

Chapter 4

A Program for Economic Growth with Price Stability

THE EMPLOYMENT ACT OF 1946, under which this Report is submitted to the Congress, lays principal emphasis on the need for public and private policies to promote high levels of employment, production, and purchasing power. Achievement of these goals has assumed increasing importance with the addition of a heavy and continuing burden—the maintenance of strong national defenses—which our economy must carry while raising the living standards of an increasing population and helping to discharge the Nation's international responsibilities.

Experience during the life of the Act has, however, directed attention more and more to the need for a framework of reasonable price stability in order to achieve sustainable economic growth. A persistent upward movement of prices would do great harm to our economy. Quite apart from the inequities it would impose on those whose incomes would not rise correspondingly, it would narrow markets at home for important groups of goods, lower our capability to compete in the world's markets, and by requiring restrictive fiscal and monetary policies, lessen our chances of fully realizing our potential for economic growth. If price increases were to accelerate, the continuing upward movement would sooner or later undermine the confidence on which our economic system depends and would eventually release drastic corrective forces. Since some of the forces that tend to produce an upward movement of prices are themselves expressions of the process of vigorous growth in a free economy, the objective of national economic policy must be to balance encouragement and restraint.

Clearly, reasonable stability of costs and prices cannot be preserved by any single policy or measure, nor by Government acting alone. To achieve the goal of inflation-free, sustainable growth requires that we adopt appropriate policies and modify certain practices in both the public and private sectors of the economy. As noted in Chapter 1, every group in the Nation has a responsibility to help check the forces which contribute to increases in costs and prices. Although success depends on a combination of appropriate public and private policies and actions, Government must supply the required leadership and direction for its achievement.

A BALANCED 1960 BUDGET

The principal means by which Government can express leadership in the effort to preserve price stability is to conduct its own financial affairs prudently. The budget submitted to the Congress for the fiscal year 1960, which balances expenditures with receipts at a level of \$77 billion, seeks to fulfill this responsibility.

The expenditures estimated for fiscal 1960 are \$3.9 billion less than those estimated for the present fiscal year. A few items account for most of this difference. First, an important part is accounted for by a nonrecurring expenditure of about \$1.4 billion for the increased quota of the United States in the International Monetary Fund, which is recommended for the fiscal year 1959.

Second, during the current fiscal year the Federal National Mortgage Association will purchase most of the mortgages for which commitments were made under the housing legislation enacted in April 1958. Net purchases of mortgages under this special assistance program in fiscal 1960 will be about \$360 million less than in fiscal 1959.

Third, all the budget transactions in 1960 of the Federal National Mortgage Association, and those of the Export-Import Bank as well, are being put on a self-sustaining basis by aligning new credit extensions more closely with collections on outstanding credits and by sales of portfolio assets. The resulting reduction in net budget expenditures between 1959 and 1960 will be over \$300 million for the Federal National Mortgage Association and almost \$250 million for the Export-Import Bank.

Fourth, the expiration on April 1, 1959 of the law providing for a temporary extension of the duration of unemployment compensation payments will result in a decrease of over \$400 million in expenditures in the fiscal year 1960.

Fifth, the termination of the acreage reserve will reduce expenditures in the fiscal year 1960 by more than \$700 million, although a partially offsetting increase will occur in the conservation reserve program.

Sixth, proposals will be made for rate adjustments to cover the costs of operating the postal establishment, except for specified public services; these proposals will lower budget expenditures by \$350 million. This reduction, together with nonrecurring items affecting budget expenditures in the fiscal year 1959—retroactive pay increases and higher payments for transportation—account for the decrease of the postal deficit by \$645 million in the fiscal year 1960.

Seventh, the funding of retroactive pay increases to Federal civilian employees, apart from the payments to postal employees mentioned above, added some \$250 million to expenditures. These payments were made mainly in the fiscal year 1959 and do not recur in the new fiscal year.

Finally, expenditures of other Federal departments and agencies will be reduced, to the extent that this is consistent with the satisfactory performance of their respective responsibilities.

