

Chapter 3

Broadening the Scope of Prosperity

THE PRECEDING CHAPTER has focused on the Nation's success in attaining general prosperity without price inflation during the year just ended. But the economic life of a dynamic people is full of cross-currents. No matter how rapidly the economy as a whole may be advancing, there are always some industries and areas that are standing still or even declining. Progress of technology is by its nature uneven; new products and new firms continually disrupt economic routine; shifts of demand keep occurring and recurring; foreign developments have widely divergent effects on domestic industry; and the weather itself is sometimes the arbiter over the lives and fortunes of people. These factors and many others like them diversify the economic life of a Nation. If our economy is to continue growing, it will have to remain fluid and resilient, and broadly responsive to market forces. The general welfare may, however, be greatly enhanced by fostering conditions under which adjustments can be accomplished with a minimum of hardship or difficulty.

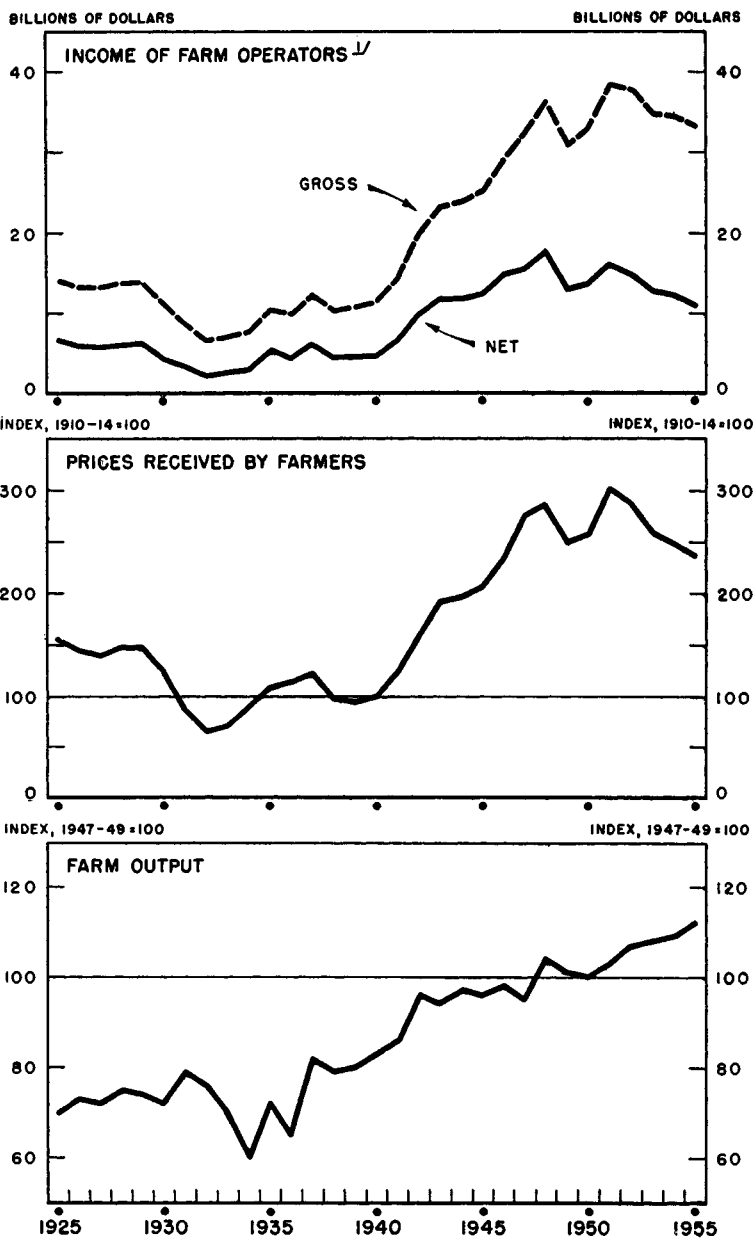
It is precisely because good times have spread so widely among the American people that we should give serious thought to ways and means of extending prosperity to the less flourishing sectors of our economy. Many branches of agriculture have failed to participate fully in the Nation's prosperity. Unemployment has persisted in some urban communities despite the attainment of full employment, in a practical sense, in the Nation at large. Even in these highly prosperous times a relatively small yet significant number of American families have, for one reason or another, incomes that are much too low. We must try to extend the magnificent performance of our economy. The first and most pressing problem requiring the attention of the Congress is the continued decline of agricultural incomes.

I. PROMOTING AGRICULTURAL READJUSTMENTS

American agriculture is a highly varied part of the national economy. The commercial farms—where the income of the operator's family depends primarily on the sale of farm products—vary greatly in size, in degree of specialization, in productive efficiency, and in financial return. In addition, there are many part-time and residential farms. The Nation has a stake in the welfare of all agriculture and all farm people. National programs must take account of the divergent problems of the different groups.

CHART 30

Farm Income, Prices, and Output



✓ INCLUDES GOVERNMENT PAYMENTS AND NET CHANGE IN FARM INVENTORIES.
SOURCE: DEPARTMENT OF AGRICULTURE.

The commercial farmers who produce the bulk of our farm output are ingenious, adaptive, and progressive. They take advantage of the rich flow of technical knowledge, materials, and machinery made available by research and industrial development. Their farms are better equipped and better managed than they have ever been. Operator-owned family farms continue to predominate, and the acreage and capital per farm are increasing. Farm wage rates have risen as the high level of industrial activity in the postwar decade has drawn into more remunerative nonfarm occupations many low-income farmers, sharecroppers, and hired hands. Farm people are taking advantage of opportunities for off-farm employment, full-time or part-time, which yields important supplements to their income; and their living has improved far above prewar levels. Since January 1955 farmers have participated in our national system of Old-Age and Survivors Insurance. Continuing large increases in population, coupled with high and rising levels of national income and employment, have maintained a strong domestic demand for farm products in recent years.

Nevertheless, the economic condition of agriculture is not satisfactory, and the position of farmers in our dynamic economy has aroused deep concern. Experience varies widely from year to year in different farming sections and enterprises, and from farm to farm. Yet gross and net incomes from farming have been declining since 1951, in sharp contrast to improving rewards in industry, commerce, and finance. Readjustment to peacetime conditions of demand and production has not been fully achieved. It is imperative that we strengthen farm programs on the basis of a realistic appraisal of the present situation.

