less fortunate nations, including our former enemies, on a scale that is probably unique in the annals of history.

These are great moral as well as economic achievements. They deserve more attention than they have received from the American people, and they deserve vastly more attention from the peoples of other nations. But if the performance of the American economy is imperfectly understood, the reason is partly that our record is not free from blemish. Despite our great economic strength, we have failed to exercise the leadership needed to restore that measure of free international trade under which the world once prospered and enjoyed substantial peace. Nor have we as yet proved ourselves capable of conducting our economy without serious oscillations. Within the past twenty years we have lived through one of the greatest inflations of money and prices in our

history, also one of the severest depressions, besides smaller movements that were sufficient to cause anxiety not only to us but to the friendly peoples of Europe.

The view has gained some currency of late, as it has in other periods of exaltation, that economic institutions and knowledge have developed to the point where the government can readily prevent sizable economic fluctuations. This view can be supported by reciting the impressive contracyclical devices that have been built into our fiscal system. Recent price history, on the other hand, casts some doubt on the expectation, and so too does the longer perspective of history. Government policy with respect to booms and depressions is not an innovation of the Employment Act of 1946 or of the Roosevelt administration.⁷ It can be traced to the depression of the 1890's, and indeed much earlier. At the beginning of the century the objective of policy was to prevent financial crises, such as occurred in 1893 and 1907. After the violent monetary disturbances of 1915-21 interest shifted to the stabilization of the price level in the hope that if price gyrations could be avoided, the economy would move forward without any serious setback. When mass unemployment developed during the 1930's, the goal of a stable dollar was abandoned, and the objective of policy became full employment. Once unemployment was wiped out, price movements and industrial productivity became a serious concern. Emphasis subtly shifted from 'full employment' to 'a high and stable level of employment' or to 'economic growth and stability'. Recently, the primary goal of government policy has been maximum production rather than employment, and so it will undoubtedly continue to be for some time. But if the price inflation of recent years extends into the next decade, the clock of policy may eventually turn back to the 1920's when the primary emphasis was on a dollar of stable purchasing power.

The shifting emphasis of our economic policies has, of course, reflected a continual effort to adjust to changing conditions and newly emerging problems. Underlying the effort there has been a growing understanding of the character and mechanism of economic fluctuations. Men seriously concerned with governmental policies have been feeling their way slowly towards a goal of balanced economic growth. The goal cannot be expressed in a simple formula because simple formulas have not conformed well to the abiding values of the American people or because they have brought new problems in the process of

⁷ See Robert Warren, "Twenty-five Years of Monetary Controls", in *Economic Research and the Development of Economic Science and Public Policy* (National Bureau, 1946).

dealing with the old. But the goal would probably include at least the following objectives: a high and steady volume of employment relatively to the size of the labor force, a high and steadily rising volume of production of goods that people wish to have, a high and steadily rising volume of imports on which the hopes of the outside world are pinned, a fairly stable level of consumer goods prices for people at every income level, and a minimal use of direct controls over prices and incomes. The conditions needed for realizing such a goal of 'balanced economic growth' are still obscure, and much experimentation may be needed before it is approximated. But the chances of success will be improved as the boundaries of objective knowledge of the interlocking processes of our economic system are extended. The National Bureau's studies of business cycles have been guided by this aim. They have already yielded results of practical value, but a vast amount of fundamental research on the pervasive problem of economic instability remains to be done.