Although the projected expenditures are lower in the aggregate, they include increased outlays for many programs that support the growth of our economy and assist growth elsewhere in the Free World. Outlays for research and development will be increased over \$600 million, with emphasis on space exploration, peaceful as well as military uses of atomic energy, and basic science. Federal expenditures to improve education, especially in science and mathematics, will rise significantly. Federal expenditures for the conservation and development of land and water resources (including agricultural) will rise almost \$200 million. All Federal expenditures for civil public works—including grants to States, mainly from the Highway Trust Fund—will be increased \$700 million; at \$5.2 billion, they will be higher than ever before. Larger expenditures are estimated for other grants and long-term loans to foster community development. Expenditures by the Federal Aviation Agency, primarily for the construction and operation of new facilities for the Federal airways system, will increase almost \$100 million. Programs will be proposed for assistance to areas where unemployment that is considerably above the national average persists, and for grants to localities for the modernization of airports; however, the latter will not affect expenditures until after the fiscal year 1960. Higher expenditures are expected for economic and technical co-operation under the Mutual Security Program, but because of a reduction in the military assistance portion, expenditures for this Program as a whole will be decreased.

The revenues projected in the 1960 budget are substantially higher than those estimated for the current fiscal year, reflecting the confident expectation that economic recovery will be extended into the calendar year 1959 and beyond.

Certain actions by the Congress are needed to give effect to the 1960 financial plan. First, changes are required in the laws affecting Federal revenues: the corporate income tax and excise taxes on automobiles and parts, cigarettes, distilled spirits, and wines and beer should be continued at their present levels for one year beyond June 30, 1959; a temporary increase in the Federal motor fuel tax should be enacted to continue construction of the Interstate Highway System on a self-sustaining basis; the tax on aviation gasoline should be raised, and a similar rate for jet fuels, now tax free, should be enacted, to help pay the Federal cost of operating the airways; and a revision in postal rates should be authorized. The Congress has been requested to enact a permanent plan for the taxation of life insurance companies, and it will be asked to adjust present laws relating to the taxation of cooperatives. The Congress will also be requested to specify the treatment processes which shall be considered as mining for the purpose of computing percentage depletion allowances in the case of mineral products. This amendment, prompted by court decisions and similar to that recommended last year for cement and clay products, would prevent an unintended

extension of depletion allowances to the sales price of finished products. Recommendations will also be made for certain additional user charges.

Second, the Congress will be requested to grant wider administrative authority for setting maximum interest rates for various credit programs and to make certain adjustments in rates. These include the Veterans Administration programs of home loan guaranties and direct home loans, the rental (including armed services) and cooperative housing programs of the Federal Housing Administration (Sections 207, 803, and 213 of the National Housing Act), the college housing program of the Housing and Home Finance Agency, the loan program of the Rural Electrification Administration, and ship mortgage loans of the Maritime Administration. The flow of private funds into home construction and other types of building is restricted when market interest rates are high relative to the legally prescribed ceiling rates; as a result, the volume of construction is restricted and an increased part of its financing is shifted to the Federal Government.

Third, improvements are needed in the procedures by which appropriation bills are enacted into law. The Congress will be requested to grant the President authority to veto, or reduce the amounts for, specific items in appropriation bills and in other bills authorizing expenditures.

OTHER GOVERNMENTAL FINANCIAL POLICIES

Acceptance by the Congress of the expenditure level of the 1960 budget would be the most important single step in discharging Government's responsibility to help preserve the stability of prices and costs through prudent management of its own financial affairs. Moreover, adherence to the proposed expenditure program would provide an opportunity, as budgetary results improve with economic recovery, to promote economic growth by making a start on constructive tax reduction and reform. The growth of the American economy was significantly aided by the 1954 tax changes. But our tax burden remains heavy, and in important respects Federal taxes are levied in ways that tend to weaken the incentives on which we mainly rely for vigorous economic expansion. If our economy grows at the expected rate, and if Government spending is held within the limits set in the proposed budget, a significant additional step in tax reduction and reform can be taken in the reasonably foreseeable future.

Federal debt management policies are also pertinent to the achievement of sustainable economic growth without inflation. In the formulation of these policies, account must be taken of the necessarily far-reaching impact on the economy of the continual refinancing of large parts of the present debt of \$283 billion, of which \$228.5 billion is held by the public. The magnitude of this refinancing problem is indicated by the fact that \$49 billion of the marketable debt outstanding at the end of 1958, exclusive of \$24 billion of 13- and 26-week Treasury bills, will mature in 1959. This

is in addition to the cash borrowing in the market required by seasonal needs and by the redemption of nonmarketable debt.