Farmers responded magnificently to wartime and postwar challenges to produce abundantly, and generally enjoyed great prosperity in the 1940's. Farm incomes rose to new highs after World War II as a result of price inflation, high domestic demand, and extraordinary exports largely financed by grants and loans from the Government. Substantial declines in farm prices and incomes in 1948 and 1949 were due mainly to subsidence of this abnormal export demand, record crop production in 1948, and some contraction in the domestic economy. The outbreak of the Korean conflict and fears of a return of wartime shortages stimulated increases in both the domestic and foreign demand for agricultural products. This, coupled with renewed inflation, raised farm prices and gross incomes to new peaks in 1951. The containment of hostilities led to a fall in abnormal demands for stocks, and there was a sharp decline of agricultural exports in 1952-53. Enlarged supplies of meats and dairy products in 1953, as well as temporarily reduced consumer demand for the latter, also contributed to the decline in farm prices and incomes from their exceptional 1951 peaks. The further declines in 1954 and 1955 were associated with a general enlargement of production and stocks.

The decline in gross farm income since 1951 has been accompanied by an even sharper decline in net income. Farm production expenses in in-

creasing degree consist of machinery, fertilizer, and other items purchased from the nonfarm economy. Prices of these items have declined little in recent years, and in many cases have risen as nonfarm demands for steel, gasoline, and other products continued to increase. Thus, farmers have been subjected to a "cost-price squeeze." Although the market conditions that prevailed during and immediately after the war could not be expected to continue indefinitely, the protracted decline and current low levels of income, in a period of generally good times, are of increasing concern.

On certain points the evidence is clear. Commercial farmers have been producing and are geared to produce more than could be commercially disposed of at supported prices. Government restrictions on acreage of several crops, notably wheat and cotton, have insufficiently curtailed production of these crops and have led to expansion of others. Huge carry-overs have piled up, far beyond liberal estimates of desirable reserves. Government holdings acquired under price-support programs have kept rising, in spite of intensive and effective efforts to dispose of surpluses.

The persisting decline in farm prices and incomes reflects a continuing imbalance between farm output and its ultimate disposition. The imbalance is to be traced largely to the technological revolution in American agriculture, changing domestic demands for farm products, the expansion of agricultural production abroad, and the repeated extension of wartime price support levels long after the end of World War II.

The most recent upsurge in our agricultural technology began in the late 1930's. It has taken many forms, such as better varieties of seeds, improved breeds of livestock, more and better machinery, increasing use of fertilizer, improved feeding practices, extension of electrification, and more effective controls of weeds, insects, and plant and animal diseases. Favorable prices, higher incomes, and the steadily improving asset position of farmers during the war made it possible to adopt the new technology at a rapid pace between 1940 and 1945. After the war the broad uptrend in farm output continued, and there is no sign that the current phase of the technological revolution has run its course. The index of total farm output rose 20 percent during 1939-45, 4 percent in 1945-50, and 12 percent in 1950-55; new records were set in each of the past five years. The latest increases have far exceeded the expectations of competent specialists. In output per acre, per livestock unit, per farm worker, and per man-hour, remarkable advances have been registered.

Demand has not risen enough to absorb all of the enlarged farm output. Indeed, technological developments on and off farms have of themselves reduced the demand for several important farm products. Notable examples are the nearly complete replacement of horses and mules by automotive equipment in farm and nonfarm uses, and of horsefeed by motor fuel; inroads of synthetic fibers, paper, and other

products on the consumption of cotton and wool; and the adverse effect on the demand for fats and oils from increasing displacement of soap by detergents. Apart from such changes, as incomes rise the demand for farm products tends to increase at a rate below the rate of increase in disposable personal income. Per capita consumption of food in 1955 was only 3 percent higher than in 1947-49, whereas per capita disposable income in constant dollars was 15 percent higher. Retail food sales have risen with population and incomes, but much of the increase in consumer expenditure has gone for additional services associated with processing and distribution rather than to enlarge the per capita demand for raw foodstuffs. For some products, such as wheat and potatoes, rising personal incomes entail a decrease in demand as consumers shift to more highly preferred foods. And per capita consumption of meat, poultry, and most dairy products has of late been so high that further increases encounter greater competition from other desired goods and services.

Notable gains by the economies of Western Europe and many other parts of the world since 1948 might have been expected to enlarge normal export markets for American farm products. Several factors have severely limited the extent to which this has occurred. Agriculture abroad gradually recovered from wartime destruction and disorganization. Under the stimulus of national measures aimed at self-sufficiency, enlarged exports, and protection to farmers, the output of major crops—wheat, cotton, rice, sugar, and others—has sharply increased. Even several of the low-income countries have greatly expanded their production of foodstuffs and fibers. As increased supplies have brought world prices down, the levels of price supports in this country have tended to price our products out of world markets.

The tendency to surplus production in the United States was strongly reinforced by legislative and administrative actions in 1952. An Act of July 17, 1952 extended price supports on the six "basic" crops at 90 percent of parity through 1954-55, and postponed until 1956 the application of "modernized parity" formulas. By administrative decisions in 1952, acreage allotments and marketing quotas were not applied to wheat for harvest in the following year, price supports for dairy products were maintained, and the support prices of many nonbasic commodities were raised. These measures imposed heavy burdens on this Administration. Farm output rose to a new high in the very year when the abnormal demands arising from the Korean conflict disappeared. Large portions of the 1953 output of supported crops and dairy products, including one-third of the farm marketings of basic crops, had to be acquired by the Commodity Credit Corporation (CCC). The stimulus to overproduction of basic crops continued in 1954-55. From mid-1952 to mid-1955, when prices of all six basic crops were supported at 90 percent of old parities, CCC inventories and commitments for these commodities rose from 1.2 billion dollars to 6.0 billion.

