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ECONOMIC STABILIZATION TODAY

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GENERAL VANAMAN: Gentlemen, it would be very difficult to find an audience anywhere in the world that is more completely aware of the balance and the interrelationship between economic stabilization and national defense than the faculty and students of the Industrial College of the Armed Forces. Mr. Keyserling, Chairman of the Council of Economic Advisers which has the highest responsibility in this field, and has the responsibility for direct advice to the President of the United States, was up to a few moments ago to be our speaker this morning. Then the President decided that he needed the advice of Mr. Keyserling: therefore we lost his services.

We have not published the biographical sketch of Dr. Colm, who has very kindly taken Mr. Keyserling's place; so I want to give you a little idea of his experience. He received his Ph.D. degree from Freiberg University and then came to the United States in 1933. From 1933 to 1939 he was professor and dean of the Graduate School of Economics and Political Science at New York University. From 1939 to 1940 he was financial adviser to the Department of Commerce. From 1940 to 1946 he was an economist in the Bureau of the Budget. Since 1946 Dr. Colm has served as senior staff economist on the Council of Economic Advisers.

It is a great pleasure to present to the college and guests Dr. Colm.

DR. COLM: General Vanaman and gentlemen: Mr. Leon Keyserling asked me to express to you his sincere regrets that his duties in his office make it impossible for him to be here this morning. I know he has been looking forward to this discussion. His misfortune is my good fortune. I am certainly very glad that I can be here with the Industrial College, where I have spent quite a few hours, which I found always very interesting for myself. I will ask you to be patient with the poor "Ersatz."

Gentlemen, as the motto of this lecture I shall propose a sentence of General Marshall. He said, "We have to protect our greatest strength, which is our economy." The topic of "Economic stabilization," which is the topic for today and which means economic stabilization in the mobilization program, and is, as the General said a topic of greatest importance for everybody concerned with a successful preparedness program. It is a very serious topic and not one on which it is possible to speak in a very easy manner.

Since the outbreak of the Korean campaign the consumer price index has risen by about 7 to 8 percent. The wholesales price index has risen by more than 15 percent. Economic stabilization means a policy that will bring about a halt to those price rises. But in talking about economic stabilization I want to emphasize from the beginning that this important task, namely, stabilization, is not an end in itself. We must relate it to the major objective of national policy.

The major objective of our national policy at this time is to combat Communist aggression. That task means several things. It means, first, a military preparedness program which absorbs a considerable portion of our productive resources for military defense production. Second, it means providing aid to other friendly nations which are associated with the United States in resistance to Communist aggression. Third, it means strengthening our economic potential. Fourth, it means doing all this in a manner which convinces everybody that the burdens and the sacrifices they have to bear are distributed in a fair and equitable manner. This latter, again, is an important aspect. It is a program which cannot be regarded only as a test of power, but where the conviction that the way we do things is superior to the way things are done in a dictatorial regime must become a common conviction.

How does the purpose of economic stabilization fit into the broader aspects of our national objective? If I may use an example of a very extreme character, someone could suggest that in order to bring inflation to a halt immediately, you only need to cut down the defense program to one-half or less, and there would be no problem of inflation left. Obviously, this would be an example where the method of achieving stabilization would contradict the achievement of our national objective. In this case, and using such an extreme example, it is easy to see that there are problems of conflict between the objectives.

Take, for instance, the recent discussion about the curtailment of bank credit. We have taken for granted that the curtailment of bank credit is anti-inflationary. You might therefore say that bank credit should be curtailed. But let us see what has been done with that bank credit through the last six months. We find, for instance, that we have increased inventories by approximately 10 billion dollars. That accumulation of inventory has to a large extent been financed by bank credit.

Some of these inventories were raw materials which were acquired by businesses which wanted to get ahead of the other fellow. They anticipated future shortages and they wanted to have whatever might be needed in the future. To that extent perhaps we did not get the best distribution of these raw materials. Perhaps some of the accumulations of inventory have impaired war production, because sometimes manufacturers with defense orders may have found themselves short of raw materials where others got them.

But I think more often we have had a different situation. Take the case of many durable goods, consumer goods, where we can expect future curtailment and shortages. During the last six months these facilities, manpower, and materials were still available. These industries were running at full capacity. At the same time we began to curtail the demand by specific credit controls--Regulation W and so forth. It was certain that as long as we had the facilities, they would be utilized, because cutbacks would come early enough. We were able to run at full capacity, because through credit it was possible to finance large inventory holdings by manufacturers and by dealers. So we are likely to enter a period of curtailment with an ample cushion that will come in very handy at that time.