Insofar as possible, financial requirements will be met in ways designed to reduce the frequency of Treasury issues and to improve the structure of the debt. By offering securities which are attractive to investors outside the banks, particularly to savings institutions, pension funds, individuals, and other long-term investors, the Treasury can avoid undue reliance on bank credit and thus assist, rather than interfere with, the exercise of monetary policies appropriate to the maintenance of sustainable economic growth and price stability. The 4 percent bonds due in 1980 that were announced in January 1959 are an example of such offerings.

As indicated in Chapter 2, a large part of the financing of the 1959 deficit had already been completed by the end of the calendar year 1958 without impairing the effectiveness of monetary policy. Completion of needed financing will bring the public debt to \$285 billion before June 30, 1959, and it will be necessary to renew the request made of the Congress last summer for a permanent debt limit of \$285 billion—\$2 billion higher than at present. Adherence to the 1960 financial plan and receipt of revenues as expected would obviate the need for a larger increase in the permanent debt limit. But a temporary increase of an additional amount will be needed to cover heavy borrowing requirements in the first half of the next fiscal year. These borrowings would be repaid, however, before June 30, 1960.

Finally, the maintenance of a framework of price stability requires the avoidance of excessive extension of credit. Responsibility for monetary and credit policies rests with the Federal Reserve authorities who have independent status within Government. However, to help coordinate the monetary and credit policies so determined with the economic and financial policies of the Executive Branch of Government, frequent meetings of principal officials have been held for the exchange of views. These meetings have proved useful and will be continued.

ADDITIONAL GOVERNMENTAL ACTIONS TO MAINTAIN PRICE STABILITY

Adherence to the financial plan presented in the 1960 budget and the pursuit of appropriate monetary, credit, and debt management policies would help attain rising production and employment at stable prices. Governmental actions in other areas can also help to maintain price stability as our economy expands.

First, the Congress is requested to amend the Employment Act of 1946 to make reasonable price stability an explicit goal of Federal economic policy, coordinate with the goals of maximum production, employment, and purchasing power now specified in that Act. Such an amendment would strengthen Government's hand in restraining inflationary forces and would

help build a public opinion favorable to the adoption and vigorous application of needed measures. This amendment would make it clear that Government is as determined to direct its policies toward maintenance of price stability as it is to employ them in combating economic contraction.

Second, a Cabinet Committee on Price Stability for Economic Growth is being established to follow governmental and private activities affecting costs, prices, and economic growth; initiate studies by Government or by groups of private citizens of price stability in relation to economic growth; seek ways to enhance productivity in the American economy and to build a better public understanding of the need for reasonable price stability in a free society and of the conditions necessary to achieve this objective.

Third, a Committee on Government Activities Affecting Prices and Costs is being established, to follow the operation of all relevant Federal programs, including those involving procurement, construction, stockpiling, and commodity price support, and to make recommendations to the appropriate departments or agencies or to the President for the administration of these programs in line with the objective of reasonable price stability.

Fourth, questions concerning the level and movement of consumer prices, changes in wage rates and earnings, and changes in productivity have assumed such significance in our economy as to require more and better statistics concerning them. Accordingly, the Bureau of the Budget has been requested to accelerate programs for enlargement and improvement of public information on prices, wages and related costs, and productivity.

ADDITIONAL MEASURES FOR ECONOMIC GROWTH

The Federal policies and actions outlined above will do much to assure a vigorous growth of our economy, free from inflation. However, additional measures should be taken by Government to promote the Nation's economic strength and well-being.

Competition

The vitality of our economic system depends in large part on vigorous competition, which would be enhanced by certain improvements in our antitrust laws. The Congress is urged to act favorably on five proposals, as follows: to authorize Federal regulation of the merger of banking institutions accomplished through the acquisition of assets; to require notification to the antitrust agencies when firms of significant size that are engaged in interstate commerce propose to merge; to grant the Attorney General power to issue civil investigative demands under which the necessary facts may be elicited when civil procedures are contemplated in antitrust cases; to make cease-and-desist orders issued by the Federal Trade Commission for violations of the Clayton Act final unless appealed to the courts; and to authorize the Federal Trade Commission to seek preliminary injunctions in merger cases where a violation of law is likely.