As soon as previous regulations could be terminated, this Administration took steps to cope with the growing surpluses, under discretion permitted by the Agricultural Act of 1949. The price-support level for dairy products was reduced on April 1, 1954 to 75 percent of parity, with the aim of reducing surplus stocks, encouraging consumption, and thus improving the position of dairy farmers. Price supports were lowered for flaxseed, soybeans, and dry beans harvested in 1954 and for feed grains and cottonseed harvested in 1955, so that these products might compete more effectively in the markets for which they are produced. Acreage allotments and marketing quotas were authorized for 1954 crops of wheat, cotton, tobacco, and peanuts. To avoid extreme acreage reductions in one year, the Congress determined that the full reductions should not be applied to cotton and wheat until 1955.

The Congress incorporated major Administration proposals in the Agricultural Act of 1954, which was designed to strengthen the foundations of agriculture and to yield beneficial results over the years. This Act authorized the first departure from price supports on basic crops at 90 percent of parity, which had been inaugurated in 1942 to stimulate production to meet war needs. It provided for flexibility in these price supports, eventually within the range of 90 to 75 percent of modernized parities. Thus far, however, 90 percent supports have continued to apply on cotton, tobacco, and peanuts; and despite the adjustment in price supports on wheat and rice for harvest in 1955, these products have not moved freely into domestic use or export. The attainment of a balance between production and market demand has been severely handicapped by the huge stocks accumulated under provisions of earlier legislation, and also by the failure of acreage allotments to bring about corresponding reductions in farm output.

Cotton acreage allotments in 1954 and 1955 were set at the minimums permitted by law, with the object of reducing production to 10 million bales in 1955. Actually, because of remarkably increased yields, the 1954 crop exceeded the production goal by 15 percent, and the 1955 crop by nearly 50 percent. Wheat yields have not risen as rapidly, but the amounts produced on the minimum acreage allotment permitted by law (55 million acres) have continued to exceed domestic and export needs. Similar results have been experienced with other basic commodities. Hence carry-overs of these commodities and feed grains have risen in 1952-55. For most commodities, moreover, the proportion of total carry-overs held by the CCC has been increasing; on June 30, 1955 about 97 percent of the wheat carry-over was in its hands.

The production-control programs that have been operated for basic commodities, which account for about one-fourth of the total income from farm marketings, have indirectly contributed to lower incomes for the producers of other important commodities. Farmers with acreage diverted from basic crops have deemed it more profitable to produce feed grains or

other crops, even at lowered support prices, than to let this part of their land lie idle. Many have expanded their hog and beef cattle numbers to use the additional feed thus produced, adding further to the expansion induced by relatively favorable livestock prices in earlier years. Dairy feeding rates have also been increased. These factors have been largely responsible for lower prices of beef cattle and sharply lower prices of hogs in 1955, and a continued increase in production of dairy products.

Unrealistic supports have not merely overstimulated production of several basic farm products in this country and abroad; they have also impeded normal flow into feed use and export. Feed use of wheat is no larger than in former periods of scarcity, while food use has been virtually constant for many years, and seed use has dropped as acreage has been restricted. Practically all our wheat and flour exports now move only under direct subsidy or under special export programs. In fiscal year 1955 the average subsidy on wheat exported under the International Wheat Agreement was about 75 cents per bushel. In December 1955 American wheats were selling on domestic markets around 65 cents per bushel above equivalent export prices.

Our cotton is steadily losing ground in competition with synthetic fibers and paper, and is rapidly losing export markets to foreign producers who have stepped up their production at prices made remunerative by American price supports. In 1954-55 over 40 percent of our cotton exports were moved under special programs, including Export-Import Bank loans. In the current marketing year the disparity between prices of American and foreign cottons is much wider than hitherto, and commercial exports are running extremely low. In short, cotton growers now face the threat of a drastic, permanent shrinkage of their commercial markets. Tobacco exports are holding up well, despite expansion of foreign production, but increasing proportions are moved under special export programs. Since 1953 commercial exports of American rice have declined radically, and outlets for surplus rice in CCC hands are found with great difficulty either at home or abroad.

With additional authority granted by the Congress during the past two years, the Administration has made great efforts to dispose of surplus accumulations at home and abroad, as well as to enlarge the domestic use of livestock products that tend to be in surplus. The Agricultural Act of 1954 authorized the CCC to use 50 million dollars annually to increase the consumption of milk by school children, and to make available to the Armed Services dairy products acquired in price-support operations. The Agricultural Trade Development and Assistance Act of 1954 gave the CCC additional authority to use surplus agricultural commodities in barter transactions, and for famine relief or other emergencies in friendly countries. It also authorized in Title I the sale of these products to friendly nations for foreign currencies. In mid-1955 the authorization to reimburse the CCC for losses on sales under Title I was increased from the original 700 million dollars to 1,500 million dollars for the three fiscal years 1955-57.

In fiscal 1955, exports sold for foreign currencies totaled 345 million dollars; exports bartered for strategic and other materials amounted to 125 million dollars; and shipments under grant programs of the International Cooperation Administration totaled 381 million dollars. The moderate rise in our total agricultural exports from the low of 1952-53 is more than accounted for by subsidized sales, sales for foreign currencies, sacrifice sales, and donations.

Recent administrative actions have helped in other ways to alleviate temporary market surpluses and to reduce CCC stocks. Examples are (1) liberal donations for school-lunch programs, to charitable institutions, and—with the aid of private philanthropic organizations—to needy people overseas; (2) payment of export subsidies on certain citrus fruits; (3) in view of the large 1955 crops, payments to divert white potatoes to starch and feed use, and the purchase of sweet potatoes for use in school lunches; (4) inauguration in the fall of 1955 of a program of purchase of pork products and lard; and (5) gradual sale of CCC holdings of wool on competitive bids beginning in November 1955.

The Administration is intensifying its efforts in these directions. Yet experience shows that there are limits to expanding the noncommercial disposal of farm products. Beyond some point, commercial sales are merely displaced, without increasing total consumption. At home, the displacement may be of the same or competing commodities; abroad, our own commercial exports or those of friendly nations may be displaced. Moreover, domestic producers in an importing country, even if its people are ill-fed and ill-clothed, may feel adversely affected. The difficulties are greatest with our largest surpluses, those of cotton and wheat. Extreme care is necessary to avoid disrupting world markets and damaging the delicate fabric of our foreign relations.