There is no question that the inventory accumulation financed by credit has added to our inflationary problem. But to conclude that it should have been cut off and people should not have such inventory accumulations and such credit expansion requires an analysis of what harm would have been done if there had been some idle capacity, if we had entered this period of shortages without that fat that we have accumulated.

Gentlemen, I don't want to give you an answer to this question. I only want to use this as an example to demonstrate that with respect to each problem we have to look at what is involved in the problem of stabilization as related to our major objective of mobilization.

The reconciliation of the purposes of economic stabilization, the purposes of an all-out mobilization of our productive resources, of adding to our potential strength by modernization of equipment, of stockpiling, of the use of official stockpiles as well as the stockpiles that we find in hundreds and thousands of individual businesses and even in some of the homes--all these problems must be interrelated. We must achieve economic stabilization in a manner which in itself will promote rather than impair the mobilization effort as a whole. That is why we cannot approach this problem in any narrow fashion, looking only at stabilization and not looking at what harm a policy that may bring about stabilization may possibly do in other respects.

I am personally convinced--that is the assumption with which I am approaching this problem--that the objectives of preparedness and stabilization in the last analysis can be, and must be, reconciled. I am convinced that nothing is so harmful to a mobilization effort as continued inflation. Continued inflation would distort our procurement program. Continued inflation would create a sense of injustice being done to many people with fixed income. Continued inflation would undermine the morale which I think is one of the most important, if not the most important, factor in a national effort of the kind in which we are engaged.

I will now very briefly review the experience of the Second World War with respect to the stabilization program, in order subsequently to examine what the differences and similarities are between the task of stabilization during the Second World War and the task of stabilization that confronts us in the present situation. Then in the final section of this lecture I will outline the policy of economic stabilization.

What I have to say is to a large extent based on the material that has been incorporated in the President's economic report and in the review of the Council of Economic Advisers, which were submitted to the President as a basis for his report.

Thinking first of the experience of the Second World War, let us remember the general characteristics of the defense and war program that started in June 1940, with the fall of France. The war program grew year by year until it reached the size of about 45 percent of our so-called gross national product, which is a measurement of the total goods and services produced within a year, whether for civilian or government purposes. You may remember, we exceeded the 100 billion dollar Federal budget. I think the relationship of the war program to total production is a better measurement than the dollar, which had such a different value at that time from what it has today.

Now, most important for an understanding of the effort of the Second World War is the fact that from 1940 to 1944 our total production, measured in physical terms, increased by more than 50 percent.

You will remember that the defense program started at a time when the United States was emerging from the long-drawn-out recession, depression, slow recovery. There were still many unemployed--8 million perhaps--at that time. As a matter of fact, during the defense-war program, about 17 million were added to the active manpower force. There was an increase of about 11 million in the armed forces, and 6.5 million were added to civilian employment.

This mobilization of productive resources was facilitated by a policy which permitted some increase in prices during the initial years. At that time the increase in production was somewhat promoted by an elastic stabilization policy. The increase in consumer prices all through the war period amounted to a maximum of about 25 percent. This was more than was believed compatible with the plans and programs of the President. But some increase in prices probably is unavoidable when a country emerges from a depression and shifts its whole productive activities into high gear.

I may remind you that during the whole defense and war period we financed about 45 percent of Federal expenditures by taxes. That means that more than one-half of the expenditures were financed by borrowing. You may remember that President Roosevelt asked Congress again and again for higher taxes than Congress actually adopted. But the President never did ask for taxes that would have seemed sufficient to cover the whole budget. He asked for more than he got. The objective was to finance perhaps 66 percent of expenditures by taxes. Congress actually adopted taxes that did finance a little bit less than 50 percent of expenditures.

Just for comparison I jotted down some figures, which might be of some interest. During the First World War, from 1917 to 1919, the United States Federal Government met 30 percent of its expenditures by taxes. During the War Between the States, 1861 to 1865, the percentage was 23. So, by comparing these figures, 23 and 30 and 45, you can see that some progress has been made.

Even though this record percentagewise doesn't look too good, in fairness I want to quote some figures of an absolute character which will put this record in a somewhat better light. The whole Federal tax revenue in 1939 was 5 billion dollars. In 1945 it was 45 billion, an increase of about nine times.