Small Business

Legislative actions taken last year will greatly enlarge the opportunities for the formation of new businesses and yield important benefits to existing small concerns and to the economy generally. To facilitate the access of small business concerns to capital and credit, the Small Business Administration was made permanent; its loan authorization was substantially increased; and it was authorized to help State and local development companies extend financial and other aids to small businesses, and to license and purchase the obligations of investment companies especially organized to provide capital on a long-term debt and equity basis to small businesses.

Small concerns may also be expected to benefit from certain changes in the tax laws enacted by the last Congress. These include ordinary-loss rather than capital-loss treatment for losses incurred on the investment of private funds in small business investment companies; similar treatment of losses incurred by small business investment companies or by an original investor in a small business concern (up to a limited amount); allowance to small business investment companies of a 100 percent tax deduction for intercorporate dividends received, rather than the 85 percent generally permitted; provision of an additional depreciation allowance for the acquisition of new and used tangible personal property; the option for certain small corporations of having their profits taxed directly, as if they were partnerships; the option to pay estate taxes over a period of up to 10 years, where the estate consists largely of investments in closely held business concerns; extension of the carryback of net operating losses from two to three years; and an increase, from \$60,000 to \$100,000, in the minimum accumulated earnings credit.

Other steps taken in 1958 include an Act to improve the opportunities of small business concerns in obtaining Government procurement contracts, and a new program of the Small Business Administration to facilitate the sharing by small companies in Government research and development contracts.

The Cabinet Committee on Small Business, which was established in 1956, continues to follow closely the position of small firms in the economy. A recommendation made by the Committee in its *Second Progress Report* is called to the attention of the Congress for favorable action, namely that the Securities and Exchange Act be amended to extend the privilege of the simplified Regulation A filings to a wider range of security issues.

Although significant benefits for small business concerns may be expected from the actions already taken and from those proposed, the long-run health of small concerns also requires an environment of satisfactory labor-management relations and opportunities to retain a larger share of business earnings. The first of these conditions would be advanced by enactment of the proposals made below for changes in legislation governing labor-management relations. The second would be advanced by adherence to the expenditure level proposed in the budget for the fiscal year 1960, which

would bring closer the time when additional steps can be taken to make our tax system more conducive to economic growth.

Personal Welfare

Substantial progress has been made by the States in recent years in raising the standards of the unemployment insurance system. Benefits have been increased and their potential duration lengthened. Coverage has been broadened to include more than four-fifths of all employees in nonagricultural establishments.

Still further improvements are necessary and desirable. Enactment of legislation is requested to provide for extending the coverage of the system to employees of firms having fewer than four workers; to make its benefits available to employees of Federal instrumentalities, nonprofit organizations, and certain other groups; to bring the provisions of the District of Columbia system up to those recommended for the States; and to provide for extending the system to workers in Puerto Rico. Benefits should be raised so that the majority of covered workers will be eligible for payments equal to at least half their regular earnings; and the maximum duration of benefits should be lengthened to 26 weeks for any person who qualifies for any benefit and who remains unemployed that long.

These steps would greatly enhance the contribution that the unemployment compensation system makes to our economy's capacity to resist recession. During the recent recession, this system offset directly about one-third of the decline in wage and salary payments. Supplemented by temporary legislation providing longer duration of eligibility for employees who exhausted their entitlement to benefits, unemployment insurance payments substantially alleviated hardships arising from loss of income.

In an industrial economy, occupational accidents may result in hardship for an employee and his dependents. It is therefore again recommended that the States, which have primary responsibility, strengthen their systems of workmen's compensation.

Certain legislative improvements are required in programs that lie within Federal jurisdiction. Proposals will be made to the Congress to extend the coverage of the Fair Labor Standards Act. Favorable consideration is again requested for legislation to revise the ambiguous and outmoded provisions of the 8-hour laws applying to Federal and federally assisted construction projects and to carry out the principle of equal pay for equal work without discrimination based on sex.