Increasingly vigorous surplus disposals have achieved substantial reductions in CCC stocks of some commodities and retarded the increase of others. Surplus disposals of agricultural commodities by the CCC have risen from 520 million dollars in fiscal year 1953 to 1,424 million in fiscal 1954, and 2,115 million in fiscal 1955. The realized losses on such disposals account for much of the increase in total costs of "programs primarily for stabilization of farm prices and income" which were 330 million dollars in fiscal 1953, 963 million in fiscal 1954, and about 1,300 million in fiscal 1955. Meanwhile, total CCC inventories and commitments rose from 1.4 billion dollars in mid-1952 to over 7.0 billion in mid-1955. Chiefly because of huge feed grain supplies and extraordinarily high cotton yields, CCC stocks in 1956 will probably be still higher.

The Federal Government has thus assumed heavy financial burdens on behalf of agriculture during the past three years. Increasing proportions of gross and net farm income have come from the public Treasury. In spite of this, farm income has declined and many farmers have continued to be subject to tight restrictions. In considerable part, these are conse-

quences of price supports that are out of line with market conditions, and of production restraints that do not work well.

It is clear that price supports at 90 percent of parity for basic commodities, after thorough test, have failed in recent years to maintain farm prices and farm income. They have delayed realistic adjustment of farm output to altered domestic and export demands. They have indeed cushioned declines of prices for producers of supported commodities; but, contrary to intentions, they have prolonged the period and extended the scope of declines in farm prices and incomes. To go back to high, rigid price supports, as some have urged, would only make the situation worse.

The position we have reached clearly requires further revision in agricultural programs that will lead toward the goals of a stable and prosperous agriculture, with production in balance with market demand, at costs and prices that permit good farmers to earn remunerative returns with substantial freedom in managing their enterprises. In view of the size of stocks accumulated, and the persistent tendency to annual additions, these high goals cannot be reached at once, but we must move energetically toward them.

Present agricultural conditions call for an attack on several fronts. Surplus stocks must be reduced. Annual surpluses of important products must be cut at their source, and soil conservation must be extended on land now contributing to such surpluses. Additional voluntary reductions in crop acreage must be induced by payments to offset the consequent loss of income from farming. Various modifications in commodity programs and a relaxation of present restrictions on farmers, where feasible, are required. Stress should be laid on enlarging outlets for farm products, on means of reducing production costs, and on ways of helping farm people to earn more income.

The special Message on Agriculture of January 9, 1956 therefore recommended a number of measures to promote economic readjustments in agriculture. Chief among these is the two-part Soil Bank Program designed to reduce current output of farm products, particularly of those commodities in greatest surplus. Also included are proposals to speed surplus disposal, broaden outlets for farm products, reduce farm production costs, improve farm credit facilities, and expand agricultural research.

The Message recommended that the Congress consider a program for stimulating voluntary additional reductions in the acreage planted to wheat, cotton, corn, and rice. Under the proposed Acreage Reserve Program, growers of these crops will be asked to reduce plantings below their allotments in return for negotiable certificates entitling them to cash or to specified quantities of the commodity from CCC stocks. Thus, surplus stocks can be used to meet portions of current market demand without reducing the net farm income of the growers. Under existing conditions special problems arise in connection with corn. If, therefore, the Congress should choose not to authorize the Acreage Reserve Program for

corn, an alternative might be considered, namely, to eliminate acreage allotments and put corn price supports on a discretionary basis comparable with other feed grains. This course might also be considered with respect to rice, on which both acreage and marketing controls are in effect.

The proposed Conservation Reserve Program—the second part of the Soil Bank—is designed to alleviate the declines in income of producers of cultivated crops and livestock that have resulted from the increased supplies of feed grains and other crops grown on “diverted acres.” All farmers will be offered the opportunity to withdraw some cropland from current production. To achieve this reduction in acreage and to assure the conservation of this land for future use as needed, the Federal Government will provide financial assistance to farmers in establishing the appropriate protective cover, and will also make annual payments related to the length of time needed to establish the new use of the land. It is anticipated that this program will reduce the acreage planted to feed grains, thus restricting the expansion of livestock production.

To insure that the increased acreage in protective uses will not lead to expansion of forage-consuming livestock, it has been recommended that grazing be prohibited on the land put into the Acreage Reserve and, for a specified period, on land retired from crop production under the Conservation Reserve Program.

The Soil Bank Program will of course be operative in the Great Plains States. It should be supplemented there by a special Great Plains Program, which has been developed through intensive studies and cooperative efforts of Federal, State, and local interests. In portions of ten Western States between the Corn Belt and the Rocky Mountains, high prices during and after World War II drew into hazardous crop production, notably wheat, much land that should be in permanent grass. To speed the return to sounder land use and better-balanced farm practices in this area, additional legislation is being proposed.

The Rural Development Program was initiated in 1955 as a long-run cooperative undertaking to help farm families in a low-income range to improve their earning power. Most of these farmers do not contribute appreciably to farm marketings or benefit from price supports. Some are small-scale commercial farmers who come under price-support programs, especially for cotton and tobacco, but their incomes have been low even when farm prices have been highest. While the Rural Development Program cannot yield substantial results quickly, it is of high importance as a means of developing agriculture’s human resources, as explained further below.

Many parts of our agricultural policy are working well and require only moderate changes. These together with the new measures now put forward, as set forth in the recent Message on Agriculture and the Budget Message, constitute a many-sided attack on the ills that beset agriculture in spite of, and in part because of, its great productive strength. There

is no sure and easy cure for persisting surplus conditions. We must continue to be on guard lest measures designed to help do harm instead, and we must be ready to adjust our programs as experience may dictate. The programs now recommended, if framed wisely and adopted promptly, will promote the welfare of farmers and the Nation.

II. HELPING LOCAL COMMUNITIES REDUCE UNEMPLOYMENT

Just as the recent decline of agricultural income requires the attention of the Federal Government, so too does the problem of substantial unemployment which has persisted in some urban communities despite the attainment of practically full employment in the Nation at large. Local unemployment often proves stubborn when it stems from special causes, such as a dwindling market for the products in which a community has specialized, the removal of one or more of its key firms to other places, a lag in the technology of its principal industry, or the depletion of a natural resource on which the local economy is based. As noted in last year's Economic Report, "such 'structural' or 'spot' unemployment may remain even when the Nation's economy practically reaches full employment." The expansion of general economic activity during the past year has indeed sharply reduced the number of areas suffering from chronic unemployment, but it has not eliminated the problem any more than have previous expansions in our history or in that of other industrialized nations.