I don't want to go into much detail here, but I may mention that other countries did just a little bit better, though not much. Great Britain during the same period financed 52 percent of its budget by taxes. There was only one country in the world which financed the Second World War on the pay-as-you-go basis, and that was Soviet Russia. I don't want anybody, when I later advocate that we go on a pay-as-you-go basis, to say that I want to imitate Russia. But that is a fact.

I should hasten to mention that Soviet Russia uses somewhat different terms in measuring whether a budget is balanced or not. According to the Soviet Russian terminology, the loans, not the bank loans, subscribed to by the population, which are to a large entent practically forced loans, are regarded like tax revenue. About 10 percent of the Russian war budget is considered financed by simicompulsory individual savings and about 90 percent was financed by taxes.

How was it possible thus to achieve a certain stability in the price level in the United States during the Second World War? I should have said that the price increase, which at the maximum amounted to 25 percent, proceeded in a somewhat flattened-out curve; and during the last two and a half years of the war the increase in consumer prices was only a very moderate one. One can say that the stabilization policies during the Second World War were fairly successful.

How was it achieved? It was achieved by the fact that the war policies were supported by direct controls. Business could not invest money, could not increase its inventory, could not add to plant equipment, except in the munitions industry or in raw materials which were directly related to munitions production. Consumers were limited in what they could spend, because there were shortages in things like automobiles, washing machines, and refrigerators; or consumer spending was limited by rationing. At the same time prices were rigidly controlled. We had a situation in which business and individuals could not spend the money they had; that meant a sort of forced savings. It was not forced savings by any law--when you have income and you can't spend it for anything, then you save. As a matter of fact, in the year 1944 business and consumers saved more than 40 billion dollars in this manner, which would be about equivalent at present prices to almost 50 billion. That was the main method by which stabilization was achieved.

That has been called the method of suppressed inflation. It was this suppressed inflation that became clear in the aftermath of the war. After controls were removed, people had a tremendous amount not only of deferred demand for automobiles, washing machines, and houses, but they also had the liquid means, the liquid assets, which could be used for financing business demands and consumer demands in the postwar period. That, in the absence of controls, is what gave us the postwar inflation which we had in the years 1946 to 1948.

It is in a way natural that on the basis of that experience one says, "No. We don't want to do it the same way again." I submit that the historian of economic literature is already familiar with that phenomenon. Since the Napoleonic wars--and I am sure better historians go further back--you will observe that always after a war the theory has been, "We should finance a war entirely by taxation." Then that is always forgotten in financing a new war.

I believe that if we should get into an all-out war, we will have to re-examine the problem of financing. We will have to balance the desirability of avoiding any postwar inflation against the problem of what very excessively high taxes may do to production and to incentive, to economic management, and so forth. But what we have to recognize now is that the present situation is quite different from the situation of an all-out war.

I will now briefly discuss the nature of the present inflation, in order to contrast it with our experience in the Second World War.

First, I will mention the size of our total program. I am speaking now of the so-called security program, which includes the military program, the foreign aid program, the atomic energy program, and other defense programs which are of a nonmilitary character. You know that this program as a whole, as outlined in appropriation requests, or estimates for coming appropriation requests, is of the general magnitude of between 140 and 150 billion dollars. It has been estimated in the President's economic report that by the end of this year these security programs may run at an expenditure rate of somewhere between 45 and 55 billion dollars. That means about 15 percent of the gross national product as it probably will be before the end of this year. Compare that 15 percent with the 45 percent which we had as a maximum during the Second World War and you will see that this still is far from what can be called a war effort. It is a program of quite different size.

Second, it is a program that has this characteristic: It is a preparedness program; that means two things. One, it means increasing military preparedness, and at the same time always being ready to step up from a preparedness to an all-out war program. It means further that there is an absolute uncertainty about the timing. Such a true emergency situation may occur at any time. It may occur after 5 or 10 years. The preparedness program is a tool of foreign policy and the foreign policy is a long-term foreign policy. We don't know how long it will last until the objective is accomplished.

These three factors--the relatively small size, pardon me if I call 50 billion small, I am not using quite the right words--compared to the Second World War, smaller-let me put it that way--uncertainty about the character and about the duration create conditions which are utterly different from the situation of the Second World War.