The Economic Report of 1958 outlined the responsibility of the Government to maintain a framework of laws to protect the basic rights of the individual, to promote integrity in labor-management relationships, and to foster better industrial relations. Proposed legislation to accomplish these purposes having failed of enactment, the Congress will again be requested to require reporting and disclosure of financial dealings between employers and employee representatives and their agents, and to

require public reports of union finances, organization, and procedures. Requested legislation will also prescribe standards to promote democratic procedures in union affairs, including the election of union officers, and to correct abuses in the supervision of the affairs of subordinate bodies. Modifications will be proposed in the law governing secondary boycotts, organizational and recognition picketing, and representation elections, and authority will be requested for the States to act in labor-management disputes where the National Labor Relations Board declines jurisdiction. Legislation will also be requested to correct shortcomings in the Welfare and Pension Plans Disclosure Act enacted by the 85th Congress.

Area Assistance

Despite the forward economic strides of the Nation since the war, some communities have suffered substantial and persistent unemployment, when measured against national experience. Federal assistance to these communities is required not only to mitigate the hardships of individuals and families but also to provide for the use of underutilized resources, to the enhancement of the national welfare.

A program of assistance through development loans and through grants for technical studies will be recommended to the Congress in order that these communities may share in the general economic advance. By design and administration, the program would seek to complement and reinforce community efforts to help themselves, to encourage maximum participation by State and local agencies and private investment institutions, and to create new job opportunities instead of merely transferring jobs from one locality to another.

The program would also provide technical aid to towns heavily dependent on a major industry and to rural low-income areas, to help them achieve greater economic stability through diversification.

Agriculture

Recommendations will be made to the Congress by the Executive with a view to reducing the cost of price stabilization operations, stopping the increase of surplus stocks, and making progress in the reduction of accumulated supplies. Major revisions are overdue in the legislation relating to these agricultural programs. In their present form, these statutes have the effect of adding many billions of dollars annually to the Federal budget. Net budget expenditures for agricultural price and income support increased from an annual average of \$3.5 billion during the fiscal years 1955-58 to an estimated \$5.4 billion in the fiscal year 1959.

What is more, experience has demonstrated that it is very difficult to foretell reliably how much the Federal Government will be required to expend in a given fiscal period under what are essentially open-end commitments for price support, a fact that greatly complicates the management of the Federal Government's fiscal affairs.

Even these large expenditures have not brought farm output into line with commercial demands at home and abroad while maintaining and stabilizing farm income. Ever since the Korean conflict, the aggregate output of our farms has exceeded these demands by substantial amounts. Steps taken to reduce surpluses while protecting farm incomes—Commodity Credit Corporation support of prices at slightly declining minimum levels, retirement of acreage from cultivation, and large exports under loan or subsidy arrangements—have not succeeded in preventing an increase in surplus stocks. By June 30, 1959, there will be a record carryover of 1.3 billion bushels of wheat, the equivalent of more than 2 years of domestic requirements, and a carryover of 1.8 billion bushels of corn. Stocks of cotton remain excessive; stocks of tobacco and rice are large; and if it were not for the surplus disposal program, stocks of dairy products and of fats and oils would be high.

The investment of the Commodity Credit Corporation in price supported commodities is expected to rise to more than \$9 billion by June 30, 1959, and to almost \$10.5 billion by June 30, 1960. To carry out existing commitments on price support activities will probably require use of most of the Corporation's borrowing authority of \$14.5 billion. Expenditures of the Federal Government for storage, transportation, and interest on these surplus holdings are estimated at \$850 million for the fiscal year 1959 and at \$1.2 billion for the fiscal year 1960.

The recent sharp increase in the cost of our agricultural programs is due in part to exceptionally favorable crop conditions in 1958. But a major part of the increase is due to the programs themselves. These are not properly adjusted to the rapidity with which farm technology is improving. Remedial legislation should be enacted without delay. Even though action taken at this time can become effective only in the fiscal year 1961, steps to bring the price stabilization expenditures of the Federal Government under control and to reduce them materially are urgently needed.

Actually, the majority of farm people derive little or no benefit from our agricultural price support legislation. Cattle ranchers, producers of poultry and eggs, and growers of fruits and vegetables operate their farms today practically without price supports. Only some 1.5 million of our commercial farmers are the recipients of price support outlays in any material amounts, and, within this group, those with the higher incomes are the main beneficiaries. More than 2.5 million farmers—whose annual sales are less than \$2,500 and who produce each year only about 9 percent of our marketed farm products—receive only very small supplements, or none at all, to their incomes from Government expenditures for price support.