The fate of distressed communities is a matter of national as well as local concern. At present, numerous private groups, as well as State and local agencies, are assisting communities troubled with serious unemployment in working out practical solutions. The Federal Government has also actively interested itself in the problem. As far as feasible, government contracts are being placed with firms in labor surplus areas. An inducement has been given to the location of defense production facilities in such areas by allowing tax amortization benefits beyond those granted elsewhere. Also, the Office of Area Development in the Department of Commerce has been enlarged, so that it could better serve local needs. Although these programs have proved helpful, experience demonstrates that bolder measures are needed. To this end, a new Area Assistance Program is recommended for aiding communities that have experienced persistent and substantial unemployment.

The program is designed around four major principles. First, Federal assistance should aim at helping communities to help themselves. Major responsibility in planning and financing the economic redevelopment of their communities must remain with local citizens. Second, the program should aim at lasting improvement of job opportunities by the establishment or expansion of productive industries. Projects that generate only temporary employment do not help a community solve its basic problems and may even worsen its predicament. Third, Federal assistance should

be contingent on the active participation of governmental authorities who are close to the troubled community; that is, the State or local government or a community-sponsored development or credit corporation must provide part of any financial assistance required for specific projects. Fourth, Federal aid must not be extended to a community if the proposed project will create unemployment in some other area.

In line with these principles, a new unit—Area Assistance Administration—is proposed in the Department of Commerce, to be headed by an Administrator and to be aided by an Advisory Board consisting of the Secretary of Commerce as Chairman, the Secretaries of Labor, Agriculture, Treasury, and Health, Education, and Welfare, and the Administrators of the Housing and Home Finance Agency and the Small Business Administration. The Area Assistance Administration will provide technical assistance to communities or larger areas, either directly or through grants, for studying their resources and preparing practical plans for industrial development. It will also extend capital improvement loans for projects that promise to improve a community's long-run economic outlook but for which financing cannot be obtained on reasonable terms from private sources. The loans should be made in participation with the State or local government, acting either directly or through a proper community agency. The Federal loan should not exceed, say, 25 percent of the cost of the project, while the State or local share must not fall short of, say, 15 percent. This loan program should be confined to communities that have had an unemployment rate of around 8 percent or more during the greater part of the preceding two years. But the loans should be available for a wide range of projects, such as the construction of industrial facilities, the purchase and alteration of existing facilities, or the consolidation and development of tracts for industrial sites.

Areas suffering from chronic unemployment could also be helped to develop their economic base by changes in certain programs currently administered by the Housing and Home Finance Agency. Congress should authorize the Housing and Home Finance Administrator to give priority to applications received from areas of substantial and persistent unemployment for Federal aid in financing needed public facilities under Title II of the Housing Amendments of 1955. Also, Title I of the Housing Act of 1949 should be amended to make benefits under the Urban Renewal Program available for industrial redevelopment of business sections in these areas.

Besides undertaking the functions of technical assistance and of lending for capital improvements, the Area Assistance Administration will need to concern itself with aiding communities in making effective use of the numerous Federal programs already available to local economies, such as the inter-area placement service of the United States Employment Service and its State affiliates, the lending program of the Small Business Administration, and the program of vocational education of the Department of Health,

Education, and Welfare. Only by properly coordinating its own functions with related activities of other agencies, including those of the States and localities, will the projected Area Assistance Administration be able to realize the great promise of reducing pockets of chronic unemployment without unduly heavy costs to the Federal Government or undue interference in local affairs.

To put the new program of community assistance into effect, it has been recommended that a revolving loan fund of 50 million dollars be established for the Area Assistance Administration, and that an adequate appropriation be made to cover its technical assistance program. The latter program should not be confined to areas of chronic unemployment. On the contrary, its scope should be wide and designed to aid both urban and rural communities in developing balanced and progressive economies. Attention should also be given to skill improvement programs. All these are activities in which State universities and other local institutions can be very helpful, and they deserve encouragement.

III. LIFTING INCOMES BY RAISING PRODUCTIVITY

The wide diffusion of expanding incomes in the United States is the outstanding social achievement of our time. As tens of millions move steadily from one rung of the income ladder to the next and higher rung, disparities of income are lessened. The ownership of a good home and automobile by an American family is now the rule rather than the exception. Opportunities for cultural as well as material improvement have become larger. The past year has brought additional and widespread advances in general well-being. Nevertheless, too many families and individuals still have to get along on incomes that are inadequate by American standards. The situation keeps changing, and the dimensions of present-day poverty are not reliably measured. Yet there can be no better time than the present, when the Nation as a whole is enjoying unprecedented prosperity, to make a special effort to improve the economic status of the least fortunate among us.

The causes of low incomes are many. Special measures—both private and governmental—are needed to cope with some of them, such as protracted illness, and they are considered later. But the basic cause of low incomes has always been low productivity, irregular employment, or both. By pursuing policies that foster a high level of employment, extensive investment in new and more efficient tools of production, the improvement of general education, and the extension of research and development, the Government makes the largest contribution of which it is capable to the lifting of low incomes. When jobs are readily available and the productivity of labor is rising, as has been notably the case in recent years, the most powerful forces of all are already at work for lifting low incomes. The Government can, however, still do a great deal to help people who have