In last year's report I presented some important facts on business cycles that have emerged from recent studies by Mitchell, Moore, Abramovitz, Hultgren, Saulnier, Ilse Mintz, and myself. I explained that our research on the typical characteristics of business cycles was sufficiently advanced to justify closer attention to the differences among the cyclical movements thrown up by history, and urged "investigation of the problem why some business declines remain mild while others reach catastrophic magnitude". Tentative plans for such an investigation have been drafted, and they are designed to handle expansions of varying degrees of intensity as well as contractions. From this matrix it would be desirable to single out two special studies for early attention. One would compare the patterns of economic change during war cycles with peacetime patterns—a comparison that might prove particularly helpful if the present phase of near-war economy stretched out, as it may, over a considerable number of years. The second study would analyze quantitatively the impact of inflation on incomes and prices, the efficiency of production, and the distribution of wealth. In the course of the Bureau's research on prices and business cycles, a great deal of information has been accumulated on inflationary episodes in our own and other countries. Considerable research would still be required to round out the empirical record on inflation and to analyze its ramified economic effects; but there are strong forces in our economy working towards secular inflation, and a thorough investigation of the subject might have a salutary influence on the course of events.

The problem of reestablishing confidence among the nations of the

world is more important even than the problem of economic stability, but the two are not unrelated. The view is widely held by Europeans that the United States is responsible for major shifts in their economic fortunes; and for this reason, if for no other, it is important to gain better understanding of the impact of our international economic relations on us and the rest of the world. Fabricant and Ilse Mintz have begun work on important aspects of this problem, and several others of our staff are engaged in related undertakings. But we have as yet made so little progress on the international research previously projected that our immediate need is to expand the staff rather than initiate new researches.

V

The economic future of our country is now heavily clouded by political and military uncertainties. No one can tell what changes the future will bring in our daily lives or what course our economic organization will take. But in thinking of the National Bureau's research over the coming years, it is reasonable to assume that whatever happens to hearth or kin our political democracy will remain intact, that a considerable measure of economic freedom will continue to be a part of our cultural scheme, and that our national enterprise of production and distribution will continue to be a partnership in which workers, consumers, business firms, and other groups participate with the government. As long as these conditions prevail there will be a need for research on the behavior patterns of the labor market, industrial productivity, prices and incomes, capital formation, consumer spending, the machinery of credit, the finances of government—in short, for scientific study of the enduring features of economic life such as have engaged the Bureau's efforts during its entire history, and that my sketch of the future seeks to extend.

Research on basic problems makes heavy demands on an investigator's time and patience, and the usefulness of its results is not always obvious. But in the long run nothing is more practical than fundamental research. When the Bureau undertook its investigation of corporate bond experience, no one could know that results would be forthcoming to influence legislation on insurance companies, personal trusts, and savings banks. Nor did anyone know at the time our project on urban real estate finance was launched that years later the Federal Reserve authorities would need to regulate real estate credit and that our findings would be helpful in drafting the regulations. A large part of the information currently compiled by governmental agencies on the

subjects of national income, money flows, capital formation, physical production, and consumer credit has grown out of or been materially influenced by the Bureau's research; but no one could know that in advance. Our studies of the national income, which were designed to promote the arts of peace, turned out to be extremely helpful also in conducting the recent war. The studies by Fabricant, Long, Kendrick, Kuznets, and others, to which I have referred in the course of this report, were started years ago and yet are capable of illuminating our most recent experiences. In planning the National Bureau's research we therefore need not be disheartened by our inability to tell what the world will be like several years hence. As long as we work on fundamental problems in the scientific spirit to which we are accustomed, we may be confident that our researches will prove of practical value to mankind.

Much of today's thinking runs of necessity along military lines. But the struggle between the western democracies and communism is basically ideological, and we must not allow its military aspect to obscure this fact. It is a grave error to regard communism as a conspiracy of an unscrupulous clique to attain mastery of the world. Such a clique exists but its power derives from its ability to harness the idealistic impulses of man. To strive for peace in the world, for justice in distributing incomes, for higher living standards, for security of job and home, for protection against the ravages of disease and old age—these are natural expressions of present-day culture. Communism has made headway by promising the millennium to an anxious and partly hungry world, while exploiting our every shortcoming and diverting attention from our constructive achievements. Over a large part of the earth informed economic communication has broken down, and one of the most vital needs of our time is to find the means of reconstituting it. But fundamental economic research must also be pushed with vigor, so that our children may be better equipped with the knowledge needed to solve economic and political problems than were their fathers and teachers.

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