Foreign Economic Policy

Next to maintaining the mutual security of the Free World, the chief concern of the United States in its foreign economic policy is to promote conditions favorable to the exchange of goods, services, technology, and

capital among nations, and to assist in economic growth and development. The efforts to rebuild and expand the economy of Western Europe and Japan, to which we have contributed so much, have met with remarkable success. We can now look forward to increasingly effective participation by the industrial nations of Europe in the task of supplying credit and investment capital, along with goods and services, to the less developed areas of the world.

The United States will continue to share with friendly nations its advanced technology and the achievements of its scientific research in public health, resource development, agriculture, industry, and commerce. This policy will be continued through our technical assistance programs, as well as through international agencies.

The impressive gains of the European economies have been accompanied by efforts at removing hindrances to foreign trade. At the end of 1958, the leading European countries made their currencies convertible for non-residents. Simultaneously, the European Payments Union was replaced by the European Monetary Agreement, which had been prepared by the Organization for European Economic Cooperation several years earlier, to become effective when currency convertibility measures were taken. Although these countries have not given up their foreign exchange control, their step implies the intention of proceeding further with the removal of discriminatory controls and other import restrictions, beyond the liberalization measures adopted in recent months by the United Kingdom, France, and others.

The European Economic Community of six continental countries, which came into existence on January 1, 1958, has lowered duties by 10 percent and liberalized quota restrictions as a first move in connection with the development of its common market. Some of these concessions have been extended to other countries.

The United States is favorably disposed toward such regional reduction and eventual elimination of trade barriers; but as a signatory to the General Agreement on Tariffs and Trade, it insists on the principle that such regional arrangements must lead to the creation of more favorable trade relations with other countries. The new authority provided by the Congress last year by the four-year extension of the Trade Agreements Act will be used in further efforts to reduce trade barriers on a reciprocal basis, and the enlarged loan authority of the Export-Import Bank will promote United States exports as well as contribute to economic growth abroad.

The increasing participation of other industrial countries in financing the flow of trade and the development of industrially retarded countries is reassuring and welcome, inasmuch as additional economic resources are thus brought into action. However, the task of financing sound and sustainable economic development in large areas of Latin America, Africa, and Asia is of such scope and urgency that it requires joint efforts. In this connec-

tion, the Government of the United States, together with other members of the International Monetary Fund and the International Bank for Reconstruction and Development, is proposing that the resources of those institutions be enlarged. Special legislation will be proposed to the Congress.

The United States is exploring the feasibility of cooperating with other countries in their efforts to establish regional agreements on freer trade and economic development. An inter-American development banking institution is under consideration. The United States has also expressed its readiness to support a regional Arab development institution, should the Arab states desire it and support it with their own capital. Also under study is an International Development Association, which would be affiliated with the International Bank for Reconstruction and Development and would extend to less developed countries loans repayable wholly or partially in the currency of the borrowing country. Requests for authorizations for some of these programs will be submitted in due time to the Congress.

The Development Loan Fund, which began in 1958 to extend loans for economic growth in less developed countries, needs additional obligational authority.

Authorization for sales of surplus agricultural commodities for foreign currency under Title I of Public Law 480 and for the donation of such commodities for famine relief and other assistance under Title II expires December 31, 1959. In view of the continued existence of heavy surpluses of farm products and the desirability of using such stocks constructively, the authority should be extended.

CONTINUING PROGRAMS FOR ECONOMIC GROWTH AND IMPROVEMENT

The need for new programs or for legislative changes in those already in existence should not cause us to neglect the contributions to economic improvement that are made by continuing programs that return to the attention of the Congress only with respect to the amount of funds they annually require or for occasional legislative revision.

Under the 1960 budget, the Federal Government will continue activities which will strengthen the Nation in health, education, scientific development, transportation, and other important areas. The Federal Government's efforts will, of course, be supplemented by the efforts of State and local governments and by countless private undertakings. This blend of public and private action will enable us to take full advantage of the opportunities that lie before us for an improvement in the level of living.

Nowhere are these opportunities more plainly registered than in recent Census Bureau projections of population growth, which has proved a sure avenue of economic progress in American circumstances. The lowest of these new projections indicates a rise to 202.5 million persons by 1970, from the present 175 million; the highest, a rise to 219.5 million. The corresponding estimates for 1975 are 215.8 million and 243.9 million.