CHART 31

Home Ownership

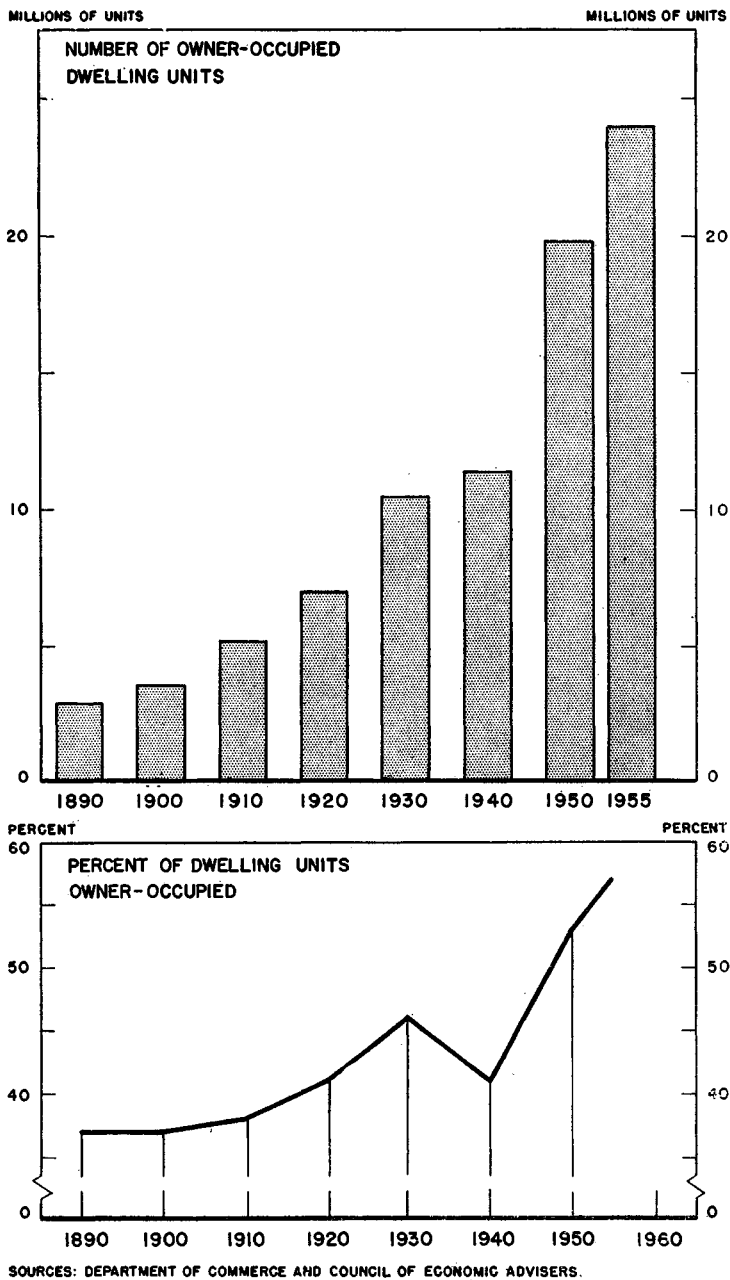
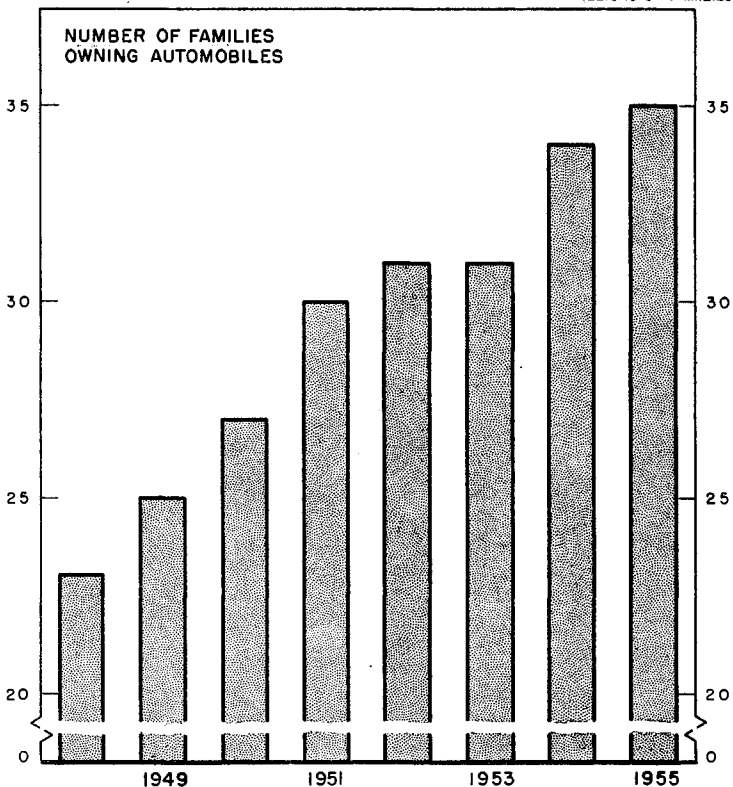


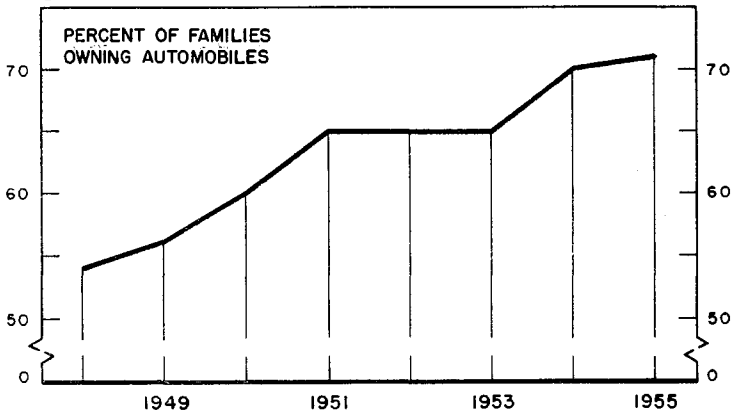
CHART 32

Automobile Ownership

MILLIONS OF FAMILIES MILLIONS OF FAMILIES



PERCENT PERCENT



NOTE: DATA RELATE TO OWNERSHIP EARLY IN THE YEAR.
SOURCE: BOARD OF GOVERNORS OF THE FEDERAL RESERVE SYSTEM.

been left behind in the onrush of progress, by undertaking special programs for raising their productivity. It is highly important that efforts in this direction be extended.

One of the largest groups of low-income families is in rural areas, mostly on farms too small for efficient operation. It includes many part-time farmers. These low-income farm families are widely distributed, but a large proportion live in the South. The Department of Agriculture explored this problem in a detailed report, *Development of Agriculture's Human Resources*, presented in April 1955. Subsequently, a special Message to the Congress urged the prompt launching of a long-range rural development program aimed at helping these families improve their economic status, and requested a special appropriation for the purpose.