Second, it is not only a different program; there are also different economic conditions. This time the program started when the economy was running at a very high level of employment. You remember that by the middle of 1950, at the time of the Korean outbreak, we had emerged pretty well from the recession of 1949 and were approaching levels of activity which could be called full-employment levels.

Third, we had a different attitude of the people, which must be taken into account. The people had gone through the experience of a very limited and mild war inflation and a rather severe postwar inflation. That experience is in everybody's memory. You need only to look at the difficulty which we are facing, for instance, in the savings campaign in order to realize that we are having a difference in the psychology. I don't want to say that the people have assumed a defeatist attitutde with respect to the value of the dollar. I think that would be a wrong statement. As a matter of fact, I have been amazed to see that, for instance, sales of life insurance policies have really gone through the roof of the chart. The increases are largely in group insurance, it is true; but the trend is also evident in so-called ordinary insurance. I mention the fact only to indicate that the people by and large have trust in the dollar, which of course puts a heavy responsibility on the Government. And the people--this is my basic point--are not taking quite so much for granted now as they did in 1940.

Also it must be recognized that with respect to controls the attitude of the people is different. It is true, we had popular demand for all-out freeze when prices went up. That was at a time when the Government was not prepared to impose such a freeze. But it is certainly true that in a preparedness program, when people are somewhat uncertain how serious the situation is, we have a different attitude from what we have in a situation of major war. That again must be taken into consideration.

Well, what follows from all that I have said is that the immediate preparedness program, the immediate building up of military strength, must be accompanied by an effort toward a much more long-run strengthening of the economy. We must aim at a situation in which the economy will be strong enough to carry the heavy defense load without the necessity of very severe restrictive controls, which are bearable in an emergency of short duration, but will be very annoying if continued over a very long period of time. Therefore the emphasis must be on all policies that are likely to promote increased production and increased efficiency and productivity. That policy must be reconciled with a policy of economic stabilization.

I want to use the last few minutes just to say a few words about a stabilization program that should stand two tests: One, that it doesn't impair incentive for more and more efficient production; and, on the other hand, one that aids in achieving stabilization.

The problem is difficult for the following reasons: More production means more participation in the labor force. You can't get more participation from the millions of employed at this time, when the economy is running at a high level. You must get it by inducing more people--women and older people--into active employment, which means offering a wage that makes such employment attractive. It also will mean longer working hours sooner or later. The average work week has been lengthened already and further lengthening may become necessary. It means, finally, the need for more business investment in order to increase productivity and the efficiency of our output.

So you see the difference between the situation now compared to the Second World War. At that time we practically inhibited all investments except in direct munitions industries. This time we are emphasizing the need for building up inventories and the need for better productive equipment, because we are embarking on a long-run program. The need is not for an all-out effort that will throw everything into the battle, but we must be prepared for a long-time program.

Now, the consequences of everything we do have consequences for the tax program, because, again, this is possibly an effort of long duration. The worst may still be before us. We may have much higher expenditures in the future. Therefore the President, on the advice of the Council has declared that his policy is one of pay-as-we-go. He wants no deficits in the budget except those temporary deficits which are unavoidable when expenditures temporarily proceed faster than the receipts from new taxes flow in.

That is difficult, because taxes were greatly increased during the Second World War and have been relaxed only very mildly in the postwar period. But the President has made all possible efforts through the Secretary of the Treasury in testimony before Congress to obtain the necessary tax legislation. Thus far an increase in revenue has resulted from an expanded tax base, more income, higher prices, plus the new tax legislation that Congress has already adopted. The increase in tax revenue created budget surpluses, which is quite a different experience from the experience at the end of the Second World War. The outlook for 1952, however, is such that a very substantial increase in tax legislation is needed in order to maintain that record of the pay-as-you-go policy.

It is our opinion--which is expressed and documented in the economic report--that a tax program designed to achieve the objective of pay-as-you-go is compatible with leaving sufficient incentive in individual business. It means an increase to about 18 percent in the Federal Tax load as compared with the national income; and that leaves sufficient funds for business to modernize plant and equipment, and sufficient incentive for the performance of work.

The second element in a stabilization program is credit policy. The emphasis originally was on specific and selective credit controls in order to achieve curtailment where it would be the least harmful and at the same time permit sufficient credit for working capital in a manner that would be desirable in the early stages of the preparedness program. But, as you know now, under the initiative of the President and of Mr. Wilson--of the Office of Defense Mobilization, a program for restriction of general credit is being developed and may be available within a short time.