Projections for selected age groups suggest the magnitude of the developing demand for schooling. By mid-1962, children of elementary school age (5-13 years) should number about 34.5 million, 3.3 million more than the corresponding total for mid-1958; and the annual growth of this group may exceed 1 million during the remainder of the 1960's. The number of children of high school age (14-17 years), which was about 10.6 million in mid-1958, may increase to 12.9 million by mid-1962 and to 15.9 million by mid-1970. By 1962, the number of college-age persons (18-21) may be about 10.7 million; in 1975, about 16.3 million, or twice the 1957 figure.

Education

To discharge fully their traditional obligation to the younger generation, State and local governments will obviously have to increase their efforts greatly to provide needed school buildings, equipment, and teachers, particularly for secondary education. State and private institutions will have to do likewise to accommodate greater numbers of college and graduate students.

In the areas of secondary and higher education, additional support is being requested for the science and education programs administered by the National Science Foundation and the Department of Health, Education, and Welfare. Projected expenditures of the first of these agencies for science education during the fiscal year 1960 are almost one-fifth greater than the estimated expenditures for 1959 and four times the 1958 outlay. The increased expenditures would be made for graduate and faculty fellowships and for training high school and college teachers of science and mathematics.

Further Federal assistance to secondary and higher education is provided under the National Defense Education Act of 1958, through contributions to student loan funds; matching grants to States for equipment needed in teaching science, mathematics, and foreign languages; fellowships for graduate study; grants to States for guidance, counseling, and testing services; and support of training programs for foreign language teachers. Two other important features of the Act are the authorization of Federal financial assistance to States for improving educational statistics, and the authorization of a unit in the Federal Government to provide or arrange for abstracting, translating, and other services to improve the distribution of scientific information.

Personal Security and Health

Programs designed to enhance personal security also contribute to the Nation's economic strength and well-being. Protection from want in old age, for families losing breadwinners, and for persons permanently disabled is afforded by the Federal Social Security system. Broadening of the coverage of the Old Age, Survivors, and Disability Insurance program in recent years to nearly 90 percent of all persons in paid employment, together with

the normal increase in the number of persons eligible for benefits, has increased benefit payments from \$5.7 billion in 1956 to \$7.3 billion in 1957, and to an annual rate of \$8.9 billion at the end of 1958. The increase in 1958 played an important role in helping to maintain the flow of incomes during recession. Benefits are currently being paid to more than 12 million persons, and the average monthly benefit for old age is approximately \$66. Amendments adopted in 1958 increased benefit amounts, which had been practically unchanged since 1954, by 7 percent, effective in January 1959. Taxes were also increased in order to strengthen the actuarial basis of the program.

Federal contributions to State-operated public assistance programs in behalf of the aged, the blind, the disabled, and dependent children will continue to rise in fiscal year 1960. An Advisory Council authorized by recent legislation is studying the appropriate distribution of financial responsibility between the Federal Government and the States.

Through the Rural Development Program initiated in 1955 and carried forward through existing agencies under the guidance of an interagency committee of the Federal Government, efforts are being made to aid farm families most in need of assistance. The program now reaches more than 100 rural counties. Beneficial results in the form of increased job opportunities, improved farm practices, and higher standards of living are already evident.

In the area of health, sharply increasing outlays have been made in recent years for the medical research and training programs administered by the National Institutes of Health in the Department of Health, Education, and Welfare. Sizable funds have also been expended to assist the construction of hospitals and health research facilities. Expenditures will increase further in the fiscal year 1960. The budget also provides larger sums for the enforcement of the food and drug laws, including administration of the new chemical additives amendment enacted in 1958.

Construction and Transportation

The increase in population and changes in the location patterns of people and industry will require greater public and private investment in fields other than education. The formation of new families and the continuing movement from cities will require additional residential construction and places of worship and commercial and community facilities of all kinds, including utilities. Responsibility for these undertakings rests largely on private individuals and firms, but Government programs of loan insurance and guaranty make an important contribution to home construction. The effectiveness of these programs would be materially increased by favorable action on the proposals made to the Congress to grant greater discretionary authority to the Executive for determining maximum interest rates on certain insured, guaranteed, and direct loans. Other proposals for changes

in present laws affecting housing and home financing and the program of Federal assistance to urban renewal projects will be made to the Congress.