Under the leadership of the Department of Agriculture, the Rural Development Program was inaugurated in June 1955. The program rests on two basic principles. First, lasting improvement can be achieved only by increasing the productive capacities of individuals and by enlarging the economic base of rural communities. Second, cooperation of Federal and State agencies, as well as of local and private groups, is essential for success. By the end of 1955, pilot operations had been started under State and local leadership in 30 counties and local trade areas in 12 States. The selected areas vary widely in type of farming, economic resources and potentials, extent of industry, and other respects. Thus, the local programs being developed will vary over a wide range, and should yield invaluable experience as the whole program is expanded.

Numerous constructive activities are already under way. Improvements are being made in the facilities for general education and for vocational training. Improved health and nutrition are being promoted. Members of farm families are being helped to make fuller use of State employment counselling and placement services. Farm, business, and civic groups, working cooperatively with Federal and State officials, are attempting to bring more industry into low-income rural areas and to develop better-rounded rural economies. The Federal Government is assisting in still other ways. The Farmers Home Administration has allocated funds for loans to small farmers in pilot areas where additional capital, unavailable through private sources, is needed to make farm improvements that promise to raise productivity. The Soil Conservation Service and the Forest Service are assisting the pilot programs in their respective fields of competence. The Agricultural Research Service is attempting to determine how small farmers may most successfully conduct their farm operations. All Federal activities connected with the Rural Development Program are being coordinated by an interagency committee, and the Federal Extension staff is assisting the State Extension Services in guiding the pilot operations.

The Rural Development Program is a soundly conceived and basic approach toward solving a highly important social and economic problem.

This promising program requires greater Federal support. The Congress is urged to enact legislation which will permit the Federal Government's contribution to the program to be expanded, in line with recommendations previously made.

As a result of the White House Conference on Education, the need for improving our scheme of elementary and secondary education is better understood across the Nation. But we must also seek to improve the effectiveness of adult and vocational education in both urban and rural areas. Well-directed programs of vocational training can help people, those in the middle or advanced ages of life as well as young men and women, to become more skilled workers and earn larger incomes. The major part of the extensive facilities now available for this type of education is supplied by State and local governments. The Federal Government should continue its program of grants to aid and stimulate the States in this important work.

Vocational rehabilitation provides a means by which specialized treatment and education help disabled individuals to improve their incomes. Over 600,000 veterans, who became disabled during World War II and the Korean conflict, have received special training under a program of the Veterans Administration. Also, the Office of Vocational Rehabilitation of the Department of Health, Education, and Welfare administers a program of grants-in-aid to the States, designed to restore handicapped men and women to lives of usefulness and independence. Since 1950 about 60,000 persons have been rehabilitated annually. As a result of legislation in 1954, the States now have an opportunity to expand this vital activity. It is hoped that the States will enlarge their programs of vocational rehabilitation accordingly, so that the productivity of their disabled citizens may be increased. It is also hoped that the acceptance of these rehabilitated workers in useful employment will continue to grow through the activities of the President's Committee on Employment of the Physically Handicapped and associated efforts.

Despite all that may be done through education and other means to raise the productivity of individuals and thereby improve their economic status, some will continue to receive low incomes. Minimum wage laws do not deal with the fundamental causes of low incomes. Accordingly, this condition can be corrected only to a limited extent by such laws. However, as pointed out in the last Economic Report, minimum wage laws can assist the comparatively small number of workers who are at the fringes of competitive labor markets. Last year's Report therefore urged the Congress to increase the minimum wage from 75 cents to 90 cents an hour. It also pointed out that the lowest paid workers are currently excluded from the protection of the minimum wage, that its coverage is no less important than its amount, and that an effort should therefore be made by the Congress and the States to bring additional workers under cover of the law. Some advances were made by the States during 1955,

and it is hoped that this progress will continue. The Congress also raised the minimum, but did not act on coverage. By setting the minimum at one dollar per hour instead of 90 cents, it has become more difficult to widen the coverage without causing serious economic disturbance in certain areas and fields of activity. Yet the need for an extension of coverage remains, and the Congress is again requested to proceed as far as is practical in this direction.

IV. IMPROVING THE ECONOMIC STATUS OF OLDER PERSONS

Families headed by older individuals account for a large proportion of the families with low incomes. To a considerable extent, therefore, the task of lifting low incomes consists in raising the productivity of older persons, facilitating their access to employment, and strengthening the private and public programs that contribute to their economic security. This aspect of the low-income problem will become increasingly important as the number of older persons and their proportion in the adult population increase. For that reason an Interdepartmental Working Group on Aging is concerning itself now with policies favoring the employment of older persons, including those who have yet to reach retirement age, and with the consideration of their needs in programs for education, rehabilitation, housing, health, and recreation. A broad study of employment-hiring practices, of the productivity of older workers, of counselling methods, and other aspects of this important subject is under way in the Department of Labor.

The Federal Government has already taken significant steps to improve the economic status of older persons, both before and after retirement age. To enlarge their access to employment, the Federal-State Employment Services give special attention to older workers in job placement. In 1954 about 10 million additional workers were brought into the system of Old Age and Survivors Insurance (OASI). At the same time the benefits were raised, and the law was modified to encourage retired persons to engage in some remunerative work. At present about 9 out of every 10 workers are covered or are eligible for coverage under this insurance system, which helps sustain the independence and dignity of people in their declining years. About two-fifths of all persons 65 years or older are now receiving OASI benefits and this proportion will increase. As a result, fewer persons will be obliged to seek public assistance. Contributing to the same end are the pensions available to elderly veterans who have nonservice-connected disabilities and receive limited incomes.

Business firms have also made great strides in providing retirement benefits for their employees. Private employee pension plans now cover some 13 million persons. The number of retired workers drawing benefits under these plans has been estimated at about 800,000, about twice the number of beneficiaries four years ago.