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Thirdly, price and wage policies have gotten under way too slowly in the opinion of many people. But it was recognized, I believe, that in a period of cold war, which is different from a hot war, compliance with such controls would not be adequate before the real enforcement machinery had been organized and built up.

What is the general function of price and wage controls in a cold war? Let us take a look at the character of the inflation mechanism that we have seen during the last six months. What we had was a strange phenomenon of inflation without government deficits. We had inflation in anticipation of government programs which actually had not yet gotten under way on a big scale.

Prices went up in anticipation of the impact of the defense program. Wages then followed suit. In some cases wages went ahead and prices followed. It was a general principle of escalation. That means that, for instance, in the first stages of price control, when the costs of imported raw materials went up--and they went up plenty--then immediately the prices of processed goods went up too. It means that increases in cost were added to the permissable prices of final products. In some cases even profits were added on a percentage scale of the inflated cost.

We had escalation in wages where the cost of living adjustments were translating higher consumer prices pretty promptly into higher wages. The same principle prevailed in farm prices. The objective of price and wage control is to interrupt that vicious spiral.

That can be done only by absorption. It means that some cost increases must be absorbed. Profits are high now; so there is a certain margin for absorption. The recent policy of the Office of Price Stabilization has been to move in the direction of moderate absorption. I say "moderate" because it is always emphasized that there is a necessity of permitting sufficient incentive for production and more production has been considered. But the tendency is toward absorption in lieu of escalation.

If this policy is further pursued and if then, after some price stabilization is accomplished, the escalation of wages and farm prices is also slowed down, then I think we will be moving toward a "hold the line" policy. That is what I think will eventually be necessary in an effort to reconcile the needs of stabilization and the production needs of mobilization.

The remaining time will be used for questions that you may care to ask. I don't promise that I can answer all the questions.

QUESTION: There is a decreased demand now for consumer goods--television and several other commodities--in fields where the demand has been satisfied. We are continuing a policy of guns and butter. After the war there was a big demand, but we had a lot of savings too; so we could reconvert easily. What is going to happen if after a year or so the situation with Russia eases up and we cut down on our defense program?

DR. COLM: That is a very good question. I read the other day--I think it was in the Wall Street Journal--that we are having shortages all over the economy, but the severest shortage is in warehouse space.

I think that a sudden reduction in the defense program would create a difficult situation. I want to add that, in my judgment, when the day and hour comes that the responsible authorities--whether the State Department or the military authorities--feel that the world situation permits a relaxation of the defense program, I would in that same hour reduce it and face the difficulties of conversion. I think it would be a difficult task, but manageable, through the machinery that has been set up under the Employment Act and with executive and legislative guidance. I do think we are prepared to initiate pretty promptly such programs as would seem necessary in order to convert from defense production to additional peacetime production.

I mention, not as proof of anything, but as an illustration of what I mean, the promptness with which we got through the 1949 recession. We have been restricting credit for residential construction. We can step it up again. There are many programs of a productive peacetime nature which could be used for filling the gap between a liquidation of the defense program and again getting the economy into high gear.

So, while I think that is a very valid question, I don't think you need really be concerned. If the Russians think that perhaps by an all-out peace offensive they could destroy capitalism, I can only say, I wish they would use that tactic.

QUESTION: I am a little confused as to your evaluation of the progress of the present inflation. On the one hand you tell us that governmen expenditures have not yet made any appreciable impact on our economy, though they may in the third and fourth quarters of this year. On the other hand, you tell us that the expansion of bank credit, which was responsible in large measure for the shortage of warehouse space that you mentioned, was a good thing. In your opinion would a curtailment of bank credit, or at least the prevention of expansion of bank credit generally, make possible an inventory shortage that could cut off manufacturing of these consumer goods, or would these consumer goods continue to be manufactured but we would not have quite the pressure at various distribution levels which was responsible for the current period of inflation?

DR. COLM: I am very glad you asked that question, because it gives me an opportunity to clarify what I said. When I said that some inventory accumulation now in durable and some other goods is desirable, I meant desirable from the point of view of the long-run mobilization effort, because I am convinced that we will have a severe curtailment in these industries, and then the fact that we have an inventory of manufactured products will ease the shock of such curtailment.

We have to pay a price for it; that price is that we get some inflation. I didn't say that credit expansion is good. As with all things in life, it has two sides--a bright side and a dark side. But it is the same thing. You have to pay a price for getting, not guns and butter, but plans for guns and inventory and tools and equipment and a higher economic productivity and some economic fat.