Construction of Federal-aid highways, which form a vital part of the network of roads connecting our cities, is increasing rapidly. The interstate highway program, enacted in 1956, authorizes construction of 41,000 miles of limited-access roads linking 90 percent of all cities with 50,000 or more inhabitants, as well as many smaller places along the way. The Federal share of the cost is financed out of revenues obtained from highway users. Proposals are being made to keep the program on this self-supporting basis. In the calendar year 1958, total capital outlays for Federal-aid and all other new highway construction reached \$6.2 billion, about \$600 million more than in 1957 and about three and one-half times the outlay of a decade ago. Still higher expenditures may be expected in the present calendar year and in several succeeding years.

Recent legislation will also strengthen the air, rail, and waterway components of the Nation's transportation system. A unified Federal Aviation Agency will allocate air space, develop and operate a common system of navigation facilities for civil and military aircraft, and make and enforce safety regulations for civilian aviation. The Transportation Act of 1958 and the repeal of Federal excise taxes on the transportation of property, also enacted last year, will help improve the physical and financial condition of the railroads.

The St. Lawrence Seaway, which will open in the spring, will provide deep water transportation almost half-way across the continent, reducing shipping costs and directly serving eight States that have almost two-fifths of the population and constitute the agricultural and industrial heart of the land. User tolls will make the Seaway, constructed with Federal funds in a joint venture with the Canadian Government, a self-liquidating project.

Water Projects and Mineral Exploration

Many public and private programs are improving the Nation's base of material resources. Water and related power projects under way will facilitate the economic development of the Western states. Federal expenditures for such projects are much higher than they were a few years ago, and further increases are expected in 1960 and 1961. Progress toward economical conversion of saline to fresh water by chemical and other techniques will be assisted by 1958 legislation for the construction of demonstration plants and by increased appropriations for the fiscal years 1959 and 1960. Other contributions to the resource base are envisaged. In 1958, legislation authorized a continuing program of assistance to minerals exploration. The Congress is requested to enact a long-range program for conservation of the Nation's supply of helium gas, encouraging maximum private participation in, and financing of, this endeavor.

Research and Development

The Nation's technological base is being strengthened by Government programs in support of scientific research and development. Many of these programs, though undertaken initially or primarily to maintain the Nation's military might, contribute increasingly to peaceful technology. Thus, the billions of dollars spent annually for military research and development are extending the horizons of civilian industry, providing experience for professional and other skilled workers, and expanding private opportunities for investment in new materials, processes, and products.

The benefits to be derived from research and development activities can be enhanced by closer working relations between Government and private interests. Large companies and universities already participate extensively in Government contract or Government-supported research, supplementing the substantial endeavors conducted on their own account. The research capabilities of small companies are necessarily limited, but many small firms have formal programs under way and some have achieved notable success. Explicit provision for the encouragement of research—direct and Government contract—by small businesses was made in the 1958 revision of the Small Business Act.

Most current research and development activity involves the useful application of known principles rather than the search for new avenues of fundamental advance. Greater attention can appropriately be given by private enterprise to the advantages obtainable from basic research. Meanwhile, Government expenditures for basic research are rising. For all agencies, they will amount to about \$500 million in the fiscal year 1960. In the same year, expenditures by the National Science Foundation for basic research will be about one-third above the figure for 1959 and more than double that for 1958.

In the field of atomic energy, important strides have been taken toward the adaptation of military technology to peaceful uses. A full-scale prototype atomic power reactor was operated in 1958, and other plants, of commercial size, are being planned and built under cooperative industry-Government arrangements. The wider industrial, agricultural, and medical use of radioisotopes and radiation sources is being stimulated. Incentives are being provided to private organizations for the commercial undertaking of activities heretofore performed only by the Government. Technical and financial assistance is being given to the European Atomic Energy Community, and through bilateral agreements to separate nations, in the development of power reactors and provision of small-scale reactors for research and training. Other efforts are being made through the International Atomic Energy Agency and through diplomatic negotiations to realize more fully for the world the peaceful possibilities inherent in nuclear fission. And progress is being made in cooperative international research on the generation of electric power by the controlled release of fusion energy—a project which, if successful, promises great benefits to mankind.