Additional measures, both private and governmental, are needed to advance the status of the elderly. One is the further extension of the coverage of OASI to self-employed groups and other workers not yet included. Since the Federal Government employs many in the latter group, it should grant the basic protection of OASI to its personnel, and make suitable adjustments in present retirement programs. It would also be helpful if business firms reviewed their pension programs with a view to making the vesting privileges more liberal and to adjusting the conditions for retirement so that older persons who remain vigorous and highly productive can remain longer in useful work. As a safeguard for our rapidly increasing private pension funds, it would be desirable to require Federal registration of these plans and reports on their administration and finances. Private welfare funds should be handled in similar fashion, and the Congress is requested to enact legislation toward both purposes.

Another need of many elderly persons is greater protection against the economic hardships of illness. This need of retired workers should be borne in mind, as far as practicable, in employer-sponsored health insurance programs. Also, the extension of commercial prepaid health insurance plans to older people requires encouragement. Reinsurance through pooling of risks by private carriers, or if need be through a Federal program, would be a constructive step in this connection.

The problem of adequate housing for the elderly requires special consideration. It would be desirable to give preference to older persons and their immediate families in admission to Federally assisted public housing projects. States and municipalities should consider adopting a similar policy. The National Housing Act should be amended to authorize insurance under especially favorable mortgage terms for apartment projects built by non-profit organizations for occupancy by elderly persons. Favorable mortgage insurance terms should also be accorded other multiunit rental projects designed for at least partial occupancy by the elderly. Finally, provision should be made to permit third parties, which could be either organizations or individuals, to guarantee monthly interest and amortization payments in behalf of older persons buying a home under a Federally insured mortgage.

V. COPING WITH PERSONAL HARDSHIPS

In considering the problems of agriculture, of chronic "spot" unemployment, of low-income families, and of elderly persons, we have seen that it is possible to design constructive programs to improve the economic status of people who have not participated fully in the advance of prosperity, and that it is not necessary to rely exclusively on the Federal Government in doing so. We now turn to other economic difficulties, those which sometimes bring financial ruin or a loss of security to individuals

and families. Sound ways of mitigating such hardships can be found, and we should go about this task with determination.

The severity of the floods that occurred last year in the Northeast and the Far West has emphasized again the need for protection against the human and economic losses resulting from such catastrophes. Many private groups and individuals, as well as the Federal, State, and local governments, offered prompt and generous assistance to the communities and citizens struck by disaster. Nevertheless, needs of this type should be reduced in the future, and when they arise should be met more systematically. Toward these ends it is recommended, first, that the Federal Government accelerate work on practical flood control projects, and second, that it provide reinsurance for private carriers offering flood insurance. We must not stop, however, with the second measure since private carriers, lacking a firm actuarial basis, may be unable to offer the desired protection on the scale that is needed. To provide against this contingency, a joint Federal-State program for indemnifying flood victims on losses to real property, business inventories, and household effects should be authorized. The necessary costs can be met partly by premiums paid by private citizens desiring flood protection, and partly by Federal and State contributions. As experience under the proposed program accumulates, private carriers may be able to offer policies at costs which will render unnecessary the continued operation of a government-supported indemnity plan.

Reduced economic circumstances of people are frequently associated with misfortunes which carry with them financial costs that exceed the resources of even provident folk. Prominent among the causes of such personal hardship is severe and protracted sickness, sometimes requiring long hospitalization. The cost of providing for catastrophic illness through regular insurance payments would be modest, but insufficient progress has as yet been made with this type of insurance despite the remarkable spread of voluntary health insurance plans. Very recently, some business firms have begun to provide broadened health insurance for their employees, and this development deserves every encouragement. Also, private insuring organizations should be encouraged to extend voluntary health prepayment plans in two directions, first, to cover catastrophic illness, second, to cover persons not now being reached through usual group enrollment methods. Permissive legislation for private pooling of risks or Federal reinsurance may be needed for this purpose.

Our oldest form of social insurance is workmen's compensation, now universally accepted as a fair means for relieving the financial burden on individuals of industrial injuries and occupationally connected diseases. With the encouragement of the Department of Labor, 42 State legislatures acted in 1955 to strengthen their legislation on workmen's compensation. In 35 States these legislative changes brought an improvement in benefit

provisions. The States are urged to extend this great advance by making further necessary improvements. At the same time, to meet more adequately the industrial hazards faced by workers under Federal jurisdiction, the Congress is urged to increase the benefits available under the Longshoremen's and Harbor Workers' Compensation Act, as recommended last year. But we must keep in mind that compensation and rehabilitation, despite their obvious importance, are poor substitutes for the prevention of occupational injuries and diseases. Much progress has been made in this field, but efforts to improve occupational safety and hygiene should be intensified; they deserve the fullest support of the Government, employers, employees, and labor unions.

Loss of income as a result of temporary disability that is not work-connected, no less than unemployment caused by economic factors or by work-connected disability, causes serious drains on family resources. Many private firms have voluntarily sought to protect their employees against this hazard, and four States now require that they do so. Legislation to provide nonoccupational temporary disability insurance for workers in the District of Columbia was recommended in the State of the Union Message. The Congress is requested to require District employers to provide the needed insurance either directly or through private carriers, on a basis that would divide the costs of the stipulated benefits between the employer and his employees. The States are also urged to consider the neglected problem of loss of income through nonoccupational temporary disability.

The personal and family hardships that arise from loss of employment have been considerably alleviated by the Federal-State system of unemployment insurance. Important improvements have been made in this system in the last two years but further progress is needed. We return to this problem later in the Report.

There is also a need for attending constructively to some human difficulties that arise in the process of carrying out urban renewal programs. The scope of this activity, which promises so much for the future of our cities, is increasing. Since renewal programs involve the demolition of large areas, many urban families inescapably lose their homes in the process. Large numbers of them find satisfactory housing elsewhere; but in view of the part that the Government plays in urban renewal, it should where necessary assist the displaced families. To meet this need largely through private enterprise, the Congress was requested in 1954 to establish a program of Federal loan insurance which would have made home mortgage credit on exceptionally favorable terms available to individuals displaced from their homes by urban renewal or other public projects. The program enacted by the Congress fell short of the Administration's proposal and has so far made little contribution to the solution of the problem. It is recommended that the Congress amend the present law, so that it will conform more closely to the recommendations previously made.