As I see it, one has to balance the good things and ask what price one has to pay for them. I do not believe, as some economists do, that in order to expand production further, we need to continue inflation. I do not think that is a true statement. I don't accept that at all. I think that the President in his emphasis on economic stabilization is right, and I think we are moving toward a hold-the-line policy. But I think we have to proceed in a somewhat selective manner; that we cannot suddenly cut off everything irrespective of the harm that such cutting off may do to the mobilization effort. My whole attempt was to try to bring out that one point--that stabilization cannot be regarded as an end in itself, as a policy that can be pursued without looking to the right or left. It is a policy that must dovetail with all other policies under a mobilization program. So it may be somewhat confusing, because we see that every policy has more than one impact. It has one impact on prices, and it also has an impact on production and participation in the labor force. We have to work out these things in a manner that will reconcile these various objectives.

QUESTION: You have given a lot of emphasis to the balance between government expenditures and taxes, but you went very fast over your references to prices and wages. Was that a matter of emphasis on your part? I would like to get your more detailed view on the importance of wage and price control in this stabilization picture.

DR. COLM: That relative emphasis had something to do with an instrument which is not under my control, namely, the clock. When I came to prices and wages, I saw that it was getting late.

Seriously, I would say that in the cold war effort, in the mobilization preparedness program, I think price and wage policies have somewhat the role of a stop-gap measure. I think we ought to bring price increases to a halt, but proceed not as if we think that this is the whole job. We must mop up as much as we possibly can of the purchasing power by additional taxes. In an all-out-war program I would put my main emphasis on direct controls and regard tax policy as a supporting policy. In a preparedness program of possibly long duration I would put my main emphasis on tax and credit policy, but with support by price control. I do not think that Congress will really enact sufficient taxes if there isn't an assurance that the executive branch will do everything within its power to bring prices to a halt. That would seem to be paradoxical, because we say we want the taxes as an anti-inflationary device, and at the same time we think that tax policy cannot be effective without the support of price policy and other direct controls. I think that is about the relative emphasis that I would place on these indirect fiscal controls as compared to direct controls.

QUESTION: You mentioned that we have to expect this inflation spiral until we get some absorption. Doesn't that absorption have to be in either profits or wages?

DR. COLM: I don't feel that, in considering this question of absorption of prices, absorption in the case of wages is comparable with that in the case of profits. We have a level of profits in this country in general--I am not speaking of individual businesses or individual industries--which permits absorption without impinging on the necessary incentive for additional production expansion, without curtailing funds which are needed for financing such expansion.

The Joint Committee on the Economic Report, a congressional committee, has published a very interesting staff study in which it considered that matter under three kinds of defense programs--moderate, middle, and high. Under those headings they used 40 billion, 50 billion, and 63 billion dollars respectively for the President's security program for 1952. They figured how much consumption would be available, in fiscal terms, meaning in dollars as of 1950 prices. They figured that in 1950 there was a supply of consumer goods and services amounting to 184 billion dollars. They figured that under a moderate defense program we may have 206 billion available for consumer goods in fiscal 1952; under a middle-sized program, 199 billion; and under a high program, 190 billion. That latter is approximately the same as we have available in fiscal year 1951.

Now, these programs are not yet of a nature where the total amount of civilian consumption must be drastically curtailed. When we speak of drastic curtailment, what we really mean is that personal incomes have gone up and that people must be prevented from spending all they have, perhaps through stepping up purchase of E bonds or some other kinds of savings bonds, in addition to reducing their purchasing power through taxes. But the present defense program is not yet of a magnitude which requires that the standard of living in general be drastically curtailed. It is a program which will permit the public in general to maintain about the present standard of living, with perhaps a different composition--with considerably less in television sets, and so forth, and some increases in other goods and services.

So I do think that the question of absorption is the essence of the whole program. But it should not be a mechanical absorption all along the line. There should be some examination of where absorption can take place without interfering with our country's objective. If the program should be stepped up, there will come a point where I think curtailment of everybody's standard of living may become necessary. But we should not cross that bridge before we reach it.

COLONEL BARNES: Dr. Colm, as a pinch hitter you have certainly cleaned up the bases. You have made a complex subject, to me at least, very understandable. On behalf of the college, I thank you for accepting this assignment on such short notice and doing such a splendid job.

(30 Apr 1951--650)S.